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**PREPARED DIRECT TESTIMONY OF  
CHRISTOPHER R. PENN  
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

**I. INTRODUCTION**

Q. Please state your name, position, and business address.

A. My name is Christopher Penn and my position is Principal Accountant in San Diego Gas and Electric Company's ("SDG&E" or "Company") Transmission Revenue department. My business address is 8326 Century Park Court Bldg. 3, San Diego, California, 92123.

Q. Please describe your current responsibilities.

A. My responsibilities include assisting in developing and analyzing transmission revenue requirements.

Q. Please describe your educational and professional background.

A. I received a Bachelor of Science degree in Business Administration with an emphasis in Accounting from San Diego State University. I am a Certified Public Accountant in the state of California and I continue to maintain an active status license with practice rights by fulfilling the continuing professional education requirements.

I have been employed by SDG&E since 2008, first as an intern in Electric & Gas Procurement – Energy Risk. Since receiving my Bachelor's degree in May 2009, I have held positions in SDG&E's OpEx 20/20 Asset Management & Smart Grid department; Electric & Fuel Procurement – Settlements & Systems department; Regulatory Reporting Department; and Accounting Operations – Plant Accounting department. I joined the Transmission Revenue group in January 2015.

1 Q. Have you previously submitted testimony to this Commission?

2 A. Yes.

3 **II. PURPOSE OF TESTIMONY**

4 Q. What is the purpose of your testimony?

5 A. The purpose of my testimony is to describe the structure and derivation of the  
6 total Retail and Wholesale Base Transmission Revenue Requirements (“BTRR”)  
7 under SDG&E’s proposed Sixth Transmission Owner Formula (“TO6 Formula”),  
8 which is set forth in the proposed Formula Rate Spreadsheet and Protocols,  
9 accompanying SDG&E’s rate filing in this proceeding, as discussed in the  
10 testimony of SDG&E witness Adam Currey.

11 Q. How is your testimony organized?

12 A. I have organized my testimony as follows:

- 13 I. Introduction
- 14 II. Purpose of Testimony
- 15 III. Overview of SDG&E’s Proposed TO6 Formula Rate Spreadsheet
- 16 IV. Cost Statement BK-1: Total Retail Base Transmission Revenue  
17 Requirement
- 18 V. Prior Year Cost of Service
- 19 VI. Cost Statements Used to Derive the Prior Year Cost of Service
- 20 VII. True-Up and Interest True-Up Adjustments
- 21 VIII. Forecast Period Capital Additions Revenue Requirement
- 22 IX. Forecast Period Incentive Capital Additions Revenue Requirement
- 23 X. Incentive Transmission Forecast Construction Work in Process Projects  
24 Revenue Requirement
- 25 XI. Franchise Fees and Uncollectibles
- 26 XII. Other BTRR Adjustments
- 27 XIII. Cost Statement BK-2: Total Wholesale Base Transmission Revenue  
28 Requirement

29 Q. Are you sponsoring any SDG&E cost statements to the TO6 filing?

30 A. Yes, I am sponsoring the following cost statements:

- 1 • Statement BK-1 – Derivation of End Use Prior Year Revenue
- 2 Requirements (“PYRR”)
  
- 3 • Statement BK-2 – Derivation of California Independent System Operator
- 4 (“CAISO” or “ISO”) High Voltage (“HV”) and Low Voltage (“LV”)
- 5 Transmission Facility Revenue Requirements
  
- 6 • Statement AD – Cost of Plant
  
- 7 • Statement AE – Accumulated Depreciation and Amortization
  
- 8 • Statement AF – Deferred Credits
  
- 9 • Statement AG – Specified Plant Account (Other than Plant in Service) and
- 10 Deferred Debits
  
- 11 • Statement AH – Operation and Maintenance Expenses
  
- 12 • Statement AI – Wages and Salaries
  
- 13 • Statement AJ – Depreciation and Amortization Expense
  
- 14 • Statement AK – Taxes Other Than Income Taxes
  
- 15 • Statement AL – Working Capital
  
- 16 • Statement AM – Construction Work in Progress (“CWIP”)
  
- 17 • Statement AQ – Federal Income Tax Deductions, Other Than Interest
  
- 18 • Statement AR – Federal Tax Adjustments
  
- 19 • Statement AT – State and Local Tax Adjustments
  
- 20 • Statement AU – Revenue Credits
  
- 21 • Statement AV – Cost of Capital and Fair Rate of Return
  
- 22 • Statement Miscellaneous

23 I discuss each of these cost statements in further detail below.

1 **III. OVERVIEW OF SDG&E'S PROPOSED TO6 FORMULA RATE**  
2 **SPREADSHEET**

3 Q. Please describe in general terms the design of the proposed TO6 Formula Rate  
4 Spreadsheet.

5 A. In general, the proposed TO6 Formula Rate Spreadsheet is designed to calculate a  
6 Base and Wholesale Transmission Revenue Requirement ("Transmission  
7 Revenue Requirement"). Both the Base and Wholesale TRRs consist of the  
8 following four parts:

- 9 1. the Prior Year Revenue Requirements ("PYRR");
- 10 2. the Forecast Period Capital Addition Revenue Requirements ("FC");
- 11 3. a True-Up Adjustment; and
- 12 4. an Interest True-Up Adjustment.

13 The PYRR, FC and True-Up Adjustment, including the Interest True-Up  
14 Adjustment, shall be designed to quantify SDG&E's cost to own, operate  
15 and maintain its transmission facilities. The Wholesale TRR is adjusted to  
16 exclude Electric Power Research Institute ("EPRI") Membership Dues,  
17 California Public Utilities Commission ("CPUC") Intervenor Funding  
18 Expense, South Georgia Tax Impacts, and Uncollectibles.

19 Q. How are the Retail Base and Wholesale Base TRRs determined?

20 A. SDG&E's proposed TO6 Formula Rate Spreadsheet utilizes figures from its most  
21 recently filed annual FERC Form 1 to populate cost statements AD through  
22 Miscellaneous and utilizes a forecast of plant additions to derive a total Retail  
23 BTRR and a total Wholesale BTRR. First, SDG&E computes the total Retail  
24 BTRR in cost statement BK-1 as discussed in Section IV below. Then, the total

1 Wholesale BTRR leverages the total Retail BTRR as a starting point for its  
2 derivation in cost statement BK-2, which is further discussed in Section XIII  
3 below.

4 Q. How is this information updated?

5 A. The timeline for the TO6 annual update process is discussed in the testimony of  
6 Adam Currey.

7 Q. What is the rate effective period?

8 A. The rate effective period is the timeframe in which the filed rates will be in effect.  
9 For example, TO6 Cycle 1 will be filed in 2024 for a rate effective period of  
10 January 1, 2025, through December 31, 2025.

11 Q. Why does the TO6 Formula utilize prior year data for its inputs?

12 A. Under TO6, SDG&E is proposing to continue the approach used in its TO5  
13 Formula of using calendar year historic data as the inputs for the TO6 Formula  
14 Rate Spreadsheet, which derives the BTRRs. The annually filed FERC Form 1  
15 contains prior year recorded cost data and provides a reasonable forecast of  
16 expected costs for the rate effective period. For instance, the TO6 Cycle 1 filing  
17 made in 2024 will utilize 2023 FERC Form 1 recorded data, also referred to as a  
18 base period.

19           Once each rate effective period ends, SDG&E will perform a true-up  
20 calculation to compare Actual Annual Revenue to the Annual Cost of Service to  
21 ensure that the Company receives no more and no less than the actual cost to  
22 operate and maintain its transmission system.

1 Q. Has SDG&E made changes to its Formula Rate Spreadsheet for TO6?

2 A. Yes. SDG&E has made non-substantive presentation updates to the TO6 Formula  
3 Rate Spreadsheet, as well as the following substantive changes:

- 4 • Revised the calculation of the Transmission and Incentive Transmission  
5 Annual Fixed Charge Rate (“AFCR”) on pages five and six of Statement  
6 BK-1 used to derive the FC by adjusting the numerator to only include  
7 remeasured property related Accumulated Deferred Income Tax (“ADIT”)  
8 that has been adjusted to exclude deferred tax liabilities attributed to bonus  
9 depreciation. The AFCR’s purpose is to represent annual fixed charges  
10 expected to be incurred due to incremental plant additions that occur  
11 during the rate effective period. To accurately do so the calculation  
12 should, as closely as possible, approximate the actual incremental fixed  
13 charges expected to occur. Because future plant is not subject to excess or  
14 deficient reserves due to remeasurement from a tax rate change and is no  
15 longer eligible for Bonus Depreciation, these components should not be  
16 factored into the calculation of AFCR. This change will allow SDG&E to  
17 better match the revenues that will be collected in rates to cover the  
18 incremental costs that are expected to be incurred during the rate effective  
19 period.
- 20 • Updated the calculation of the common equity component in Statement  
21 AV to include State Wildfire Fund Contributions for determining total  
22 common stock. SDG&E is proposing to remove the impact of these  
23 contributions from the calculation of its capital structure consistent with  
24 FERC precedent to remove amounts that are not available for rate base  
25 investment.<sup>1</sup> The contributions to the Wildfire Fund are unrelated to rate  
26 base investment and should be excluded from the calculation of SDG&E’s  
27 TO6 capital structure. To do so, SDG&E will add back to equity the after-  
28 tax charges to earnings that reflect the initial payment, and all ten annual  
29 payments SDG&E has committed to through 2028.
- 30 • Updated the calculation of the common equity component in Statement  
31 AV to remove the impact of the \$208 million after-tax charge SDG&E  
32 took in 2017 related to wildfire claims in excess of liability insurance  
33 coverage, cost recovery, and settlements with third parties due to the 2007  
34 Wildfires in SDG&E’s service territory.
- 35 • In accordance with FERC Order No. 898 amending the electric Uniform  
36 System of Accounts (“USofA”) and FERC Form 1, new FERC accounts  
37 for computer hardware, software, and communications equipment are  
38 established under Accounts 351.1, 351.2, and 351.3, respectively. These

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<sup>1</sup> *El Paso Natural Gas*, 139 FERC ¶ 61,095 (2012) at PP 86, 90.

- 1 accounts are included in the supporting workpapers of Cost Statements  
2 AD, AE, and AJ.
- 3 • Updated the Statement BK-2 derivation of Wholesale BTRR Excluding  
4 Franchise Fees by including a line item carving out EPRI dues. This is to  
5 ensure that EPRI dues are not collected from wholesale customers.
  - 6 • Removed excluded expenses lines for operations and maintenance  
7 (“O&M”) and administrative and general (“A&G”) in Statement AH  
8 because they are duplicative. All excluded expenses are already listed on  
9 Statement AH-1 and AH-2 and it is redundant for them to be listed again  
10 on Statement AH.
  - 11 • Added a line to Statement AH for Other Cost Adjustments for O&M and  
12 A&G error corrections from a prior period.
  - 13 • Added a line to Statement AH to recover costs in FERC 925 – Injuries and  
14 damages using the new Transmission Wages and Plant Blended Allocation  
15 Factor.

16 **IV. COST STATEMENT BK-1: TOTAL RETAIL BASE TRANSMISSION**  
17 **REVENUE REQUIREMENT (“BTRR”)**

18 Q. Provide an overview of Statement BK-1.

19 A. Statement BK-1 calculates and summarizes the components that derive the total  
20 Retail BTRR and consists of seven pages:

21 **Page 1** – Calculates prior year cost of service revenues for transmission projects,  
22 which will be further explained in Section V.

23 **Page 2** – Calculates prior year cost of service revenues for incentive projects,  
24 which will be further explained in Section V.

25 **Page 3** – Computes transmission and incentive rate base used in the derivation of  
26 prior year cost of service revenues on pages one and two, which will be further  
27 explained in Section V.

28 **Page 4** – Determines transmission and incentive net plant used in the rate base  
29 computations on page three by summing plant-in-service and accumulated  
30 depreciation.

31 **Page 5** – Derives the APCR, which is applied to weighted forecast plant additions  
32 to derive the forecast period capital additions revenue requirement and is further  
33 explained in Section VIII.

1 **Page 6** – Derives an Incentive AFCR to be applied to Incentive projects if  
2 applicable. This derivation is further discussed in Section IX.

3 **Page 7** – Summarizes pages one through six of the BK-1 and the true-up to  
4 calculate the total Retail BTRR.

5 Q. Please summarize the total Retail BTRR components in Statement BK-1.

6 A. Page seven of Statement BK-1 summarizes the following nine components that  
7 comprise the total Retail BTRR:

- 8 ▪ Prior year cost of service;
- 9 ▪ Incentive prior year cost of service;
- 10 ▪ True-up adjustment;
- 11 ▪ Interest true-up adjustment;
- 12 ▪ Forecast period capital additions revenue requirement;
- 13 ▪ Forecast period Incentive capital additions revenue requirement;
- 14 ▪ Incentive transmission forecast CWIP revenue requirement;
- 15 ▪ Franchise fees and uncollectibles; and
- 16 ▪ Other BTRR adjustments.

17 The second, sixth, and seventh bullet points above are separately stated Incentive  
18 components included in the total Retail BTRR and total Wholesale BTRR, should  
19 the Commission authorize Incentive treatment for future transmission projects  
20 under Order No. 679. I discuss each of these nine components below.

21 **V. PRIOR YEAR COST OF SERVICE**

22 **A. Transmission Prior Year Cost of Service**

23 Q. Please describe the derivation of the prior year cost of service on page one of  
24 Statement BK-1.

1 A. The prior year cost of service (also referred to as “base period revenues”) is the  
2 sum of transmission-related expenses, return on rate base, income tax expense,  
3 miscellaneous expense or revenue adjustments, and total incentive transmission-  
4 related rate of return on rate base and income tax expense.

5 Q. What is included in the transmission-related expenses component of the prior year  
6 cost of service?

7 A. The transmission-related expenses component includes annual base period  
8 expenses for the following:

- 9 • Transmission-related O&M and A&G expenses from Statement AH,  
10 including an adjustment for transmission-related CPUC intervenor funding  
11 expenses (Section VI.E).
- 12 • Transmission-related depreciation and amortization expense from  
13 Statement AJ (Section VI.G).
- 14 • Transmission Plant Abandoned Project Cost amortization expenses from  
15 Statement AJ (Section VI.G).
- 16 • Transmission-Related Property Tax Expense from Statement AK (Section  
17 VI.H).
- 18 • Transmission-Related Payroll Tax Expense from Statement AK (Section  
19 VI.H).

20 Q. How are the return on rate base and income tax expense components derived?

21 A. The return on rate base and income tax expense components of the PYRR are  
22 derived in Statement AV (Section VI.O) and brought forward to Statement BK-1.

23 Q. How is transmission rate base derived?

24 A. Transmission rate base is calculated on page three of Statement BK-1 and is the  
25 sum of:

- 26 • Net Transmission Plant as described below;

- 1 • *Plus*, Transmission Plant Held For Future Use (“PHFU”) from Statement  
2 AG (Section VI.D);
- 3 • *Plus*, Plant Abandoned Project Costs from Statement Miscellaneous  
4 (Section VI.P);
- 5 • *Less*, Transmission-Related ADIT from Statement AF (Section VI.C);
- 6 • *Less*, Plant Abandoned Project ADIT from Statement AF (Section VI.C);
- 7 • *Plus*, working capital from Statement AL (Section VI.I);
- 8 • *Plus*, other regulatory assets/liabilities and unfunded reserves from  
9 Statement Miscellaneous (Section VI.P).

10 Q. How is the net Transmission Plant component of transmission rate base derived?

11 A. Net Transmission Plant is calculated on page four of Statement BK-1 and is the  
12 difference between gross Transmission Plant and Transmission-Related  
13 Depreciation Reserve. Gross Transmission Plant includes Transmission Plant and  
14 the transmission-related portions of Electric Miscellaneous Intangible Plant  
15 (“Intangibles”), General Plant, and Common Plant as derived in Statement AD  
16 (Section VI.A). Transmission-Related Depreciation Reserve includes the  
17 depreciation related to each of the same components listed in gross Transmission  
18 Plant and is derived in Statement AE (Section VI.B).

19 Q. Please describe the adjustments included in the prior year cost of service on  
20 Statement BK-1; Page 1; Lines 21 through 24.

21 A. Statement BK-1 adjusts the cost of service for certain items that are not included  
22 in the expense or return and income tax components. Each of the items listed  
23 below are described in more detail in Section VI of this testimony and include:

- 24 • Total federal income tax deductions, other than interest (Section VI.K),
- 25 • Transmission-Related Revenue Credits (Section VI.N),

- 1 • Transmission-Related Regulatory Debits/Credits (Section VI.P), and
- 2 • Gains and losses from sale of plant held for future use (Section VI.N).

3 **B. Incentive Transmission Prior Year Cost of Service**

4 Q. What types of revenues are included for Incentive Transmission Plant prior year  
5 cost of service?

6 A. Statement BK-1 derives a prior year cost of service for three types of incentives,  
7 which make-up the total incentive transmission prior year cost of service. SDG&E  
8 will not recognize any Incentive Projects in the TO6 Formula until the  
9 Commission authorizes them under Order No. 679.

10 Q. How is the prior year cost of service for Incentive Return on Equity (“ROE”)  
11 projects derived?

12 A. For any Commission-approved Incentive ROE projects, SDG&E would derive the  
13 cost of service on page two of Statement BK-1 by adding the related depreciation  
14 expense from Statement AJ (Section VI.G) and the related return on rate base and  
15 income tax expense. The Incentive ROE return on rate base and income tax  
16 expense components are derived by multiplying the Incentive ROE project rate  
17 base by the rates of income taxes and Incentive cost of capital rate (Section VI.O).  
18 The Incentive ROE rate base is calculated on page three of Statement BK-1 and  
19 includes Incentive Plant from Statement AD (Section VI.A), less accumulated  
20 depreciation from Statement AE (Section VI.B) less associated ADIT from  
21 Statement AF (Section VI.C).

22 Q. How is the prior year cost of service for Incentive Plant Abandoned Projects  
23 derived?

1 A. For any Commission-approved Incentive recovery of Plant Abandoned Project  
2 Costs, SDG&E would derive the cost of service on page two of Statement BK-1  
3 by adding the related Incentive depreciation expenses from Statement AJ (Section  
4 VI.G) and the related return and income taxes. The return and income taxes are  
5 derived by multiplying the related rate base by the transmission cost of capital  
6 rate (Section VI.O). The rate base for Incentive Plant Abandoned Projects is the  
7 project cost from Statement Miscellaneous (Section VI.P) less related ADIT  
8 (Section VI.C) as summarized on page three of Statement BK-1, Section C, lines  
9 34 through 37.

10 Q. How is the prior year cost of service for Incentive CWIP derived?

11 A. If the Commission were to approve an Incentive CWIP project, SDG&E would  
12 derive the cost of service on page two of Statement BK-1 by multiplying the  
13 allowable Incentive CWIP from Statement AM (Part VI.J) by the transmission  
14 cost of capital rate (Section VI.O).

15 **VI. COST STATEMENTS USED TO DERIVE PRIOR YEAR COST OF**  
16 **SERVICE**

17 Q. Please identify the cost statements included in SDG&E's proposed TO6 Formula.

18 A. SDG&E's proposed TO6 Formula includes 16 cost statements that are used in the  
19 derivation of the BTRR in Statement BK-1:

- 20 • Statement AD – Cost of Plant
- 21 • Statement AE – Accumulated Depreciation and Amortization
- 22 • Statement AF – Deferred Credits
- 23 • Statement AG – Specified Plant Account (Other than Plant in Service) and  
24 Deferred Debits

- 1 • Statement AH – Operation and Maintenance Expenses
- 2 • Statement AI – Wages and Salaries
- 3 • Statement AJ – Depreciation and Amortization Expense
- 4 • Statement AK – Taxes Other Than Income Taxes
- 5 • Statement AL – Working Capital
- 6 • Statement AM – Construction Work in Progress (“CWIP”)
- 7 • Statement AQ – Federal Income Tax Deductions, Other Than Interest
- 8 • Statement AR – Federal Tax Adjustments
- 9 • Statement AT – State and Local Tax Adjustments
- 10 • Statement AU – Revenue Credits
- 11 • Statement AV – Cost of Capital and Fair Rate of Return
- 12 • Statement Miscellaneous
- 13 • FERC Order 864 Worksheets

14 In the remainder of this Section, I will describe each of the above listed cost  
15 statements.

16 **A. Statement AD – Cost of Plant**

17 Q. Please describe the purpose of Statement AD.

18 A. Statement AD reports Transmission Plant and other Electric Plant balances used in  
19 the derivation of transmission and incentive transmission rate base and in the  
20 derivation of allocation factors used to allocate other costs to transmission. The  
21 allocation factors include the Transmission Plant Allocation Factor and the  
22 Transmission Property Insurance and Tax Allocation Factor (both described below).

23 Q. Please describe the components of gross Transmission Plant included in  
24 transmission rate base.

- 1 A. Gross Transmission Plant included in rate base is the sum of Transmission Plant,  
2 transmission portion of Intangible Plant, transmission portion of General Plant,  
3 and transmission portion of Common Plant. These same values are also the  
4 numerator in the Transmission Plant Allocation Factor described above.
- 5 Q. Does SDG&E include a component for Incentive Transmission Plant in  
6 transmission rate base?
- 7 A. SDG&E does not include Incentive Transmission Plant in its gross Transmission  
8 Plant; however, SDG&E does include Incentive Transmission Plant in the  
9 derivation of a separate Incentive Transmission Plant rate base on page four of  
10 Statement BK-1.
- 11 Q. Please explain the derivation of the Transmission Plant Allocation Factor in  
12 Statement AD.
- 13 A. The Transmission Plant Allocation Factor is used to allocate plant materials and  
14 operating supplies (“M&S”) and prepayments to transmission in Statement AL,  
15 which is discussed below. The derivation of the factor will remain unchanged for  
16 the TO6 Formula from the TO5 Formula. The factor is the ratio of the sum of  
17 SDG&E’s total investment in Transmission, Incentive Transmission,  
18 Transmission-Related General, Transmission-Related Common, and  
19 Transmission-Related Intangible Plant to SDG&E’s total plant-in-service.
- 20 Q. Please explain the derivation of total electric plant amounts utilized in Statement AD.
- 21 A. The methodology to derive total electric plant in the TO6 Formula will continue  
22 to be the same as the methodology used in the TO5 Formula.

1 The following plant categories will utilize a 13-month average, which will include  
2 the prior year December balance plus the 12-month base period:

- 3 • Steam
- 4 • Nuclear
- 5 • Hydraulic
- 6 • Other
- 7 • Transmission
- 8 • Incentive Transmission

9 The following plant categories will utilize a 2-point average, which will average  
10 the December prior year and December base period balances:

- 11 • Distribution
- 12 • Intangibles
- 13 • General
- 14 • Common

15 Q. Common Plant supports both electric and gas functions. Does SDG&E account  
16 for this in Statement AD?

17 A. Yes. SDG&E's TO6 Formula will continue to use a Common Plant Allocation  
18 Factor to allocate Common Plant, as recorded in FERC Accounts 303 and 389  
19 through 398, to electric and gas. Total Company labor is used to generate the  
20 Common Plant Allocation Factor. Electric is calculated using total electric labor  
21 divided by the sum of total electric and total gas labor, while the gas is calculated  
22 using total gas labor divided by the sum of total electric and total gas labor. The  
23 Common Plant balances reported in Statement AD represent the Common Plant  
24 allocated to electric.

- 1 Q. Does General Plant also require an allocation between electric and gas?
- 2 A. No. The General Plant facilities recorded in FERC Accounts 389 through 399
- 3 only support electric operations and does not support gas operations. Some
- 4 examples of General Plant include:
- 5 • Structures and Improvements (FERC Account 390): operating and
  - 6 maintenance sites and leasehold improvements that are used by employees
  - 7 to support electric only functions.
  - 8 • Tools Shop and Garage Equipment (FERC Account 394): various
  - 9 equipment used to service electric customers only.
  - 10 • Communication Equipment (FERC Account 397): communication
  - 11 equipment to support electric substation functions and electric operating
  - 12 and maintenance locations.
- 13 Q. Please explain how the Transmission portion of Intangibles, General, and
- 14 Common Plant is derived.
- 15 A. It is commonly accepted by the Commission to allocate these costs to the
- 16 transmission function using the Transmission Wages and Salaries Allocation
- 17 Factor (“Labor Ratio”). A Labor Ratio is a reasonable approach for these costs
- 18 because Electric employees use these facilities to support various electric
- 19 services. An explanation of the Labor Ratio is explained in Section VI.F below,
- 20 with respect to Statement AI.
- 21 Q. Please explain the cause of the difference in per book and ratemaking balances for
- 22 Steam Production, Other Production, Distribution, and Transmission.
- 23 A. A jurisdictional difference in the definition of “Transmission Plant” requires
- 24 SDG&E to adjust its per books plant balances to calculate plant balances for
- 25 ratemaking purposes.
- 26 Q. Please elaborate.

1 A. In 1998, the Commission established guidelines on facilities that qualify as  
2 transmission in Order No. 888 via a seven-element adjustment factor (“Seven-  
3 Factor Test”). Under these tests, SDG&E identifies plant that requires the  
4 Company to transfer portions of Transmission Plant to steam, other, or  
5 distribution and vice versa to adjust its book plant balances to conform to the  
6 Commission’s definition of Transmission Plant for ratemaking purposes. The  
7 Commission approved SDG&E’s delineation between transmission and  
8 distribution facilities in Docket No. EL96-48.

9 **B. Statement AE – Accumulated Depreciation and Amortization**

10 Q. Please describe the purpose of Statement AE.

11 A. The accumulated depreciation calculated in Statement AE reduces rate base by  
12 decreasing the gross plant calculated in Statement AD to arrive at net plant.

13 Q. Please explain the components of accumulated depreciation and the derivation of  
14 each.

15 A. Accumulated depreciation is also adjusted for the seven-factor test and is the sum  
16 of the depreciation reserve for the following: Transmission Plant, transmission  
17 portion of Intangible Plant, transmission portion of General Plant, and  
18 transmission portion of Common Plant.

19 Each component uses the same averaging and allocation methods described in  
20 Section VI.A above.

21 Q. Does Statement AE include a component for Incentive Transmission Plant?

22 A. Yes. Statement AE includes a component for Incentive Transmission Plant, but it  
23 is not included in the total transmission accumulated depreciation described

1 above. Incentive transmission accumulated depreciation is reported on its own  
2 line in Statement AE because it is included in the derivation of a separate  
3 Incentive ROE rate base on page four of Statement BK-1.

4 **C. Statement AF – Deferred Credits**

5 Q. Please describe the purpose of Statement AF.

6 A. Statement AF reports ADIT balances, which are included in rate base. Upon  
7 Commission approval of Incentive Projects or Abandoned Plant Recovery,  
8 SDG&E will also report the applicable amount of ADIT in Statement AF, to  
9 adjust Incentive or transmission rate base on page two of Statement BK-1.

10 Q. What is ADIT?

11 A. ADIT arises when there is a temporary difference in treatment of an expense for  
12 books versus tax. Such a difference will result in taxable income, or deductions,  
13 over time and eventually equalize.

14 Q. How does SDG&E propose to determine the ADIT adjustment to rate base?

15 A. Statement AF of the TO6 Formula includes property and labor related ADIT.  
16 SDG&E has updated the cost statement presentation to include ADIT year-end  
17 balances by FERC with a short description of the costs included in each.

18 **D. Statement AG – Specified Plant Account (Other than Plant in Service)**  
19 **and Deferred Debits**

20 Q. Please describe the purpose of Statement AG.

21 A. The only item included in Statement AG is Transmission PHFU, which is  
22 included in rate base. PHFU is comprised of land and land rights held to meet  
23 future service requirements or plant facilities not currently in service, but that are  
24 ready for use.

1 Q. Explain the derivation of PHFU.

2 A. SDG&E proposes to continue the use of a 13-month average to derive PHFU,  
3 which will include the prior year December balance plus the 12-month base  
4 period.

5 **E. Statement AH – Operations and Maintenance Expenses**

6 Q. Please describe the purpose of Statement AH.

7 A. Statement AH calculates the transmission portion of O&M expenses and A&G  
8 expenses included in the revenue requirement. The Transmission Property  
9 Insurance and Tax Allocation Factor that is applied to property-related items and  
10 the Transmission Wages and Plant Blended Allocation Factor are also derived in  
11 Statement AH.

12 Q. How are O&M expenses derived?

13 A. Expenses incurred to operate and maintain transmission facilities are charged to  
14 FERC Accounts 560 through 573 and are directly assigned to transmission. These  
15 FERC Accounts are analyzed to confirm expenses are just, reasonable, and  
16 appropriately charged to transmission. The total expenses are then adjusted for  
17 certain exclusions and the total adjusted O&M balances are included in the  
18 revenue requirement with no further allocations.

19 Q. How are A&G expenses derived?

20 A. Total A&G expenses are recorded in FERC Accounts 920 through 935 and are  
21 not directly assigned to transmission because they are incurred to support the  
22 operations of the entire Company. These FERC Accounts are analyzed to confirm  
23 expenses are appropriate and the total expenses are then adjusted for certain items

1 to be excluded. The A&G balance for Property Insurance (FERC Account 924) is  
2 allocated to transmission via the Transmission Property Insurance and Tax  
3 Allocation Factor. The A&G balance for Injuries and Damages (FERC Account  
4 925) is now allocated using the Transmission Wages and Plant Blended  
5 Allocation Factor. This change will be discussed in greater detail below. The  
6 remaining adjusted A&G balances are allocated to transmission via the  
7 Transmission Wages and Salaries Allocation Factor.

8 Q. Please explain the Transmission Property Insurance and Tax Allocation Factor.

9 A. The Transmission Property Insurance and Tax Allocation Factor uses the same  
10 inputs from Statement AD as the Transmission Plant Allocation Factor discussed  
11 above, but excludes Intangible and Nuclear Plant from the calculation. The factor  
12 is a ratio of the sum of Transmission Plant, transmission portion of General Plant,  
13 transmission portion of Common Plant, divided by the sum of total Electric Plant  
14 for Steam, Other, Distribution, Transmission, Incentive Transmission, General,  
15 and Common.

16 Q. Please discuss the change to using the Transmission Wages and Plant Blended  
17 Allocation Factor in determining the transmission portion of Injuries and  
18 Damages (FERC Account 925).

19 A. In the TO5 Formula, SDG&E allocated all A&G FERC accounts using the  
20 Transmission Wages and Salaries Allocation Factor except for FERC Account  
21 924 – Property Insurance, which is allocated using the Transmission Property  
22 Insurance and Tax Allocation Factor. SDG&E re-analyzed the basis for these  
23 allocations and concluded that costs recorded in FERC Account 925 – Injuries

1 and Damages are unique in nature and cannot be directly assigned as labor-related  
2 or plant-related and are more appropriately allocated using a blended plant and  
3 labor factor.

4 Q. How is the Transmission Wages and Plant Allocation Factor calculated and why  
5 is it more appropriate for FERC Account 925 – Injuries and Damages?

6 A. As discussed above, costs recorded in FERC Account 925 – Injuries and Damages  
7 are related to both labor and plant and it follows under cost causation principals,  
8 and FERC precedent<sup>2</sup>, that these costs are more appropriately designated as  
9 “other” and may be allocated based on an average of the labor factor and plant  
10 factors.

11 Q. Please elaborate on the reasoning behind the O&M and A&G exclusions.

12 A. Adjustments to O&M and A&G balances are performed to prevent double  
13 recovery on items recoverable under other SDG&E rate mechanisms and include:  
14 Energy Resource Recovery Account (“ERRA”), Transmission Revenue Balancing  
15 Account (“TRBAA”), Transmission Access Charge Balancing Account  
16 (“TACBAA”), CPUC reimbursement fees, and CPUC energy efficiency  
17 programs.

18 A&G FERC Account 927 for franchise fees is also excluded to prevent double  
19 recovery because the proposed formula recovers franchise fee expense as a  
20 component of the Total BTRR. *See* Section XI of my testimony for additional  
21 information on franchise fees.

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<sup>2</sup> *Kansas-Nebraska Natural Gas Company*, 53 FPC 1961 (1975); and *Kern River Gas Transmission Company*, 117 FERC ¶ 61,077 at PP 289 (2006).

1 SDG&E will also continue to exclude expenses associated with balance sheet  
2 write-offs of abandoned project expenses recorded in FERC Account 930.2.

3 **F. Statement AI – Wages and Salaries**

4 Q. Please describe the purpose of Statement AI.

5 A. Statement AI computes the Transmission Wages and Salaries Allocation Factor,  
6 which is used to allocate various plant items (Statements AD, AE, and AJ), A&G  
7 (Statement AH) other than Property Insurance (FERC Account 924) and Injuries  
8 and Damages (FERC Account 925), and payroll tax expense (Statement AK) to  
9 transmission.

10 Q. How is the Transmission Wages and Salaries Allocation Factor computed?

11 A. The Transmission Wages and Salaries Allocation Factor uses the labor ratio  
12 approach is commonly accepted by FERC and is the ratio of total transmission  
13 direct labor divided by the sum of total Electric direct labor, excluding A&G  
14 wages and salaries.

15 **G. Statement AJ – Depreciation and Amortization Expense**

16 Q. Please describe the purpose of Statement AJ.

17 A. The depreciation and amortization expense (“depreciation expense”) calculated in  
18 Statement AJ is included in the expense portion of the revenue requirement.  
19 Depreciation expense represents the portion of a tangible, capital asset that has  
20 been used up during the base period and is expensed over the asset’s expected  
21 useful life.

22 Q. Explain the components of depreciation expense and the derivation of each.

1 A. Depreciation expense is adjusted for the Seven-Factor Test as described in  
2 Section VI.A above and is the sum of the annual depreciation expense for the  
3 following: Transmission Plant, transmission portion of Intangible Plant,  
4 transmission portion of General Plant, and transmission portion of Common Plant.

5 Each of the components is a 12-month sum of the base period expense and  
6 allocated using the methods described in Section VI.A above. SDG&E witness  
7 Dane Watson computes the depreciation rates that SDG&E proposes to be used in  
8 SDG&E's TO6 Formula.

9 Q. Does Statement AJ include depreciation expense for Incentive Transmission  
10 Projects or abandoned plant?

11 A. Yes, Statement AJ also includes depreciation expense components for Incentive  
12 ROE projects, Incentive Plant abandoned projects, and transmission abandoned  
13 plant projects. As previously noted, these components are only activated if such  
14 incentives are approved by the Commission. These expenses are included in the  
15 prior year cost of service derivation on page one of Statement BK-1.

16 **H. Statement AK – Taxes Other Than Income Taxes**

17 Q. Please describe the purpose of Statement AK.

18 A. Taxes other than income taxes includes property and payroll taxes and generally  
19 represent an increase to the revenue requirement.

20 Q. Describe how property taxes are derived.

1 A. Transmission-Related Property Taxes start with total electric property taxes and  
2 excludes other taxes (such as business license taxes) and Citizens'<sup>3</sup> property taxes,  
3 to arrive at total adjusted electric property tax expense. Since property taxes are  
4 directly correlated with gross plant, the Transmission Property Insurance and Tax  
5 Allocation Factor is applied to the total adjusted electric property tax expense to  
6 derive the total Transmission-Related Property Tax Expense included in the  
7 revenue requirement.

8 Q. Describe how payroll taxes are derived.

9 A. Transmission-Related Payroll Taxes start with total electric payroll taxes and  
10 excludes Citizens' payroll taxes. Since payroll taxes are directly correlated with  
11 labor, the Transmission Wages and Salaries Allocation Factor is applied to the  
12 total adjusted electric payroll taxes to derive the total Transmission-Related  
13 Payroll Tax Expense included in the revenue requirement.

14 **I. Statement AL – Working Capital**

15 Q. Please describe the purpose of Statement AL.

16 A. The working capital computed in Statement AL is a component that increases rate  
17 base. Working capital is comprised of the following three items: M&S,  
18 prepayments, and cash working capital.

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<sup>3</sup> Citizens Sunrise Transmission, LLC ("Citizens"), a wholly-owned subsidiary of Citizens Energy Corporation, has leased 50% of the transfer capability of a 30-mile segment ("Border-East Line") of the Sunrise Powerlink Transmission Project ("Sunrise"). Citizens Sycamore-Penasquitos, LLC ("Citizens"), a wholly-owned subsidiary of Citizens Energy Corporation, has leased 13.10% of the transfer capability of an 11.5-mile segment ("SX-PQ Line") of the Sycamore-Penasquitos 230kV Transmission Project ("SX-PQ"). SDG&E operates and maintains the Border-East Line and SX-PQ Line and charges Citizens for its share pursuant to the Appendix X and Appendix XII Formula rate mechanisms of SDG&E's Transmission Owner ("TO") Tariff. To prevent double-recovery, SDG&E excludes Citizens-related expenses for items including, but not limited to, property and payroll taxes in its TO filing.

1 Q. Please explain the derivation of M&S and prepayments utilized in Statement AL.

2 A. The pre-allocated M&S and prepayment amounts in Statement AL will continue  
3 to use a 13-month average balance, which will include the prior year December  
4 balance plus the 12-month base period. These balances are then allocated to  
5 transmission using the Transmission Plant Allocation Factor because these  
6 components are closely correlated to changes in gross plant.

7 Q. How is cash working capital calculated?

8 A. SDG&E's proposed TO6 Formula reflects a continuation of the one-eighth O&M  
9 rule that was utilized in the TO5 Formula and has traditionally been supported by  
10 the Commission as a methodology to derive working cash. Statement AL carries  
11 over the transmission O&M and transmission-related A&G balances from  
12 Statement AH, adds back transmission CPUC intervenor funding expense, and  
13 multiplies the total by 12.5% (one-eighth translated to a percentage) to arrive at  
14 cash working capital.

15 Q. Please describe the cash working capital adjustment derived in Statement AL.

16 A. Since cash working capital includes an addition for transmission CPUC intervenor  
17 funding expense, which is an expense incurred on behalf of Retail customers,  
18 Statement AL also calculates the revenue requirement associated with this  
19 expense to be excluded in the derivation of the Wholesale BTRR. The calculation  
20 for this adjustment starts with the CPUC intervenor funding expense for  
21 transmission and applies the 12.5% to pick-up one-eighth of the balance to get the  
22 total cash working capital. To compute the revenue requirement component, the  
23 cash working capital is then multiplied by the cost of capital rate from Statement

1 AV. The resulting revenue requirement adjustment is carried forward to the  
2 Wholesale BTRR summary in BK-2.

3 **J. Statement AM – Construction Work in Progress (“CWIP”)**

4 Q. Please describe the purpose of Statement AM.

5 A. If an Incentive Transmission CWIP project is authorized by the Commission, it  
6 will be reported in Statement AM, which is included in Incentive CWIP-specific  
7 rate base.

8 Q. If the Commission authorizes an Incentive Transmission CWIP project, how will  
9 the balance in Statement AM be calculated?

10 A. Consistent with the approach in the TO5 Formula, the balance in Statement AM  
11 will be derived using a 13-month average, which includes the prior year  
12 December balance plus the 12-month base period.

13 **K. Statement AQ – Federal Income Tax Deductions, Other Than Interest**

14 Q. Please describe the South Georgia Income Tax Adjustment.

15 A. In 1998, jurisdiction over SDG&E’s transmission system transferred from the  
16 CPUC to FERC. At the time, CPUC ratemaking would immediately flow through  
17 the full tax benefit to ratepayers, while FERC ratemaking requires tax benefits to  
18 be passed along ratably over the useful life of the asset (“normalization”). To  
19 resolve this jurisdictional timing difference, the Commission required investor-  
20 owned utilities to perform an adjustment to the retail revenue requirement, known  
21 as the South Georgia Income Tax Adjustment. The adjustment amortizes the  
22 difference between flow-through and normalized tax benefits to recapture past  
23 benefits flowed-through that the utility otherwise would not have recovered.

1 Q. Please describe the purpose of Statement AQ.

2 A. The South Georgia Income Tax Adjustment is included as an increase to the  
3 Retail revenue requirement on Statement BK-1. Note that the adjustment is then  
4 backed out of the Wholesale revenue requirement on Statement BK-2 because the  
5 adjustment is for benefits flowed-through to retail customers.

6 Q. When does SDG&E anticipate the South Georgia Income Tax Adjustment to be  
7 fully amortized?

8 A. The South Georgia Income Tax Adjustment was originally scheduled to be fully  
9 amortized by the year 2017. However, in June 2007, the average book life for  
10 transmission property increased from 41 years to 54 years. As a result, the  
11 amortization was extended an extra 13 years to account for the change in useful  
12 life. The adjustment will be fully amortized by 2030.

13 **L. Statement AR – Federal Tax Adjustments**

14 Q. Please describe the purpose and components of Statement AR.

15 A. Federal tax adjustments are calculated in Statement AR. The total reduces the tax  
16 rates included as a part of the cost of capital rate, as calculated in Statement AV,  
17 which reduces the revenue requirement.

18 The federal income tax adjustments included in Statement AR are amortized over  
19 time through rates because they are subject to the normalization rules discussed in  
20 Section VI.K above. The items amortized in Statement AR include an adjustment  
21 for investment tax credits (“ITC”) and excess deferred tax liabilities.

22 Q. Please explain the amortization of ITC.

1 A. The federal investment tax credit is a tax credit claimed on a corporate tax return  
2 for eligible solar, wind, fuel cell, and microturbine projects placed in service  
3 during the tax year.

4 Q. Please explain the amortization of excess deferred tax liabilities.

5 A. Excess deferred tax liabilities reflect adjustments to income tax expense that  
6 result from changes in statutory income tax rates. This is discussed in more detail  
7 below in the FERC Order 864 Worksheets section.

8 **M. Statement AT – State and Local Tax Adjustments**

9 Q. Please describe the purpose and components of Statement AT.

10 A. State and local tax adjustments are calculated in Statement AT. The total reduces  
11 the tax rates included as part of the cost of capital rate, as calculated in Statement  
12 AV, which reduces the revenue requirement.

13 Currently, there are no state and local tax adjustments included in the TO6  
14 Formula, but if they were to exist they would be amortized over time through  
15 rates in accordance with the aforementioned normalization rules discussed in  
16 Section VI.K above.

17 **N. Statement AU – Revenue Credits**

18 Q. What are revenue credits?

19 A. Revenue credits represent the sum of revenues received from use of the  
20 transmission system from sources that are not from the sale of power and are not  
21 collected or refunded through other Tariff Filings. Per the USofA, these revenues  
22 are recorded in the following FERC Accounts:

- 23
- 451 – Miscellaneous Service Revenues

- 1 • 453 – Sales of Water and Water Power
- 2 • 454 – Rent from Electric Property
- 3 • 455 – Interdepartmental Rents
- 4 • 456 – Other Electric Revenues
- 5 • 411.6 and 411.7 – Gains/Losses from Disposition of Utility Plant

6 Q. Please describe the purpose of Statement AU.

7 A. Since the revenue credits calculated in Statement AU represent payments from  
8 other sources, the TO6 Formula directly reduces the total revenue requirement in  
9 Statement BK-1 to prevent double recovery. Note that FERC Accounts 451  
10 through 456 are included in “Transmission Related Revenue Credits” and FERC  
11 Accounts 411.6 and 411.7 are included in “(Gains)/Losses from Sale of Plant  
12 Held for Future Use”.

13 Q. Why are revenue credits for Wholesale transactions not included in Statement AU?

14 A. Revenues from Wholesale transactions, such as wheeling revenues, that are  
15 booked to FERC 456, are not included in the TO6 Formula because these revenues  
16 are credited back to End-Use customers through SDG&E’s TRBAA mechanism.

17 **O. Statement AV – Cost of Capital and Rate of Return**

18 Q. Please describe the purpose of Statement AV.

19 A. Statement AV utilizes components of SDG&E’s capital structure and authorized  
20 rate of return to derive a cost of capital rate, which is applied to SDG&E’s  
21 transmission rate base to compute return on rate base and income tax expense  
22 which are brought forward to page one of Statement BK-1.

23 Statement AV also derives an Incentive cost of capital rate, which is  
24 applied to a FERC-approved incentive transmission rate base for ROE projects in

1 Statement BK-1. The incentive cost of capital rate includes the same components  
2 previously listed.

3 Q. Describe the calculation to derive total weighted cost of capital.

4 A. The calculation of total weighted cost of capital follows a four-step process:

5       ▪ Calculation of the capital structure, which consists of long-term debt,  
6       preferred equity, and common equity using values from the FERC Form 1.

7       As it relates to common equity, SDG&E will make new adjustments to  
8       account for non-rate base transactions and to exclude wildfire  
9       disallowances. These adjustments are described in further detail below.

10       • Calculation of the capital structure ratio by dividing each component by  
11       the total capital structure (long-term debt, plus preferred equity, plus  
12       common equity).

13       • Derivation of each component's weighted cost of capital by multiplying  
14       each capital structure component by its respective cost of capital.

15       • Summing the weighted cost of capital for all components to determine the  
16       total weighted cost of capital.

17 Both transmission and incentive total weighted cost of capital is calculated in a  
18 similar manner with the only difference being the common equity cost of capital rate.

19 Q. How is the cost of capital for each component in the capital structure derived?

20 A. Long-term debt cost of capital is long-term debt interest divided by total long-

21 term debt. Long-term debt interest is the sum of FERC Accounts 427, 428, and

22 428.1 minus FERC Accounts 429 and 429.1. Total long-term debt is the sum of

23 FERC Accounts 221, 222, 224, and 225 minus FERC Account 226.

24 Preferred equity cost of capital is preferred stock dividends declared from FERC

25 Account 437 divided by preferred stock from FERC Account 204.

1 Common equity cost of capital is the ROE of 12.25%. SDG&E witnesses  
2 Josh Nowak and Bruce Folkmann's testimonies provides additional detail to  
3 support the ROE. SDG&E has added a line to Statement AV to add back the after-  
4 tax earnings impacts related to California wildfire fund contributions to common  
5 equity in its capital structure calculation. SDG&E has also added a line to  
6 Statement AV to remove the impact the impact of the \$208 million after-tax  
7 charge SDG&E took in 2017 related to wildfire claims in excess of liability  
8 insurance coverage, cost recovery, and settlements with third parties due to the  
9 2007 Wildfires in SDG&E's service territory. Lastly, the calculation of return and  
10 income tax are now done separately on Statement AV.

11 Q. Does SDG&E intend to include the equity allowance for funds used during  
12 construction ("AFUDC") component of transmission depreciation expense in the  
13 development of its TO6 Formula federal and state income tax components?

14 A. Yes. Equity AFUDC is a ratemaking concept that requires equity AFUDC costs to  
15 be recognized as income in the financial statements and accumulate in CWIP  
16 during plant construction. Taxable income is computed by adding book  
17 depreciation back to pre-tax book income and deducting tax depreciation but does  
18 not allow a similar deduction for equity AFUDC. As a result, equity AFUDC is  
19 subject to federal and state income taxes. Including equity AFUDC in the federal  
20 and state income tax expense rate calculation provides equity investors a fair  
21 after-tax return during the construction of plant until construction is complete and  
22 the costs are reclassified from CWIP to plant-in-service.

1 Q. How does the incentive total cost of capital rate in Statement AV differ from the  
2 transmission cost of capital rate?

3 A. The total weighted cost of capital for Incentive Projects is calculated using the  
4 same four-step process and same inputs described above. The weighted cost of  
5 capital for common equity, however, utilizes an Incentive return on common  
6 equity to be approved by FERC should an Incentive ROE project be approved.

7 The federal and state income tax expense rate calculation also differs in  
8 that it does not include an adjustment for amortization of ITC or excess deferred  
9 tax liabilities, utilizes a FERC approved Incentive equity AFUDC component of  
10 transmission depreciation expense, and utilizes a FERC approved Incentive ROE  
11 project transmission rate base.

12 **P. Statement Miscellaneous**

13 Q. Please describe the purpose of Statement Miscellaneous.

14 A. Statement Miscellaneous includes unique items that are not included in cost  
15 statements AD through AV and require Commission approval. Other regulatory  
16 assets/liabilities, Transmission-Related Regulatory Debits/Credits, Transmission  
17 Plant Abandoned Project Costs, unfunded reserves, and Incentive Transmission  
18 Abandoned Project Costs are included in Statement Miscellaneous.

19 Q. What types of unfunded reserves are included in SDG&E's calculations?

20 A. The categories of unfunded reserves included in the derivation of Statement  
21 Miscellaneous include injuries and damages, workers' compensation,  
22 Supplemental Executive Retirement Plan ("SERP"), and accrued vacation.

23 Q. How are unfunded reserves calculated in Statement Miscellaneous?

1 A. Unfunded reserves are derived utilizing an average of the ending balance of the  
2 base period and the prior year. The average balance is then multiplied by an  
3 allocation factor comprised of the Common Plant electric ratio calculated in the  
4 supporting workpapers of Statement AD and the Transmission Wages and  
5 Salaries Allocation Factor from Statement AI.

6 **Q. FERC Order 864 Worksheets**

7 Q. Please describe the purpose of FERC Order 864.

8 A. The Tax Cuts and Jobs Act of 2017 (“TCJA”) included tax-related changes that  
9 reduced the federal corporate income tax rate from 35 percent to 21 percent  
10 beginning January 1, 2018. This reduction in corporate income tax rate required  
11 the re-valuing of a corporation’s ADIT balance to reflect the lower tax rate.

12 On November 21, 2019, the Commission issued its final rules in Order  
13 864. The Order requires all public utility transmission providers with transmission  
14 formula rates under an Open Access Transmission Tariff, a transmission owner  
15 tariff, or a rate schedule to revise those transmission formula rates to account for  
16 changes caused by the TCJA. Specifically, the Commission required all public  
17 utilities with formula transmission rates to do the following:

- 18 • Include a mechanism in the public utility’s formula rate to deduct any  
19 excess ADIT from, or add any deficient ADIT to, their rate bases;
- 20 • Include a mechanism in the public utility’s formula rate to adjust the  
21 income tax allowance by amortized excess or deficient ADIT; and
- 22 • Incorporate a new permanent worksheet into the public utility’s  
23 transmission formula rates that will annually track ADIT information.

24 Q. How do the FERC Order 864 Worksheets align with other ADIT-related  
25 calculations in the TO6 Formula Rate?

1 A. The TO6 Formula Rate includes both a method to adjust SDG&E's rate base for  
2 excess or deficient ADIT and a method to adjust SDG&E's income tax allowance  
3 for the amortization of ADIT. Statement AF reflects the excess ADIT resulting  
4 from TCJA. The ADIT, including the excess portion from Statement AF, flows to  
5 the rate base calculation on Statement BK-1, Page 3, Line 14. The resulting rate  
6 base from Statement BK-1, Page 3, Line 27 is used to derive the return and  
7 associated income taxes included in SDG&E's revenue requirement. Additionally,  
8 Statement AR reflects the amortization of ADIT. The amortization is included as  
9 an adjustment to income tax rate in Statement AV.

10 **VII. TRUE-UP AND INTEREST TRUE-UP ADJUSTMENTS**

11 Q. Please describe the purpose of the true-up and interest true-up.

12 A. The true-up compares recorded revenues to actual expenses to ensure SDG&E  
13 recovers no more and no less than its allowed cost of service at the authorized rate  
14 of return. The interest true-up accounts for the inherent timing lag in the formula  
15 by calculating interest on the over or under-collection resulting from the prior  
16 year true-up. The true-up and interest true-up are calculated in their respective  
17 workpapers and each amount is reflected on page seven of Statement BK-1.

18 Q. Please describe the Annual True-Up Adjustment calculation under the proposed  
19 TO6 Formula.

20 A. The True-Up Adjustment will be calculated for each Annual Informational Filing  
21 for the previous calendar year that the TO6 Formula was in effect, whether it was  
22 for the entire year or part of the year, by taking the differences between the  
23 Monthly True-Up Cost of Service ("MTUCOS"), as derived from the True-Up

1 Cost of Service (“TUCOS”), and the Monthly True-Up Revenues (“MTUR”)  
2 during the True-Up Period (“TUP”). The process is outlined below and is  
3 reflected in the “True-Up” tab section of the TO6 Formula Rate Spreadsheet:

- 4 a. Calculate SDG&E’s actual costs to own and operate its transmission system  
5 during the TUP, as measured by the TUCOS including Franchise Fees and  
6 Uncollectible (“FF&U”).
- 7 b. Attribute the TUCOS to each month of the TUP.
- 8 c. Determine SDG&E’s MTUR for the TUP.
- 9 d. Attribute the Prior True-Up Adjustment (“Prior True-Up”) embedded in  
10 rates to each month of the TUP. The Prior True-Up is the sum of the True-  
11 Up and the Interest True-Up Adjustment (“Interest True-Up”).
- 12 e. Attribute the Prior Other BTRR Adjustments to each month of the TUP.
- 13 f. Derive the Adjusted Monthly True-Up Revenues (“AMTUR”) by excluding  
14 the Prior True-Up and Prior Other True-Up from the MTUR.
- 15 g. Derive the Monthly Over-Collection or Under Collection by taking the  
16 difference between the MTUCOS and AMTUR.
- 17 h. Determine the True-Up Over-Collection or Under-Collection through the  
18 end of the TUP by accumulating the monthly differences, including interest  
19 accrued on a monthly basis, using the interest rate specified in 18 C.F.R §  
20 35.19 and posted on the FERC website.

21 Q. What is the TUCOS for the TO6 Cycle 1 filing that your testimony accompanies?

22 A. The TUCOS is equal to \$1,091.703 million as reflected in the True-Up Tab;  
23 column e; lines 1-4. The TUCOS represents the actual costs incurred by SDG&E  
24 during the TUP and is the maximum amount that SDG&E can collect to own and  
25 operate its transmission facilities during the TUP. The MTUCOS are attributed by  
26 simply dividing the TUCOS by twelve as shown in column 2, lines 14 thru 25.

27 Q. What is the total of the MTUR for the TO6 Cycle 1 filing?

1 A. The total of the MTUR for the instant formula rate filing is equal to \$1,174.265  
2 million as reflected in column 3, line 26. The MTUR is the actual recorded retail  
3 base transmission revenues booked during the TUP.

4 Q. Why is it necessary to adjust the MTUR by the Prior True-Up Adjustment amount  
5 embedded in the rates?

6 A. The Prior True-Up Adjustment shown in column 4 gets excluded to avoid truing-  
7 up the True-Up component of BTRR that is currently embedded in the MTUR.  
8 Failure to adjust for the Prior True-Up Adjustment will calculate an incorrect  
9 True-Up Adjustment that will result in an incorrect BTRR.

10 Q. Can you please elaborate further on why this adjustment takes place?

11 A. Yes. The TO6 Formula estimates the BTRR that SDG&E expects to incur during  
12 the rate effective period to set the transmission rates at a level that approximates  
13 the actual costs to operate and maintain its transmission system. The BTRR  
14 estimate includes a PYRR component and a Forecast Period Capital Additions  
15 Revenue Requirements (“FPCARR”) component to derive the BTRR that  
16 SDG&E expects to incur during the Rate Effective Period.

17 If the sum of the PYRR and the FPCARR forecast equals the TUCOS  
18 amount ultimately incurred during the Rate Effective Period, and if SDG&E’s  
19 forecast sales are accurate, then SDG&E’s retail transmission rates will generate  
20 retail transmission revenues during the Rate Effective Period that are exactly  
21 equal to SDG&E’s TUCOS, causing the True-Up amount to equal zero. However,  
22 since the likelihood of this occurring is remote, a True-Up will be necessary.

1                   Therefore, as explained above, failure to remove the Prior True-Up  
2                   component from the MTUR will cause a mismatch to properly derive the True-Up  
3                   component of BTRR.

4   Q.   Does the exclusion of the “Prior Other BTRR Adjustments” from the Monthly  
5           True-Up Revenues follow the same premise as to why the “Prior True-Up  
6           Adjustment” gets excluded from the monthly true-up revenues?

7   A.   Yes, it does.

8   Q.   What is the total True-Up Adjustment component of SDG&E’s Retail BTRR in  
9           the TO6 Cycle 1 filing?

10   A.   The True-Up component of the TO6 Cycle 1 Retail BTRR is an Over-Collection  
11           totaling \$6.278 million, including interest, as reflected in column 11, line 25. This  
12           amount will be added in the derivation of the TO6 Cycle 1 BTRR as shown in  
13           BK1, page 7, line 6.

14   Q.   Please explain the calculation of the Interest True-Up component of the BTRR  
15           under the TO6 Formula.

16   A.   As shown in the TO6 Formula Excel spreadsheet, the Interest True-Up amount  
17           totaling (\$10.046) million is based on the accrued interest from the prior cycle’s  
18           True-Up amount of (\$81.600) million as of December 31, 2022, per the TO5  
19           Cycle 6 Annual Informational Filing in Docket No. ER24-524-000. The tab  
20           labeled “Interest TU BP” shows the derivation of the interest accrued from  
21           January 1, 2023 through December 31, 2023 totaling (\$6.396) million, while the  
22           second tab labeled “Interest TU CY” continues to accrue interest on the

1 unamortized True-Up balance from January 1, 2024 until the True-Up is fully  
2 amortized at the end of December 31, 2024, and totals (\$3.650) million.

3 Q. Why does the Interest True-Up Adjustment produce a more accurate True-Up  
4 Adjustment calculation?

5 A. Absent the Interest True-Up, ratepayers would not receive the interest owed them  
6 on the \$81.600 million over-collection. That is because the \$81.600 million over-  
7 collection as of December 31, 2022 in TO5 Cycle 6 will not be collected in rates  
8 until twenty-four months later, when the rates go into effect for the period January  
9 1, 2024 through December 31, 2024. The Interest True-Up provides assurance  
10 that the ratepayers will be made whole, and not lose interest, or time value of  
11 money, on the \$81.600 million over collection.

12 The same process occurs when the True-Up is an under-collection, so that  
13 shareholders are also made whole for the True-Up from the end of the prior true-  
14 up period until the True-Up is fully collected in rates in the next rate effective  
15 period.

16 Q. Has SDG&E made changes to its true-up and interest true-up adjustment  
17 calculations for TO6?

18 A. No, the true-up methodology adopted and used in the TO5 Formula will continue  
19 to be used in TO6.

20 **VIII. FORECAST PERIOD CAPITAL ADDITIONS REVENUE**  
21 **REQUIREMENT**

22 Q. Please describe the purpose of the forecast period capital additions revenue  
23 requirement.

1 A. The forecast period capital additions revenue requirement is a mechanism that  
2 ensures rates will more closely resemble the true cost of service by estimating the  
3 various O&M expenses SDG&E incurs once plant is placed in service. The  
4 calculation is shown on page five of Statement BK-1 and the result is included as  
5 a component in the total BTRR calculation on page seven of Statement BK-1.

6 **IX. FORECAST PERIOD INCENTIVE CAPITAL ADDITIONS REVENUE**  
7 **REQUIREMENT**

8 Q. Please describe the purpose of the forecast period Incentive capital additions  
9 revenue requirement (“forecast ROE revenue requirement”).

10 A. The forecast ROE revenue requirement is a mechanism that ensures rates will  
11 more closely resemble the true cost of service by estimating the various O&M  
12 expenses SDG&E incurs for Incentive ROE projects once the plant is placed in  
13 service. The calculation is shown on page six of Statement BK-1 and the result is  
14 included as a component in the total BTRR calculation on page seven of  
15 Statement BK-1.

16 Q. Please describe the derivation of the forecast ROE revenue requirement.

17 A. The forecast ROE revenue requirement calculates an Incentive AFCR using the  
18 same inputs that the forecast plant additions revenue requirement utilizes.  
19 However, the Incentive AFCR calculation layers on the revenue requirement for  
20 Incentive ROE projects (as calculated in Statement BK-1; Page 2) in the  
21 numerator and the total net Incentive Transmission Plant for ROE projects (as  
22 calculated in Statement BK-1; Page 4) in the denominator.

1 The resulting Incentive AFCR is then multiplied by the Incentive weighted  
2 forecast plant additions to derive the revenue requirement for Incentive ROE  
3 forecast plant additions.

4 **X. INCENTIVE TRANSMISSION FORECAST CWIP PROJECTS REVENUE**  
5 **REQUIREMENT**

6 Q. Please describe the purpose of the Incentive Transmission forecast CWIP projects  
7 revenue requirement (“forecast CWIP revenue requirement”).

8 A. The forecast CWIP revenue requirement is a mechanism that ensures rates will  
9 more closely resemble the true cost of service by estimating the various O&M  
10 expenses SDG&E incurs for Incentive CWIP projects once the plant is placed in  
11 service. The calculation is shown on page six of Statement BK-1 and the result is  
12 a component in the total BTRR calculation on page seven of Statement BK-1.

13 Q. Please describe the derivation of the forecast CWIP revenue requirement.

14 A. The forecast CWIP revenue requirement is computed by applying the cost of  
15 capital rate, as derived in Statement AV, to the Incentive Weighted Forecast  
16 Transmission CWIP.

17 **XI. FRANCHISE FEES AND UNCOLLECTIBLES**

18 Q. What are franchise fees and uncollectibles (“FF&U”)?

19 A. Franchise fees are “rents” SDG&E makes to municipal entities for the right to use  
20 roadways and public rights-of-way for its infrastructure. Uncollectible expenses  
21 represent billed revenue that SDG&E cannot collect from its Retail customers.  
22 Both rates represent the authorized rates from SDG&E’s most recently approved  
23 CPUC-jurisdictional General Rate Case as approved by the CPUC. If these rates  
24 change during the TO6 Formula, SDG&E will update them accordingly.

1 Q. Please describe the derivation of FF&U expenses to be included in the revenue  
2 requirement.

3 A. FF&U expenses are derived on page seven of Statement BK-1 for Retail  
4 customers and Statement BK-2 for Wholesale customers. Each multiplies the  
5 BTRR for each by the applicable rate. Note that uncollectible expenses are not  
6 included in the total Wholesale BTRR because uncollectible expenses are for  
7 Retail uncollectible expenses.

8 **XII. OTHER BTRR ADJUSTMENTS**

9 Q. Why are other BTRR adjustments included in the total BTRR?

10 A. The other BTRR adjustment component of the total BTRR is necessary to adjust the  
11 BTRR for unforeseen events including, but not limited to, error adjustments, tax rate  
12 changes, and FERC audit adjustments applicable to prior base period filings.

13 Q. Does SDG&E expect to report other BTRR adjustments in TO6 Cycle 1?

14 A. Yes. SDG&E identified an error in the allocation of company use costs booked to  
15 FERC Account No. 935 – Maintenance of General Plant and the offsetting credit  
16 booked to FERC Account No. 929 – Duplicate Charges. Although the credit is  
17 supposed to be equal and offsetting to the costs, the costs and credits booked were  
18 not consistent. This resulted in the credit booked to FERC Account No. 929 being  
19 larger than the company use costs booked to FERC Account No. 935, causing a  
20 net credit in A&G expenses for company use that were included in SDG&E's  
21 TO5 Cycles 1 through 6 Annual Informational filings. Additionally, the FERC  
22 Order in Docket ER24-524 directed SDG&E to correct its TO5 Cycle 6 Annual

1 Informational Filing to remove accrued bonus deferred tax asset in rate base and  
2 to reclassify in-house fire brigade charges from O&M to A&G<sup>4</sup>.

3 **XIII. COST STATE STATEMENT BK-2: TOTAL WHOLESALE BASE**  
4 **TRANSMISSION REVENUE REQUIREMENT**

5 Q. Please describe the purpose of the Wholesale BTRR.

6 A. The Wholesale BTRR allocates the revenue requirement between high voltage  
7 and low voltage customers, which SDG&E provides to the CAISO for the  
8 derivation of the transmission access charge (“TAC”) rate. The TAC determines  
9 cost shifts between participating transmission owners (“PTOs”), who use  
10 transmission lines to export energy to, or withdraw energy from, other PTOs.

11 Q. How does SDG&E’s TO6 Formula derive the Wholesale BTRR?

12 A. The derivation of the Wholesale BTRR occurs in Statement BK-2 and starts with  
13 the Retail BTRR, which excludes FF&U and other BTRR adjustments, as  
14 computed on page seven of the BK-1. The Retail BTRR includes four  
15 components directly attributable to SDG&E’s Retail customers and are as  
16 follows:

- 17 • South Georgia Income Tax Adjustment;
- 18 • Transmission-related CPUC intervenor funding expense plus the  
19 associated working capital;
- 20 • EPRI dues; and
- 21 • Uncollectible expenses.

22 The first section of the BK-2 removes the expenses associated with the South  
23 Georgia Income Tax Adjustment, the items associated with the transmission-

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<sup>4</sup> See *San Diego Gas & Elec. Co.*, 186 FERC ¶ 61,223, PP 10, 20 (2024).

1 related CPUC intervenor funding expense, and EPRI dues. Because the starting  
2 point for the Wholesale BTRR does not include FF&U, the BK-2 only layers on  
3 franchise fee expense and does not perform a similar derivation for uncollectible  
4 expenses.

5 Q. Are there any other differences between the Wholesale BTRR calculation and the  
6 Retail BTRR calculation?

7 A. Yes. The Wholesale BTRR does not include the other BTRR adjustments as  
8 calculated for the Retail BTRR. SDG&E calculates a wholesale version of the  
9 adjustment to exclude uncollectible expenses and allocate the adjustment to HV  
10 and LV.

11 Q. Describe how SDG&E allocates the Wholesale BTRR between HV and LV.

12 A. In Statement BK-2, SDG&E splits the Wholesale BTRR into the two components  
13 listed below and then allocates each component using a ratio.

- 14 • Transmission forecast plant additions revenues, including Incentive Plant,  
15 from page seven of Statement BK-1; and
- 16 • All remaining revenues.

17 Q. What allocation method is used for forecast plant addition revenues?

18 A. The revenues for forecast plant additions are allocated via the ratio derived in the  
19 Summary of HV/LV splits.

20 Q. What allocation method is used for the remaining revenues?

21 A. All remaining revenues that are not associated with forecast plant additions are  
22 allocated using ratios derived in SDG&E's annual HV/LV Plant Allocation Study.

23 Q. How does the HV/LV Plant Allocation Study compute the HV/LV ratio applied to  
24 remaining revenues?

1 A. This study categorizes Transmission Plant from Statement AD into one of the  
2 following three groups and then allocates each group into HV or LV:

- 3 • Directly Assigned – includes assets identifiable as either HV, LV, or a  
4 combination of both. The ISO defines HV as having an operating voltage  
5 of 200kV and above, while voltages below 200kV are defined as LV.
- 6 • Transmission Towers and Land – includes transmission line assets such as  
7 towers and land that are a mixture of voltages. If identifiable as either HV  
8 or LV, these assets are directly assigned, otherwise, they are allocated as  
9 one-third LV and two-thirds HV.
- 10 • Non-Unitized – includes all other plant not included in the two categories  
11 above. Since this plant cannot be identified or assigned to a voltage they  
12 are allocated using the ratio explained below.

13 Once plant is categorized into the above three categories, the HV/LV ratios are  
14 computed by summing the total HV and LV results for the first two categories and  
15 taking each of those as a percentage of the total.

16 Q. Does this conclude your testimony?

17 A. Yes.

**VERIFICATION**

Christopher R. Penn hereby declares under penalty of perjury of the laws of the United States that the foregoing document is true and correct to the best of her knowledge and belief.

*See* 28 U.S.C. § 1746.

Executed this 30th day of October, 2024

*/s/ Christopher R. Penn*

\_\_\_\_\_  
Christopher R. Penn