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October 30, 2024

The Honorable Debbie-Ann Reese
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: San Diego Gas & Electric Company
Sixth Transmission Owner Formula Rate Tariff Filing
Docket No. ER25-_____-000

Dear Secretary Reese:

Pursuant to Section 205 of the Federal Power Act,[1] and Section 35.13 of the Commission's regulations,[2] San Diego Gas & Electric Company ("SDG&E") submits revisions to its Transmission Owner ("TO") Tariff.[3] The primary revision is to adopt a new formula rate tariff, the TO6 Formula ("TO6" or "TO6 Formula"), as the successor to SDG&E's currently effective Transmission Owner 5 formula rate ("TO5 Formula"), which is expiring due to SDG&E providing notice to relevant parties that it is terminating the TO5 Formula pursuant to Section 1.2 of SDG&E's Commission-approved TO5 Offer of Settlement ("TO5 Settlement").[4]

Consistent with Section 1.2 of the TO5 Settlement, the proposed effective date for the TO6 Formula and the other changes described below is January 1, 2025. As with the TO5 Formula, the TO6 Formula will include annual filings made under the formula (referred to as "Cycles"), with this first filing consisting of TO6 Cycle 1.

SDG&E's proposed TO6 Formula is set forth in Appendix VIII and Attachments 1 and 2 to that Appendix—the Protocols and the Formula Rate Spreadsheet, respectively—and related

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1 16 U.S.C. §824d.

2 18 C.F.R. § 35.13.

3 *See* "San Diego Gas & Electric Company, Transmission Owner Tariff, Volume 11."

4 Docket No. ER19-221, TO5 Settlement, Section 1.2. The TO5 Formula was embodied in an Offer of Settlement and Settlement Agreement ("TO5 Settlement") submitted on October 18, 2019, which the Commission approved on March 23, 2020. *San Diego Gas & Elec. Co.*, 170 FERC ¶ 61,240 (2020).

attachments. SDG&E's TO6 Cycle 1 $BTRR_{EU}$[5] for the 12-month Rate Effective Period ("REP") of January 1, 2025 to December 31, 2025 is approximately $1,262.0 million, representing a $246.2 million increase, or a 24.2 percent change, compared to the $BTRR_{EU}$ for TO5 Cycle 6. Notably, the difference between the TO5 Cycle 6 BTRR and what would have been the TO5 Cycle 7 BTRR is itself 13.96%. This difference is driven primarily by a lower True-Up Adjustment over-collection from the prior year and increases in Transmission Rate Base, O&M and Depreciation Expense. By comparison, the difference between TO6 Cycle 1 and TO5 Cycle 5, which was in effect in 2023, is 5.76%.

I. DESCRIPTION OF THE FILING

This filing does two things: (1) it proposes a new TO6 Formula[6] to SDG&E's TO Tariff to succeed the TO5 Formula, which will expire on December 31, 2024; and (2) it revises SDG&E's BTRR and transmission rates for Retail End Use customers and California Independent System Operator ("CAISO") Wholesale customers for the REP under the terms of the proposed TO6 Formula. Each of these points is summarized below.

A. Structure of the TO6 Formula

Consistent with SDG&E's TO5 Formula, SDG&E proposes using the formula rate method for the recovery of costs associated with SDG&E's Commission-jurisdictional transmission facilities effective January 1, 2025. SDG&E has established its revenue requirements using a formulaic ratemaking approach for two decades.[7]

As noted, SDG&E's proposed TO6 Formula is set forth in Appendix VIII, which includes the Protocols and the Formula Rate Spreadsheet.[8] The proposal is largely modeled on

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5 Unless otherwise defined in this letter and accompanying documents referenced herein, capitalized terms are intended to have the meanings ascribed to them in SDG&E's TO Tariff. Base Transmission Revenue Requirements ("BTRR") includes the charges assessed by SDG&E to its End Use Customers ("$BTRR_{EU}$" or "Retail") and the transmission charges assessed by SDG&E pursuant to its Transmission Owner ("TO") Tariff and by the California Independent System Operator ("CAISO") pursuant to the CAISO Tariff ("$BTRR_{CAISO}$" or "Wholesale").

6 Appendix VIII to SDG&E's TO Tariff—which includes the Formula Rate Protocols as Attachment 1 and the Formula Rate Spreadsheet as Attachment 2—constitutes the TO6 formula.

7 *See San Diego Gas & Elec. Co.*, 105 FERC ¶ 61,301 (2003) (order approving SDG&E's TO2 formula rate settlement). *See also Promoting Transmission Investment through Pricing Reform*, Order No. 679, 116 FERC ¶ 61,057, P 386 (2007) ("[W]e continue to encourage public utilities to explore the benefits of filing transmission-related formula rates'); *accord Niagara Mohawk Power Corp.*, 124 FERC ¶ 61,106, P 33 (2008) ("having a formula cost recovery system in place should eliminate the need for frequent rate adjustment filings, ensure that rates reflect the actual cost of providing transmission service, and incent needed transmission investment.").

8 As stated in Appendix VIII, the Protocols describe: (1) the terms of and operation of the Formula Rate to calculate the BTRR, access charges, and transmission rates of the TO Tariff; (2) the annual process to update the BTRR; and (3) the terms under which Formula Rate provisions may be revised,

SDG&E's TO5 Formula, including the structure and organization of those materials. SDG&E's proposal does include certain modifications, however, that reflect events that have occurred since the TO5 Formula went into effect. Those revisions are reflected in Appendix VIII, including in the Protocols and Formula Rate Spreadsheet.

As with the TO5 Formula, the proposed TO6 Formula is designed to calculate a Retail and a Wholesale BTRR. The retail BTRR consists of the following four parts:

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

The Wholesale BTRR is further adjusted to exclude Electric Power Research Institute ("EPRI") Membership Dues, California Public Utility Commission ("CPUC") Intervenor Funding Expense, South Georgia Tax Impacts, and Uncollectibles.

The PYRR is based on recorded data from SDG&E's FERC Form 1 from the year before that—in other words, FERC Form 1 data from two years prior to the Cycle year in question. For example, TO6 Cycle 1 for 2025 is based upon FERC Form 1 data from 2023. The FC is based on 24-month weighted forecast plant additions from the end of the Base Period through the end of the rate effective period. And the TU Adjustment component ensures that SDG&E only recovers the actual costs to own, operate and maintain its transmission assets.

B. Annual Cycle Filings

As with the TO5 Formula, SDG&E's BTRR is updated in the TO6 Formula annually through annual cycle filings. Each cycle will include the following components:

- Rate Effective Period;
- Base Period;
- Forecast Period;
- TU Adjustment; and
- Interest TU Adjustment.

As discussed further below, the Protocols include an extensive process for Interested Parties to review and provide feedback on SDG&E's Draft Informational Filing provided in June of each year, approximately five months before SDG&E submits its Annual Informational Filing

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subject to Commission approval. The Formula Rate Spreadsheet operates as the mechanism for calculating the BTRR.

to the Commission.[9] Specifically, SDG&E will post a draft of its Annual Informational Filing on June 15, followed by an informational meeting to address topics raised by Interested Parties.[10]

The Protocols provide for an extensive information request process, and for SDG&E to provide a revised Draft Informational Filing. Moreover, the Protocols provide Interested Parties the opportunity to raise informal challenges and formal protests to the Annual Informational Filing.[11] The scope of protests is specified in the Protocols, as is SDG&E's opportunity to respond.[12] And the Protocols specify the process for SDG&E to correct errors from previous Annual Informational Filings.[13]

II. KEY DIFFERENCES IN SDG&E's TO6 FORMULA FROM ITS TO5 FORMULA

As noted, in general terms, the TO6 Formula contains most, but not all, aspects of the TO5 Formula, including the structure and organization of those materials. Yet to the extent that there are changes, the testimony submitted with this filing describes in detail all the proposed changes to the TO6 Formula and the basis for those changes. Below is an overview of the key items that have been modified from the TO5 Formula for the TO6 Formula.

A. Return on Equity

As the Commission has recognized, under long-established Supreme Court precedent, an approved return on equity ("ROE") should be "'reasonably sufficient to assure confidence in the financial soundness of the utility . . . and should be adequate under efficient and economical management, to maintain and support its credit, and enable it to raise the money necessary for the proper discharge of its public duties.'"[14] Here, SDG&E proposes an ROE of 12.25 percent, consisting of a base ROE of 11.75 percent plus the Order No. 679 50-basis point adder for SDG&E's ongoing participation in CAISO (the "RTO Adder").

Applying Commission precedent,[15] SDG&E's ROE expert Joshua Nowak established a zone of reasonableness between 9.45-12.32 percent based on the result of two methods, the

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9 *See* Protocols § C.1.

10 *Id.* at § C.2.

11 *Id.* at §§ C.3 – C.6.

12 *Id.* at § C.6e; C.6i.

13 *Id.* at § C.6.

14 *Midwest Indep. Transmission Sys. Operator, Inc.*, 106 FERC ¶ 61,302, P 13 (2004) (quoting *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W. Va.,* 262 U.S. 679, 693 (1923)).

15 *See Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.,* Op. No. 569, 169 FERC ¶ 61,129 (2019), *order on reh'g,* Op. No. 569-A, 171 FERC ¶ 61,154, *order addressing reh'g arguments and setting aside prior order in part,* Op. No. 569-B, 173 FERC ¶ 61,159 (2020), *vacated and remanded sub. nom MISO Transmission Owners v. FERC,* 45 F.4th 248 (D.C. Cir. 2022), Order on Remand, 189 FERC ¶ 61,036, P 1 (2024) (reversing the portions of Opinion Nos.

Discounted Cash Flow model ("DCF") and the Capital Asset Pricing model ("CAPM"), applied to a proxy group of thirty companies. Mr. Nowak's testimony underscores the ongoing impacts of a high-interest rate environment even after the Federal Reserve's 50-basis point reduction in the Federal Funds overnight rate in September 2024. Mr. Nowak recommends a base ROE of 11.75 percent for SDG&E, which is at the upper midpoint of that zone of reasonableness after it is divided into equal thirds, consistent with Commission guidance.

Mr. Nowak concludes that SDG&E is an above-average risk utility due to the combination of higher wildfire exposure in California and California's application of inverse condemnation strict liability that makes a utility responsible for any utility-caused wildfire, regardless of fault, which increases the frequency and amount of property subject to liability.[16] Although Moody's upgraded SDG&E's credit rating one notch in 2021, credit rating agencies have all downgraded SDG&E's credit ratings by at least two notches in total since the catastrophic wildfires in California in 2018-2019 and Pacific Gas and Electric Company's ("PG&E") chapter 11 bankruptcy filing as a result of potential wildfire liability—despite SDG&E not being responsible for a catastrophic utility-caused wildfire during that time and SDG&E being repeatedly lauded as a leader in wildfire mitigation.[17] Even so, credit ratings do not fully capture the unmitigated downside risk that equity investors face from exposure to wildfire liabilities.

As noted, SDG&E also requests the 50-basis point RTO Adder for its CAISO membership, for a total ROE request of 12.25 percent. Although SDG&E recognizes that the Commission in December 2023 found PG&E no longer eligible for the RTO Adder going forward due to California's passage of Assembly Bill ("AB") 209 in September 2022—which the Commission found made PG&E's CAISO participation no longer voluntary[18]—SDG&E believes those orders were wrongly decided. It has appealed those decisions to the Ninth Circuit in case numbers 24-2527 and 24-3786. That appeal remains pending.

569-A and 569-B that include the Risk Premium model and maintain the other modifications to the Commission's ROE methodology set forth in Opinion No. 569, as modified by Opinion Nos. 569-A and 569-B).

16 Moody's Investor Services, *San Diego Gas & Electric Co.*, (Dec. 4, 2023) at 7 (Under inverse condemnation, "utilities are strictly liable for damages from fires ignited by their equipment, regardless of fault or how reasonably they acted."); *accord id.* (exposure to wildfire risk continues to "temper[] SDG&E's credit quality," resulting from the "combination of (i) severe wind events; (ii) growing housing developments in fire-prone areas; and (iii) the California courts' application of the inverse condemnation doctrine, which heightens the utilities' risk exposure to property damage.").

17 S&P Global Ratings, *San Diego Gas & Electric Co.* (June 26, 2024) at 4-5 (despite viewing SDG&E as a "global leader in wildfire prevention," S&P assesses SDG&E's business risk profile at the "lower end of our range for the excellent category" because "the threat of wildfires in its service territory [i]s high relative to that of its utility peers across North America."),

18 *Pacific Gas and Electric Co.*, 185 FERC ¶ 61,243 (2023), *affirmed on different reasoning*, *Pacific Gas and Electric Co.*, 187 FERC ¶ 61,167 (2024).

AB 209 only requires CPUC approval prior to SDG&E withdrawing from CAISO. The need for regulatory approval before withdrawing does not make participation involuntary, as utilities routinely need regulatory approval prior to acting. This includes needing the Commission's approval itself to withdraw from RTOs—which the Commission has found consistent with voluntary RTO/ISO membership.

Moreover, if AB 209 does mandate SDG&E's CAISO membership, then the state law is field and conflict-preempted by the Commission's exclusive jurisdiction over RTOs and Congress's determination that RTO membership should be voluntary. And Federal Power Act Section 219(c)'s language does not permit the Commission to impose a voluntariness requirement. The same reasoning applies to the pending complaint against SDG&E in Docket No. EL24-115 regarding SDG&E's ongoing receipt of the RTO Adder. SDG&E thus remains eligible to receive the RTO Adder and it should be granted here.

B. Capital Structure

SDG&E's TO6 Formula capital structure will still be based on the values reported in SDG&E's FERC Form 1, as in the TO5 Formula. But SDG&E will make new adjustments on top of its actual capital structure to account for non-rate base transactions and to exclude CPUC-jurisdictional wildfire disallowances that impact SDG&E's common equity.

In 2019, California AB 1054 passed, establishing the California wildfire fund. To participate in the wildfire fund, the law requires a participating utility to capitalize the fund with initial and ongoing contributions. SDG&E made its initial contribution of $322.5 million in 2019 and has committed to $12.9M annual payments for 10 years, for a total contribution of $451.5 million.

SDG&E proposes removing the impact of these contributions from the calculation of its capital structure, consistent with FERC precedent to remove amounts that are not available for rate base investment.[19] To do so, SDG&E will add back to equity the after-tax charges to earnings that reflect the initial payment as well as the ten annual payments that SDG&E has committed to make through 2028.

SDG&E will also remove from common equity the $208 million after-tax charge SDG&E took in 2017 related to wildfire claims in excess of liability insurance coverage, cost recovery, and settlements with third parties due to the 2007 wildfires in SDG&E's service territory. SDG&E's equity because of those liabilities is forever gone and leaves SDG&E in a common equity deficit relative to where SDG&E would otherwise be.

C. Depreciation

Expert witness Dane Watson has prepared a transmission depreciation rate study as part of SDG&E's TO6 Formula Rate filing. Based on that study, Mr. Watson proposes a composite depreciation rate of 3.11 percent, compared to SDG&E's current composite depreciation rate of

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[19] *El Paso Nat. Gas,* 139 FERC ¶ 61,095 (2012), PP 86, 90.

2.97 percent under SDG&E's TO5 Formula. The primary driver in the change in depreciation expense is the increase in negative net salvage for three accounts, which is partially offset by Mr. Watson proposing longer service lives for four accounts. Due to the operation of the TO6 Formula, however, these rates are not included in TO6 Cycle 1's Base Period BTRR. Instead, the impact will begin to appear in the 2025 base period for 2027 rates.

D. Changes Reflected in Appendix VIII

In Appendix VIII, SDG&E has proposed several additions and/or changes to the Definitions and Terms to include those that are pertinent to SDG&E's TO6 Formula, including the following:

Transmission Wages and Plant Blended Allocation Factor: the average of the Transmission Wages and Salaries Allocation Factor and Transmission Plant Allocation Factor.

Accounting Changes: may involve: (1) the initial implementation of an accounting standard or policy; (2) the initial implementation of accounting practices for unusual or unconventional items where the Commission has not provided specific accounting direction; (3) corrections of errors and prior period adjustments; (4) the implementation of new estimation methods or policies that change prior estimates; and (5) changes to income tax elections.

Actual Annual Revenue: the recorded revenues for the 12-month Base Period or True-Up Period.

Annual Cost of Service: the sum of the 12 Monthly Costs of Services for a given year.

Annual Informational Filing: the annual filing at the Commission dictated by SDG&E's Formula Rate Protocols to establish its Base Transmission Revenue Requirements.

Draft Informational Filing: the draft calculation of SDG&E's Base Transmission Revenue Requirements that get posted on SDG&E's website for Interested Parties to review and submit data request questions to ascertain the accuracy and correctness of the input data.

Electric Power Research Institute ("EPRI") M**embership Dues:** that are excluded in the derivation of wholesale base transmission revenue requirements to ensure that these costs are not passed on to wholesale customers in accordance with FERC precedent.

Incentives: any incentive provided for in FERC Order No. 679. The input values for the incentive shall be zero in the TO6 Formula until the Commission accepts or approves the recovery of the cost associated with the incentive.

Interested Parties: all parties interested in the information exchange and review described in these Protocols including, but not limited to, customers under the TO Tariff, the CPUC, consumer advocacy agencies, and the California state attorney general.

South Georgia Income Tax Adjustment: the adjustment included in book taxable income to reverse tax benefits flowed through in rates prior to full normalization of book/tax adjustments.

E. Changes Reflected in the TO6 Formula Rate Protocols

Annual Update Process: SDG&E has updated the annual cycle processes, principally to reflect recent Commission guidance issued after SDG&E's TO5 Protocols were approved.[20] This includes SDG&E providing a revised Draft Informational Filing (if needed), Informal Challenge and Formal Protest procedures, and SDG&E specifying that it will file each Annual Informational Filing in a new docket.

Single Issue Filings: In addition to the single-issue filings permitted by the TO5 Protocols, SDG&E has added two provisions allowing SDG&E to make single issue filings to incorporate project-specific cost containment measures for a CAISO Transmission Planning Process bid project and to revise the TO6 Formula as needed to implement a wildfire self-insurance program if SDG&E chooses to pursue such insurance. SDG&E also modified the restriction on project-specific incentive filings to permit SDG&E to seek any incentive permitted by Order No. 679.

Term: SDG&E's TO6 Formula will go into effect on January 1, 2025, or such other date authorized by the Commission and shall be re-determined annually thereafter in accordance with Appendix VIII. The TO6 Formula shall remain in effect until superseded by subsequent Commission-approved rates.

Partial True-Up Adjustment: Describes how a true-up adjustment will be made if the TO6 Formula is not in effect for an entire year.

Final True-Up Adjustment: Consistent with the TO5 Formula, specifies that, if the TO6 Formula is no longer applicable, SDG&E will provide the true-up adjustments for the penultimate and final TO6 rate effective years as part of SDG&E's subsequent rate case Cycle 1 and Cycle 2 rate filings.

F. Changes Reflected in the TO6 Formula Rate Spreadsheet

SDG&E has proposed several changes to the Formula Rate Spreadsheet. Substantive changes include the following:

Statement BK-1 and Statement AF - Revised calculation of the Annual Fixed Charge Rate ("AFCR"): The calculation is used to derive the FC by adjusting the numerator to only include remeasured property related Accumulated Deferred Income Tax that has been adjusted to exclude deferred tax liabilities attributed to Bonus Depreciation. The AFCR's

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20 *See e.g.*, *PacifiCorp*, 183 FERC ¶ 61,031 (2023); *Ala. Power*, 178 FERC ¶ 61,207 (2022); *Idaho Power Co.*, 179 FERC ¶ 61,054 (2022); *PacifiCorp*, 179 FERC ¶ 61,053 (2022); *Omaha Public Power Dist.*, 179 FERC ¶ 61,112 (2022).

purpose is to represent annual fixed charges expected to be incurred due to incremental plant additions that occur during the rate effective period. To accurately do so, the calculation should, as closely as possible, approximate the actual incremental fixed charges expected to occur.

Because future plant is not subject to excess or deficient reserves due to remeasurement from a tax rate change and is no longer eligible for Bonus Depreciation, these components should not be factored into the calculation of AFCR. Including historical deferred tax liabilities related to Bonus Depreciation and excess or deficient reserves in the derivation of the AFCR in the TO5 Formula improperly decreased the AFCR, which resulted in a lower Forecast Period Capital Addition Revenue Requirement. This mismatch is also potentially contributing to larger true-up adjustments, which results in increased rate volatility for ratepayers. This change will thus allow SDG&E to better match the revenues that will be collected in rates to cover the incremental costs that are expected to be incurred during the rate effective period.

Statement AV – Capital Structure Adjustment: As noted, SDG&E has updated the calculation of the common equity component in Statement AV to include wildfire fund contributions and to remove the impact of the $208 million after-tax charge SDG&E took in 2017 related to wildfire claims in excess of liability insurance coverage, cost recovery, and settlements with third parties due to the 2007 wildfires in SDG&E's service territory for determining total common equity.

Statements AD, AE, and AJ – FERC Order 898 Changes: In accordance with FERC Order No. 898 amending the electric Uniform System of Accounts and FERC Form 1, new FERC accounts for computer hardware, software, and communications equipment are established under Accounts 351.1, 351.2, and 351.3, respectively. These accounts are included in the supporting workpapers of Cost Statement AD, AE, and AJ.

Statement BK-2 – Wholesale BTRR: The derivation of Wholesale BTRR Excluding Franchise Fees is updated to include a line item carving out EPRI dues. This is to ensure that EPRI costs are not collected from wholesale customers.

Statement AH – Operation and Maintenance ("O&M") and Administrative and General ("A&G") Expenses: SDG&E has removed excluded expenses lines for O&M and A&G in Statement AH because they are duplicative. All excluded expenses are already listed on Statement AH-1 and AH-2, so it is redundant for them to all be listed separately again on Statement AH. SDG&E also added a line for Other Cost Adjustments for O&M and A&G error corrections from a prior period. And SDG&E has added a line to Statement AH to recover costs in FERC 925 – Injuries and Damages using a new blended labor and plant allocation factor. The new allocation factor, Transmission Wages and Plant Blended Allocation Factor, is equal to the average of the Transmission Wages and Salaries Allocation Factor and the Transmission Plant Allocation Factor.

III. LIST OF DOCUMENTS SUBMITTED

This filing consists of the following documents:

- Transmittal Letter;
- Attestation Form;
- Clean version, Appendix VIII, Protocols, and Formula Rate Spreadsheet tariff records;
- Redline version, Appendix VIII, Protocols, and Formula Rate Spreadsheet tariff; and
- The following exhibits supporting this filing, including testimony, workpapers, and other materials:[21]

Exhibit No.	Title
SDG&E-001	Prepared Direct Testimony of Bruce A. Folkmann
SDG&E-002	Prepared Direct Testimony of Adam P. Currey
SDG&E-003	Prepared Direct Testimony of Christopher R. Penn
SDG&E-004	Prepared Direct Testimony of Dane A. Watson
SDG&E-005	Prepared Direct Testimony of Joshua C. Nowak

IV. TO6 CYCLE 1 BASE TRANSMISSION REVENUE REQUIREMENTS

Utilizing the TO6 Formula, as noted, this filing also revises SDG&E's BTRR and transmission rates for Retail End Use and CAISO Wholesale customers for the Rate Effective Period beginning January 1, 2025, and continuing through December 31, 2025. The revised transmission rates are based on certain recorded and estimated cost information. The TO6 Cycle 1 rates reflect a revised BTRR for Retail End Use and CAISO Wholesale customers consisting of the following components:

(1) PYRR for the 12-month period ending December 31, 2023;

(2) FC attributed to the forecast capital additions for the 24-month period covering 2024 and 2025;

(3) TU Adjustment for the 12-month period from January 1, 2023 through December 31, 2023;[22] and

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[21] SDG&E offers a further description of the testimony in Attachment 1 to this Transmittal Letter.

[22] SDG&E also notes that while the TO5 Formula will terminate on December 31, 2024, there are provisions in the TO5 Formula Rate Protocols for a Final True-Up Adjustment, which "shall be

(4) An Interest True-Up Adjustment.

The PYRR, FC and TU Adjustment, including the Interest True-Up Adjustment, are designed to quantify SDG&E's cost to own, operate and maintain its transmission facilities.

SDG&E's TO6 Cycle 1 $BTRR_{EU}$ for the 12-month REP of January 1, 2025 to December 31, 2025 is approximately $1,262.0 million, representing a $246.2 million increase, or a 24.2 percent change, compared to the $BTRR_{EU}$ for TO5 Cycle 6. As noted, the difference between the TO5 Cycle 6 BTRR and what would have been the TO5 Cycle 7 BTRR is itself 13.96%. This difference is driven primarily by a lower True-up Adjustment over-collection from the prior year and increases in Transmission Rate Base, O&M and Depreciation Expense. By comparison, the difference between TO6 Cycle 1 and TO5 Cycle 5, which was in effect in 2023, is 5.76%.

The TO6 Cycle 1 $BTRR_{CAISO}$ equals $1,257.9 million, representing a $245.4 million increase—a 24.2 percent change—compared to the $BTRR_{CAISO}$ for TO5 Cycle 6.

The End Use and CAISO wholesale customers' BTRR is comprised of the following components (all amounts in $ millions):

2023 Prior Year Revenues	=	$1,172.7
Forecast Period Revenues	=	$88.8
12-month TU Adjustment	=	$(6.3)
Interest TU Adjustment	=	$(10.0)
Franchise Fees/Uncollectibles	=	$15.2
Other BTRR Adjustments	=	$1.6
Total Retail BTRR	=	$1,262.0
Wholesale BTRR Adjustments:		
So. Georgia Tax Adjustment	=	$(1.3)
Electric Power Research Institute Costs	=	$(0.2)
Uncollectibles	=	$(2.6)
Total Wholesale BTRR	=	$1,257.9

determined using the same calculation methodology as the Annual True-Up Adjustment and shall be applied to the next successor rate." Accordingly, TO5 Formula True-Up Adjustments for 2023 and 2024 will be incorporated in the annual TO6 Cycle 1 and 2 filings using the TO5 Formula to calculate those true-ups.

The net increase in transmission rates is attributed primarily to the following, as discussed above:

- A revision to the ROE rate during the duration of the proposed TO6 Formula Rate mechanism, as further discussed in SDG&E's supporting testimony;
- A change in capital structure to account for non-rate base transactions and to remove the impact of charges related to the 2007 wildfires in SDG&E's service territory;
- An increase in PYRR, resulting from higher operations and maintenance expenses, depreciation expenses, property taxes, transmission rate base, and administrative and general expenses due to a new allocation methodology for injuries and damages;
- A lower True-Up Adjustment over-collection between the TO6 Cycle 1 and TO5 Cycle 6 Annual Informational Filing;
- An increase in the 24-month total Weighted Forecast Plant Additions and the related FC; and
- An Other BTRR Adjustment to increase total BTRR for the correction of errors in prior years' Annual Informational Filings.[23]

V. MISCELLANEOUS MATTERS

Adjustments to Reflect Correction of Errors

Section C.7 of the TO5 Formula Rate Protocols provides that if an error is identified in SDG&E's prior informational filing, SDG&E shall include a brief description of the error in its subsequent informational filing.

SDG&E identified an error in the allocation of company use costs booked to FERC Account No. 935 – Maintenance of General Plant and the offsetting credit booked to FERC Account No. 929 – Duplicate Charges. Although the credit is supposed to be equal and offsetting to the costs, the costs and credits booked were not consistent. This resulted in the credit booked to FERC Account No. 929 being larger than the company use costs booked to FERC Account No. 935, causing a net credit in A&G expenses for company use that were included in SDG&E's TO5 Cycles 1 through 6 Annual Informational filings. Additionally, the FERC Order in Docket ER24-524 directed SDG&E to correct its TO5 Cycle 6 Annual Informational Filing to remove accrued bonus deferred tax asset in rate base and to reclassify in-house fire brigade charges from

[23] As noted, in this filing, SDG&E is proposing to update its currently-effective transmission depreciation rates. Due to the operation of the TO6 Formula, however, these rates are not included in the Cycle 1 Base Period BTRR.

O&M to A&G.[24] These corrections are reflected in the "Other BTRR Adjustments" of total BTRR.

In the aggregate, the total "Other BTRR Adjustment" for retail and wholesale customers, as reflected in Statements BK1 and BK2 of the instant filing, are a charge of $1.576 million and $1.574 million, respectively.

VI. REQUEST FOR WAIVERS

SDG&E respectfully requests any waivers deemed necessary to permit the TO6 Cycle 1 Filing to become effective January 1, 2025, subject to refund and final Commission action in this proceeding. The January 1, 2025 effective date for the TO6 Formula will provide for a transition between the end of the TO5 Formula and the beginning of the TO6 Formula without a resulting gap.

Good cause exists to permit the TO6 Formula to become effective as requested because no irreparable harm will result if this TO6 Formula is permitted to go into effect. As noted, all rates collected as of January 1, 2025 will be subject to refund.

SDG&E also respectfully requests waivers of the Commission's cost support regulations, 18 C.F.R. § 35.13, to the extent such waivers are necessary. Good cause exists to grant such waivers because the statements, testimony, and exhibits accompanying this filing, along with SDG&E's FERC Form 1, provide sufficient information for the reasonableness of the proposed formula rates, which are based on actual costs as reflected in SDG&E's audited books and records. Granting such waiver is consistent with Commission precedent.[25]

VII. SERVICE

Copies of this filing have been served on the CAISO and CPUC. Electronic copies of this filing will be available on www.sdge.com and a link to this filing will be provided via email as a courtesy to the official service list in Docket No. ER19-221.

VIII. COMMUNICATIONS

Correspondence and other communications concerning this Informational Filing should be addressed to:

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[24] *See San Diego Gas & Elec. Co.*, 186 FERC ¶ 61,223, PP 10, 20 (2024).

[25] *See, e.g., So. Cal. Edison Co.*, 136 FERC ¶ 61,074, P 29 (2011).

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Respectfully submitted,

/s/ Ross R. Fulton

Ross R. Fulton
Attorney for
San Diego Gas & Electric Company

ATTACHMENT 1

SUMMARY OF SDG&E'S PREPARED DIRECT TESTIMONY

Bruce A. Folkmann (Exhibit No. SDG&E-001) provides a general overview of SDG&E's proposed TO6 Formula. After providing background and contextual information, Mr. Folkmann discusses the key drivers underlying the changes in SDG&E's Base Transmission Revenue Requirements, including the return on equity, capital structure, and depreciation. Mr. Folkmann supports SDG&E's request for the 50-basis point RTO Adder for SDG&E's CAISO participation.

Adam P. Currey (Exhibit No. SDG&E-002) provides a history of SDG&E's prior Transmission Owner tariff rate case filings, the development of SDG&E's TO6 Formula, and discusses the key differences between the proposed TO6 Protocols and the existing TO5 Protocols. Mr. Currey then provides a description of the TO6 Formula, including the relevant timelines associated with each annual Cycle. Furthermore, Mr. Currey discusses other aspects of the TO6 Formula, such as the Final TO6 True-Up Period Adjustment, Refunds, and Retail Rate Design.

Christopher R. Penn (Exhibit No. SDG&E-003) describes the structure and derivation of the total Retail and Wholesale Base Transmission Revenue Requirements under the TO6 Formula, as set forth in the Formula Rate Spreadsheets and Protocols. Mr. Penn also discusses various cost statements to the TO6 Formula; the True-Up and Interest True-Up Adjustments; the Forecast Period Capital Additions Revenue Requirement; the Incentive Transmission Forecast CWIP Revenue Requirement; the Franchise Fees & Uncollectibles; and Other Base Transmission Revenue Requirement Adjustments.

Dane A. Watson (Exhibit No. SDG&E-004) has prepared a transmission depreciation rate study as part of SDG&E's TO6 Formula rate filing. As a result of that study, Mr. Watson proposes a composite depreciation rate of 3.11 percent for the TO6 Formula, compared to a composite depreciation rate of 2.97 percent under SDG&E's TO5 Formula. Mr. Watson's depreciation rate study also sets forth transmission depreciation rates for each account.

Joshua C. Nowak (Exhibit No. SDG&E-005) recommends a ROE for SDG&E. Mr. Nowak developed his recommendation consistent with Commission precedent regarding setting a base ROE, establishing a zone of reasonableness based upon the DCF and CAPM method applied to a proxy group of 30 companies while considering the general economic and capital market environment. After determining that SDG&E has an above-average risk profile based upon its wildfire risk and wildfire liability exposure, Mr. Nowak recommends a base ROE for SDG&E of 11.75% at the upper midpoint of the zone of reasonableness after that zone is divided into tertiles under Commission precedent, and a total ROE of 12.25% once the 50-basis point RTO Adder for SDG&E's CAISO participation is included.

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to Rule 2010 of the Commission's Regulations, 18 C.F.R. § 385.2010, I have this day served the foregoing **TRANSMITTAL LETTER OF SAN DIEGO GAS & ELECTRIC COMPANY** upon each person designated on the official service list compiled by the Secretary in Docket No. ER19-221-000.

Dated at San Diego, California, this 30th day of October, 2024.

/s/ Adam P. Currey
Adam P. Currey