Company: San Diego Gas and Electric Company (U 902 M)
Proceeding: 2024 General Rate Case – Track 3
Application: A.22-05-016
Exhibit: SDG&E-T3-PSEP-02

PREPARED DIRECT TESTIMONY OF

ERIC DALTON

(REVENUE REQUIREMENTS)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

April 30, 2025

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I. PURPOSE

The purpose of my testimony is to sponsor the Pipeline Safety Enhancement Plan (PSEP) revenue requirements associated with the PSEP projects and costs presented for review in this Application and that are recorded in San Diego Gas and Electric Company's (SDG&E) Safety Enhancement Expense Balancing Accounts (SEEBAs), Safety Enhancement Capital Cost Balancing Accounts (SECCBAs), and Line 1600 Records Audit Memorandum Account (L1600RAMA).

II. PSEP REVENUE REQUIREMENT

A. Summary Of Costs

As described in the testimony of Marco Tachiquin (Exhibit (Ex.) SDG&E-T3-PSEP-01), SDG&E has presented $239 million in capital expenditures and $1 million in operations and maintenance (O&M) expenditures, recorded as of December 2024, for reasonableness review. These expenditures form the basis for the revenue requirements requested as part of Track 3 of this proceeding, reduced by the 50% interim recovery authorized by Decision (D.) 16-08-003 and incorporated in rates through December 2024. The cost reference and their corresponding regulatory accounts are detailed in Table ED-1 below.

Table ED-1
Summary of SDG&E's Costs (in $000s)

Regulatory Account	Cost Reference
Safety Enhancement Capital Cost Balancing Account (SECCBA)	$239,196
Safety Enhancement Balancing Account (SEEBA)	$1,076
Line 1600 Records Audit Memorandum Account (L1600RAMA)	$135
Total	**$240,407**

B. Indirect Costs

The Capital and Operations and Maintenance (O&M) costs of completing a project consist of both direct costs and indirect costs, where the sum amounts to the fully loaded cost.

1. Overheads

Direct costs are for those activities and services that support a specific project, such as labor costs, which include salaries of staff employees, and non-labor costs, which include contract labor, purchased services, and materials required for a specific project. These costs are charged directly to the project since they are readily identifiable and can be directly traced. Indirect costs are for those activities and services associated with direct costs, such as payroll taxes, pension and benefits,[1] which benefit a project but are not directly charged. Indirect costs are incorporated into the costs presented for review in Track 3 of this proceeding.

The following overheads are allocated to PSEP projects and included for recovery:

Table ED-2

Overhead Types	**Description**
Payroll Tax	Represents SDG&E's portion of required contributions to the state and federal governments for State Unemployment Insurance, Federal Unemployment Insurance, and Federal Retirement and Medical Insurance
Vacation and Sick	Represents the costs paid by SDG&E for employees' non-productive time, such as vacation and sick days, holidays, and jury duty
Benefits (non-balanced [2]	Represents benefits such as medical and dental
Workers' Compensation	Represents the cost of expected payments to employees for work-related injuries, plus the cost of workers' compensation insurance premiums to cover claims over a certain dollar amount
Public Liability / Property Damage	Represents the cost of expected payments to third parties for liability and property damage claims submitted to SDG&E, plus the cost of insurance premiums

1 Non-balanced benefits exclude Pension and Post-Retirement Benefits Other Than Pensions (PBOPs) which are subject to separate balancing account treatment. Non-balanced benefits include employee benefits such as medical and dental.

2 Non-balanced benefits exclude Pension and PBOPs which are subject to separate balancing account treatment.

Overhead Types	Description
Incentive Compensation Plan	Represents the incentive compensation plan costs paid to employees based on individual and company performance as compared to pre-established goals
Purchasing	Represents the costs related to the procurement activity in obtaining goods and services for SDG&E
Administrative and General	Represents the cost of administrative and general support provided by functional areas such as Accounting and Finance, Human Resources, Information Technology, and Tax
PSEP Insurance	Represents additional insurance obtained for PSEP work performed by third-party contractors and allocated to PSEP Capital and O&M projects through a separate insurance overhead loader

The incremental overheads discussed above, with totals provided below, are the only overheads sought to be reviewed in this track of this proceeding. SDG&E is not seeking recovery of non-incremental overheads currently recovered in base rates. Examples of non-incremental overheads for which SDG&E does not seek review in this proceeding include: Warehouse, Fleet, Shop, Small Tools, Supervision/Engineering, and Department Overhead – Replacement. In addition, PSEP O&M and capital costs are reduced for Pension and Post-Retirement Benefits Other Than Pensions (PBOPs), as these overhead costs are subject to separate balancing account mechanisms. SDG&E's Pension and PBOPs are balanced in the Pension Balancing Account and PBOP Balancing Account.[3] The adjustments to SDG&E's fully loaded PSEP O&M and capital costs for Pensions, PBOPs, and other cost exclusions are detailed in the accompanying workpapers.[4]

[3] D.13-05-010 at 896-900.

[4] Refer to workpapers supporting my Prepared Direct Testimony, Ex. SDG&E-T3-PSEP-02-WP1.

Table ED-3
SDG&E Overhead Costs (in $000s)

Overhead	Capital	O&M	Total
Payroll Taxes	817	2	819
Vacation & Sick	1,331	3	1,334
Benefits (non-balanced)	1,645	4	1,649
Workers Compensation	119	0	119
Public Liability/ Property Damage	370	1	371
Incentive Compensation Plan	1,810	5	1,815
Purchasing	678	3	681
Administrative & General	5,835	-	5,835
PSEP Insurance	1,904	-	1,904
Total Overhead Costs	14,509	19	14,528

On a monthly basis, the Affiliate Billing and Costing teams at SDG&E review overhead activity and set overhead rates that take into account the particular overhead's loading base, pool activity, and historical and budgeted data. Once reviewed and approved, overhead rates are input into the SAP accounting system. Through the accounting system, overhead rates are applied to Capital and O&M direct costs monthly in accordance with their classification, i.e., company labor, contract labor, purchased services, and materials.

2. AFUDC and Capitalized Property Tax

Allowance for Funds Used During Construction (AFUDC) is a generally accepted regulatory accounting practice whereby the cost of financing capital construction projects is added to the cost of the asset while in construction. Projects in the development or construction phase are classified as construction work in progress (CWIP) until such time that the project(s) is completed and placed into rate base. An AFDUC rate is applied to the ending (CWIP) balance in a given month to calculate the AFUDC cost, which is then added to CWIP. The calculation of the AFUDC rate follows the Federal Energy Regulatory Commission (FERC) Code of Federal Regulations found under item 17 of the Gas Plant Instruction of Part 201. SDG&E's actual AFUDC rate is derived by weighting its actual capital structure by the authorized cost of equity and embedded cost of debt.

The following illustrative example shows how AFUDC is calculated. Assuming a construction project is estimated to cost $100 annually and will take two years to complete. The AFUDC rate in this example is 10% at the time of estimation. In the first year, the $100 construction cost and the 10% AFUDC rate produce $10 of AFUDC cost and a CWIP balance of

$110. By the end of the second year, the 10 percent AFUDC rate would be applied to the previous year's CWIP ($110) balance plus the $100 of construction in year two to produce a total project cost of $231 [(.10 x (110 + 100)) + 100 +110]. This project had an AFUDC cost of $10 in year one and $21 of AFUDC cost in year 2.

When developing estimated PSEP project costs, SDG&E used the latest actual AFUDC rate as a reasonable proxy for the AFUDC rate applied to CWIP. Any changes to direct costs, AFUDC rate, and project timeline from when estimated costs are developed to when actual costs are incurred can lead to change in AFUDC costs.

Capitalized property tax represents property tax incurred during construction.[5] The property tax rate is updated annually and developed using the full assessed value of the entire plant and the total amount of assessed property taxes. The formula for calculating monthly property tax is: Current Month CWIP Balance x (Annual Property Tax Rate)/12. Any variance between estimated and actual costs and changes to a project timeline can increase or decrease property tax costs. Additionally, similar to AFUDC, the current month's capitalized property tax is added to CWIP.

C. REVENUE REQUIREMENTS

The PSEP revenue requirements, as recorded in the SEEBA, SECCBA, and L1600RAMA, and requested for recovery in rates, totaled $50 million as of December 31, 2024, for SDG&E. As described in my testimony, the revenue requirement is based on fully-loaded costs and includes O&M, capital-related costs, and regulatory account interest. Upon Commission approval of costs presented in this request, the revenue requirement will also be trued-up for such items as: (1) regulatory account interest; (2) the ongoing capital-related revenue requirements associated with approved PSEP capital projects that were recorded to the SECCBA subsequent to December 2024 through the date that rates are adjusted; and (3) a reduction for previously authorized interim cost recovery incorporated in current rates subsequent to December 2024.

The table below specifies the ending balance in each account as of December 31, 2024, by revenue requirement component, which SDG&E is requesting to recover in customer rates.

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5 Capitalization of property tax for SoCalGas was ordered by the CPUC in D.13-05-010.

Table ED-4
PSEP Revenue Requirements (in $000s)

Regulatory Account	O&M Expense	Capital Revenue Requirement	Interim Recovery	Interest	Balance as of December 31, 2024
SECCBA	-	185,888	(143,812)	7,789	49,865
SEEBA	1,075	-	(1,063)	27	39
L1600RAMA	135			19	154

The ongoing capital-related revenue requirements, associated with the reasonably incurred capital expenditures approved in this proceeding will continue to be recorded in SDG&E's SECCBA. SDG&E proposes to continue filing annual Tier 2 Advice Letters to incorporate these ongoing capital-related revenue requirements into rates until the corresponding costs are incorporated in base rates in connection with SDG&E's next General Rate Case (GRC) proceeding. To the extent the PSEP projects are found reasonable, the remaining capital-related revenue requirement will be fully recovered and will no longer be subject to a 50% interim rate recovery.

Interest is recorded in each account in accordance with the CPUC-approved tariff schedules. Interest is calculated and recorded on a monthly basis and follows the calculation prescribed in the Preliminary Statement, Part I, Section J.1:

> The calculation will be based on the average of the beginning and ending balance of such accounts at the rate of 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month), published in the Federal Reserve Statistical Release, H.15.

The Preliminary Statements approved by the CPUC for SEEBA, SECCBA, and Line 1600RAMA[6] state that each account is interest-bearing, and SDG&E will record an entry for interest at the end of each month. Disallowing or suspending interest accrued on under-collected balances associated with reasonably incurred expenditures would contradict long-standing authorization by the CPUC and the Preliminary Statements already approved by the CPUC. In

[6] Preliminary Statement - Safety Enhancement Capital Cost Balancing Account (SECCBA) https://tariffsprd.sdge.com/view/tariff/?utilId=SDGE&bookId=GAS&tarfKey=797

Preliminary Statement - Safety Enhancement Expense Balancing Account (SEEBA) https://tariffsprd.sdge.com/view/tariff/?utilId=SDGE&bookId=GAS&tarfKey=798

Preliminary Statement - Line 1600 Records Audit Memo Account (L1600RAMA) https://tariffsprd.sdge.com/view/tariff/?utilId=SDGE&bookId=GAS&tarfKey=941.

compliance with CPUC directive in D.16-08-003, SDG&E included its next reasonableness review of PSEP costs in A.22-05-015, SDG&E's Test Year 2024 GRC application.

SDG&E will file Tier 1 Advice Letters within 30 days of the effective date of the decision authorizing recovery to incorporate the updated revenue requirements into rates on the first day of the next month following advice letter submission or in connection with other authorized rate changes implemented by SDG&E. These revenue requirements will be allocated to functional areas and amortized over a 12-month period, as discussed in the testimony of Michael Foster (Exhibit SCG_SDG&E-T3-PSEP-03).

III. CONCLUSION

This concludes my prepared direct testimony.

IV. WITNESS QUALIFICATIONS

My name is Eric Dalton. I am employed by SDG&E as the Regulatory Reporting and Accounts Manager in the Controller's Division. My business address is 8330 Century Park Court, San Diego, California 92123. My current responsibilities include managing the development, implementation, analysis, and accounting process for regulatory balancing and memorandum accounts. I assumed my current position in August 2014 as the Regulatory Reporting Manager and assumed the Regulatory Accounts Manager position in July 2019. I received a Bachelor of Science in Accounting in 1999 from the University of Kansas. I have been a Certified Public Accountant (CPA) licensed in the State of California since 2003. I have been employed with SDG&E since 2006. In addition to my current position in Regulatory Reporting & Accounts, I have held various other positions increasing in responsibility since September 2006. I served as the Billable Project Supervisor in Plant Accounting (January 2013 – August 2014), Bank Reconciliation Supervisor (July 2011 – December 2012), and Financial Accounting Senior and Principal Accountant (September 2006 - June 2011).

I have previously testified before this Commission.