

Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2028 General Rate Case
Application: A.26-06-015
Exhibit: SDGE-33.1

**REVISED PREPARED DIRECT TESTIMONY OF
ANNA A. CREVOISERAT**

(POST-TEST YEAR RATEMAKING)

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



September 2026

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SUMMARY

My testimony sponsors San Diego Gas & Electric Company's (SDG&E or the Company) request to authorize a post-test year (PTY) ratemaking mechanism that would enable the Company to recover capital investment costs and annual expenses necessary to operate and maintain its assets in a safe and reliable manner. The PTY proposal would result in revenue requirement increases of:

(\$ in millions)	2029 ¹		2030		2031	
Revenue Requirement Increase	8.68%	\$325.3	5.50%	\$223.9	5.55%	\$238.5

- SDG&E's proposed PTY ratemaking mechanism is as follows:
 - Operations and Maintenance (O&M)-related revenue requirement:
 - General O&M test-year cost forecast (labor and non-labor) escalated by S&P Global Market Intelligence's utility cost escalation factors forecast, and
 - Medical costs forecast escalated by WTW's (formerly known as Willis Towers Watson) actuarial forecast.
 - Capital-related revenue requirement:
 - Test-year capital additions forecast escalated using S&P Global Market Intelligence's utility cost escalation factors, and
 - A budget-based exception for Wildfire Mitigation Plan Strategic Undergrounding capital additions forecast.
- I also propose:
 - A four-year term (2028-2031) for this test year (TY) 2028 General Rate Case (GRC) cycle, consistent with Decision (D.) 20-01-002;
 - Continuation of the currently authorized Z-factor mechanism;

¹ The 2029 revenue requirement increase reflects the impact of the Senate Bill 254-related equity exclusion discussed in the Summary of Earnings testimony (Exhibit (Ex.) SDGE-32). Excluding the impact of this equity exclusion, the 2029 revenue requirement increase would be \$229.3 million, representing a 5.96% increase from 2028.

- Continued use of annual PTY advice letter regulatory filings to update the authorized revenue requirements per the adopted two-part PTY ratemaking mechanism; and
- An Earnings Sharing Mechanism that shares returns above or below authorized Rate of Return (ROR) with ratepayers and shareholders during the post-test years, within a defined range and subject to suspension as described below.

**REVISED PREPARED DIRECT TESTIMONY OF ANNA A. CREVOISERAT
(POST-TEST YEAR RATEMAKING)**

I. INTRODUCTION

A. Summary of Proposals

I, Anna Crevoiserat, sponsor SDG&E's request to authorize a PTY ratemaking mechanism for the 2028 GRC. This proposal establishes authorized revenues for 2029 through 2031 (the PTY period). SDG&E proposes a two-part PTY ratemaking mechanism to adjust its authorized revenue requirement in the post-test years by applying one methodology for attrition adjustments for O&M expenses (including a separate attrition adjustment for medical expenses), and another methodology for capital-related costs to reflect ongoing capital additions during the PTY period. This two-part structure reflects the different drivers of O&M and capital-related revenue requirements that represent the cost of utility service. Because O&M expenses and capital investments affect revenue requirement differently, a two-part PTY mechanism is necessary for SDG&E to meet its obligations to provide safe and reliable utility service and also have an opportunity to earn the reasonable rate of return (ROR) previously authorized by the California Public Utilities Commission (CPUC or Commission).² In addition, SDG&E proposes a targeted budget-based exception within the PTY framework to address specific capital investment needs, as described further below.

SDG&E provides post-test year capital investment forecasts in the cost witness testimonies and workpapers to show expected investment levels during the full GRC cycle. These forecasts are provided for context and are not used as a direct input into the proposed mechanism. This is because the Commission has consistently declined to adopt post-test year capital investment forecasts (also referred to as budget-based ratemaking) for all capital costs explaining that post-test year ratemaking "is not intended to replicate test year analysis."³ Instead, the proposed post-test year mechanism relies on authorized test-year capital additions as a proxy for capital additions expected to go in service during the PTY period. Because test year amounts are subject to Commission review and approval in this GRC proceeding, they provide a

² D.25-12-043 at 72 (Ordering Paragraph 4), in Application 25-03-010/-013 (cons.) authorized a rate of return of 7.41% for SDG&E for test year 2026.

³ See Decision 20-01-002 at 41 (internal citation omitted); see also D.24-12-074 at Findings of Fact (FOF) 434; D.25-09-030 at FOF 848.

reasonable basis for supporting continued funding into the PTY period, as discussed further below.

SDG&E proposes an Earnings Sharing Mechanism to be effective during the PTY period. The mechanism provides for sharing of actual GRC-related returns above or below SDG&E's authorized ROR within a defined range (subject to suspension) between ratepayers and shareholders during the post-test years, while balancing risk and maintaining appropriate incentives for cost management and operational performance. This construct helps preserve accountability for managing costs and operational performance within the control of the utility.

In sum, SDG&E proposes:

- (1) A four-year term (2028-2031) for this GRC cycle;
- (2) Calculating the PTY O&M revenue requirement by escalating the authorized test year O&M revenue requirement by S&P Global Market Intelligence's utility cost escalation factors (excluding medical expenses)⁴
 - Adopting WTW's actuarial forecasts and escalations to determine PTY medical expenses;
- (3) Calculating PTY capital-related revenue requirements by escalating the authorized test year capital additions forecast by S&P Global Market Intelligence's utility cost escalation factors;
 - Adopting a budget-based exception for PTY Wildfire Mitigation Plan Strategic Undergrounding capital costs;
- (4) Continuing the currently authorized Z-factor mechanism; and
- (5) Adopting an earnings sharing mechanism that shares returns above or below authorized within a defined range, subject to limited off-ramps.

Using the proposed PTY mechanism for 2029, 2030, and 2031, SDG&E's proposal would result in the following attrition year revenue requirement increases:

TABLE AC-1
Summary of Revenue Requirement Request

(\$ in millions)	2029 ⁵		2030		2031	
Revenue Requirement Increase	8.68%	\$325.3	5.50%	\$223.9	5.55%	\$238.5

⁴ Franchise fees and uncollectible expense are also excluded from O&M escalation.

⁵ The 2029 revenue requirement increase reflects the impact of the Senate Bill 254-related equity exclusion discussed in the Summary of Earnings testimony (Ex. SDGE-32). Excluding the impact of this equity exclusion, the 2029 revenue requirement increase would reflect \$229.3 million, representing a 5.96% increase from 2028.

1 **B. Support Of/From Other Witnesses**

2 My testimony also references the testimony and workpapers of other witnesses, either in
3 support of their testimony or as support for mine.

- 4 • Summary of Earnings testimony (Ex. SDGE-32)
- 5 • Escalation and Gas Customer Forecast testimony (Ex. SCG-20/SDGE-24)
- 6 • Compensation and Benefits testimony (Ex. SCG-16/SDGE-20)
- 7 • Pension and PBOP testimony (Ex. SCG-17/SDGE-21)
- 8 • Wildfire Mitigation Strategic Undergrounding post-test year capital costs are
9 sponsored in the Wildfire Mitigation and Vegetation Management testimony (Ex.
10 SDGE-07)

11 **II. SDG&E's PROPOSED GRC TERM**

12 D.20-01-002 adopted revisions to the Rate Case Plan (RCP), including moving the
13 investor-owned utilities to a four-year GRC cycle schedule (test year and three attrition years).
14 According to the schedule adopted in D.20-01-002, SDG&E's next test year would be 2032.
15 SDG&E proposes a four-year term of 2028-2031 for this GRC, with its next GRC cycle
16 beginning with TY 2032. Accordingly, SDG&E proposes no changes to the term and schedule
17 adopted in D.20-01-002.

18 **III. POST-TEST YEAR RATEMAKING MECHANISM**

19 **A. Background**

20 SDG&E is proposing a four-year TY 2028 GRC cycle with a two-part attrition
21 mechanism for revenue requirement adjustments in the second, third, and fourth years (2029,
22 2030, and 2031). Revenue requirement is a term used for the calculation of total O&M and
23 capital-related costs necessary to support SDG&E's rate base to be collected from utility
24 ratepayers.⁶ This testimony describes how SDG&E's PTY mechanism escalates the TY 2028

⁶ Depreciation, tax, and authorized return on rate base are referred to as "capital-related costs," which are separate and distinct from actual or forecasted expenditure of capital. When dollars are spent on capital investments, they become part of rate base. The utility is entitled to recover the capital-related costs associated with approved capital expenditures through revenue requirement. *See* D.20-01-002 at 8 (noting that "a GRC is a proceeding in which the Commission authorizes an investor-owned utility to recover through rates the reasonable capital investment costs and annual expenses necessary to operate and maintain its facilities and equipment in a safe and reliable manner.").

1 base margin component of revenue requirement,⁷ which is described in the Summary of Earnings
2 testimony (Ex. SDGE-32). Escalation on miscellaneous revenues will not be requested because
3 miscellaneous revenues are proposed to be fixed amounts for the post-test year period, and
4 franchise fees and uncollectible expense items are not subject to escalation because they are
5 proposed to be applied as fixed rates for the post-test year period.

6 The GRC framework provides for an annual two-part attrition mechanism for interim
7 adjustments to the test-year revenue requirements in the post-test years.⁸ Attrition mechanisms
8 should provide reasonable and sufficient funding for on-going operating expenses, capital
9 investments (*i.e.*, capital additions), and inflation. A two-part attrition mechanism is necessary
10 because O&M expenses and capital-related costs affect revenue requirements in fundamentally
11 different ways and therefore require distinct treatment. As explained in Southern California Gas
12 Company (SoCalGas) and SDG&E's Petition for Modification, O&M expenses are generally
13 incurred and recovered within a single year, while capital-related costs (depreciation, taxes, and
14 authorized return) are recovered over time.⁹ The direct relationship between O&M costs and
15 O&M revenue requirement makes the test year revenue requirement, with an inflation-based
16 escalator, a suitable proxy for the post-test years. The same is not true for capital revenue
17 requirement.¹⁰

18 Capital revenue requirement depends on the relationship between capital additions (also
19 referred to as plant additions, which is the capital that is placed in-service) and retirements, as
20 well as the timing and magnitude of when capital additions enter rate base. The difference
21 between capital additions and retirements are referred to in my workpapers as Net Plant
22 Additions. Although capital additions are expected to exceed retirements in each post-test year,
23 resulting in overall growth, the timing of those additions and the compounding nature of capital

⁷ SDG&E uses the term "revenue requirement" throughout this testimony as a general term to indicate base margin, excluding miscellaneous revenues. SDG&E is not proposing escalation of authorized miscellaneous revenues.

⁸ The Commission's RCP recognizes that attrition year funding is typically determined using a two-part mechanism. *See* D.20-01-002 at 8.

⁹ A.22-05-015/016 (cons.) Petition of SoCalGas and SDG&E for Modification of Decision 24-12-074 (December 17, 2025) at 9-11, *available at* <https://www.socalgas.com/sites/default/files/2025-12/A2205015-RM-SCG-SDGE-Petition-for-Modification.pdf>.

¹⁰ *Id.* at 13-18.

costs creates variability that cannot be captured through simple escalation of the total revenue requirement (O&M and capital). For example, a capital project with a 2029 in-service date may be included in an approved capital forecast but would not impact the 2028 test year revenue requirement due to the in-service date. The result of a single-part mechanism that escalates the total test year revenue requirement, as illustrated through this example, is a shortfall in capital revenue requirement. Because the escalation is applied to a test year baseline that excludes these known capital additions, the mechanism does not capture the revenue requirement impacts of assets placed in service after the test year. To the extent SDG&E makes the necessary investments despite not being authorized the full capital revenue requirement, that shortfall (*i.e.*, loss of depreciation, taxes and return) is not recovered even though the customers are benefiting from the assets being in-service.¹¹ This outcome demonstrates that a single-part escalation mechanism systematically understates capital-related revenue requirements in the post-test years and fails to provide timely, full recovery of Commission-authorized investments.

The other impact of a single-part mechanism is an inflated comparison to the next GRC's request. This is because the authorized post-test year mechanism is too low (due to the shortfall described above), making the dollar increase and percentage increase, compared to the next GRC's test year request, significantly higher. This is the case in the instant proceeding. Accordingly, escalating the test year revenue requirement alone would omit necessary and required revenue requirement associated with continuing investments that provide ratepayer benefits during the GRC cycle. Separate mechanisms for O&M and capital-related costs are necessary to accurately reflect their distinct cost drivers and differing impacts on revenue requirements.

In adopting a two-part attrition mechanism in prior adjudicated rate case proceedings, the Commission observed that,

Since O&M expenses and capital expenditures affect the revenue requirement differently, we find that a two-part attrition mechanism, where O&M expenses and capital-related revenues are separately escalated, is reasonable. Therefore, we find it

¹¹ The shortfall in capital-related revenue requirement incurred in the PTY period will never be recovered.

1 reasonable to apply different PTY mechanisms for O&M and for
2 capital additions.¹²

3 In addition, Pacific Gas and Electric Company's (PG&E) 2023 GRC affirms the adoption
4 of a two-part PTY mechanism, finding it "reasonable to treat expense and capital-related costs
5 differently for purposes of post-test year ratemaking."¹³ Similarly, in Southern California Edison
6 Company's (SCE) 2025 GRC, the Commission emphasized the need for distinct treatment or
7 escalation of capital and operating costs when adopting a two-part mechanism.¹⁴

8 SDG&E expects to make significant annual capital investments over the TY 2028 GRC
9 cycle and adoption of an appropriate capital attrition mechanism is crucial to SDG&E's ability to
10 recover its investments and have the opportunity to earn its authorized ROR while continuing to
11 invest in the safety and reliability of its system. The investments necessary to build and maintain
12 safe and reliable infrastructure is emphasized throughout the testimony of SDG&E witnesses
13 sponsoring TY 2028 cost forecasts and aligns with SDG&E's mission to maintain and enhance
14 its safety-focused culture. Thus, the level of forecasted capital expenditures leading up to and
15 including TY 2028 is part of an ongoing investment effort, which will continue beyond the test
16 year period. Accordingly, the adopted PTY attrition mechanism should reflect the growth in
17 capital additions expected in the PTY period.

18 **B. Proposed Post-Test Year O&M Margin Escalation**

19 SDG&E proposes to separately escalate authorized test year (1) general O&M costs, and
20 (2) medical expenses. Productivity improvements will be used to mitigate any increased
21 operating costs beyond the proposed escalations. Appendix B provides a calculation of the 2029
22 through 2031 revenue requirements using S&P Global Market Intelligence's forecasted escalation
23 factors for general O&M costs and WTW forecasted escalation factors for medical costs.

24 **1. General O&M Escalation Factors**

25 SDG&E is proposing a PTY ratemaking mechanism that escalates O&M costs using S&P
26 Global Market Intelligence's utility-specific forecast, as described in the Escalation & Gas
27 Customer Forecast testimony (Ex. SCG-20/SDGE-24). O&M costs are largely influenced by

¹² D.19-09-051 at 707.

¹³ D.23-11-069 at 707-708.

¹⁴ D.25-09-030 at 843.

broad economic cost pressures and tend to follow a steady, incremental growth pattern over time, which makes them appropriate for adjustment using standardized escalation indices. The Escalation & Gas Customer Forecast testimony (Ex. SCG-20/SDGE-24) describes using SDG&E expenses and the S&P Global Market Intelligence’s utility cost escalation forecast to develop separate weighted-average labor and non-labor O&M escalation factors, then creating a single weighted-average labor and non-labor O&M escalation factor based on 2025 recorded utility expenses. Additionally, the escalation factor based on SDG&E expenses and S&P Global Market Intelligence’s forecast is weighted to incorporate “Utility Service Works,” “Managers and Administrators,” and “Professional and Technical Workers” and is therefore more appropriate as a utility industry-specific source for cost escalation. For PTY attrition calculation purposes (*see* Appendix B), SDG&E has used the S&P Global Market Intelligence’s 4th Quarter 2025 forecast (released in January 2026), which resulted in single weighted average O&M escalation factors. The associated revenue requirements are:

TABLE AC-2
O&M Margin Escalation Summary

(\$ in millions)	2029		2030		2031	
O&M Margin Escalation	2.27%	\$24.8	2.40%	\$26.8	2.49%	\$28.6

The Commission has previously adopted index-based escalation to use in escalating attrition year revenue requirement in multiple recent GRC decisions, including in PG&E’s 2023 GRC cycle, because it more accurately reflects how utilities incur costs. In assessing the reasonableness of PG&E’s PTY ratemaking mechanism, the Commission concluded:

For this proceeding, the Commission finds reasonable the use of the energy-specific indexes in the S&P’s IHS Markit’s indexes (which is the same index that PG&E uses to escalate its expense from the recorded 2020 base year to the test year 2023) to adjust expense in the post-test years because the use of indexes is consistent with the Commission’s historical practice for forecasting expense in the post-test years. In addition, these indexes provide a more accurate estimation of future costs for the procurement of goods and services in the utility industry than other indexes presented in this proceeding. This finding is supported by the Commission’s recent decision regarding SCE’s expense

forecast for the post-test years in D.21-08-036, which also addressed a large energy utility GRC.¹⁵

2. Medical Cost Escalation

The second component of the O&M PTY ratemaking mechanism is an adjustment for projected medical costs. Medical costs reflect a distinct cost driver within O&M expenses. As discussed in the Compensation & Benefits testimony (Ex. SCG-16/SDGE-20) and the Pension and PBOP testimony (Ex. SCG-17/SDGE-21), SDG&E has experienced significant upward pressure in medical costs, and industry surveys indicate that these trends are expected to persist at levels above historical norms.¹⁶ Because SDG&E anticipates medical cost growth to outpace general utility cost inflation, and because escalation mechanisms should reasonably reflect how costs are incurred, SDG&E proposes that medical costs be escalated separately using actuarial forecasts.

SDG&E relies on the actuarial forecast prepared by WTW, which reflects medical cost trends by considering state and national data, workforce demographics, historical utilization data, and medical plan design.¹⁷ The WTW methodology is standardized, widely used across industries, and subject to professional actuarial standards.¹⁸ The proposed medical cost escalation, based on WTW's actuarial forecast, along with the associated revenue requirement is presented in Table AC-3 below:

TABLE AC-3
O&M Medical Component Escalation Summary

(\$ in millions)	2029		2030		2031	
Medical Cost Escalation ¹⁹	6.00%	\$2.2	5.75%	\$2.2	5.25%	\$2.1

¹⁵ D.23-11-069 at 708-709 (citation omitted).

¹⁶ See WTW, *Employers explore major program changes in response to escalating healthcare costs, Findings from WTW's 2025 Best Practices in Healthcare Survey* (2025) at 4. Counsel will make the source available upon request.

¹⁷ See Pension and PBOP testimony (Ex. SCG-17/SDGE-21) at Table SS-6; Compensation & Benefits (Ex. SCG-16/SDGE-20) (attaching WTW Study).

¹⁸ See also D.19-05-020 at 418, Conclusions of Law (COL) 114 and D.21-08-036 at 542, 547, and 668, COL 184 (adopting specific medical expense escalation).

C. Proposed Post-Test Year Capital Additions Mechanism

The second component of SDG&E's PTY ratemaking mechanism is the treatment of capital-related revenue requirement. For the capital component of the proposed PTY ratemaking mechanism, SDG&E proposes to adjust revenue requirements to reflect the adopted test year capital additions forecast with escalation. Appendix B illustrates the calculation of the 2029 through 2031 revenue requirements using the S&P Global Market Intelligence's current forecasts of capital cost escalation.

The capital-related revenue requirement is comprised of depreciation expense, taxes, and authorized return on rate base. Changes to the capital-related revenue requirement are primarily determined by the relationship between capital additions, retirements, and depreciation. When capital additions exceed retirements, rate base grows, increasing both depreciation expense and return, and thereby driving higher capital-related costs.

SDG&E's capital plan includes sustained investment to support system safety, reliability, and customer service, including routine infrastructure replacement, distribution system modernization, safety and integrity programs, and other capital projects necessary to maintain and upgrade the utility's electric and gas systems. And SDG&E expects capital additions to exceed retirements throughout the PTY period. As a result, capital-related costs will increase due to ongoing investment levels and the cumulative, or compounding, effect of successive vintages of plant placed in service. This compounding dynamic is a fundamental characteristic of utility investment. As new capital additions are layered onto prior vintages, capital-related costs grow based on both existing plant and newly placed assets. Accordingly, SDG&E proposes a post-test year mechanism that reflects the forecasted increase in capital additions in the post-test years and associated increase in capital-related costs, consistent with the compounding nature of ongoing investment. The proposed capital additions mechanism reflects the underlying drivers of capital placed in service, capturing the cumulative nature of investment over the GRC cycle, and aligning authorized revenue with the resulting growth in capital-related costs.

To estimate PTY capital additions, SDG&E proposes to use the authorized test-year (2028) capital additions forecast as a baseline and escalate it using S&P Global Market Intelligence's capital cost indices for the annual PTY 2029, 2030, and 2031 period. This approach is consistent with prior Commission practice. For example, in PG&E's TY 2023 GRC

1 Decision, the Commission adopted a mechanism that escalated the test-year capital additions
2 forecast using industry-specific indices.²⁰ Similarly, in SCE's 2025 GRC Decision, the
3 Commission affirmed the use of test-year capital additions as the foundation for post-test-year
4 adjustments.²¹

5 Using test-year capital additions as the baseline for post-test-year capital forecasting,
6 rather than relying on multi-year historical averages, is appropriate because such averages may
7 reflect outdated conditions that are no longer representative or indicative of the current
8 landscape. Test-year ratemaking is designed to establish revenue requirements based on
9 reasonable expectations about the utility's future cost of service. SDG&E develops its test-year
10 capital plan through an enterprise-wide process grounded in risk assessment and prioritization of
11 safety and reliability, which is then subject to detailed Commission review. Thus, a test-year
12 capital additions mechanism more accurately reflects current system needs and the structure of
13 SDG&E's capital program. This approach aligns post-test-year forecasts with the Commission-
14 reviewed 2028 test-year capital forecast and supports continued investment in safe, reliable, and
15 sustainable service.

16 Further, although capital spending comprises many individual projects, SDG&E's capital
17 portfolio is predominantly programmatic. Approximately 78% of forecasted capital expenditures
18 for 2026-2028 are recurring in nature, including asset replacement, system integrity work, and
19 distribution and gas modernization that require continued investment over time. Because these
20 programs are ongoing and expected to continue into the post-test year period, it is reasonable to
21 use test year capital additions as the foundation for a capital attrition mechanism during this
22 GRC cycle. This approach provides a clear linkage between Commission-approved capital
23 forecasts, test-year capital revenue requirements, and post-test year revenue needs.

24 Under this methodology, SDG&E will (1) establish the test year 2028 capital additions,
25 (2) escalate that level to the appropriate dollars for each post-test year (2029, 2030, and 2031)
26 using the S&P Global Market Intelligence's gas and electric plant indices (as described in the
27 Escalation & Gas Customer Forecast testimony (Ex. SCG-20/SDGE-24)), and (3) incorporate the
28 escalated amounts into rate base using standard plant in-service weighting. Depreciation,

²⁰ D.23-11-069 at 699 and 713.

²¹ D.25-09-030 at 838 and 843.

amortization, and deferred taxes will be calculated using test-year ratios to derive weighted-average rate base for each post-test year.

The resulting 2029 through 2031 capital-related revenue requirements are summarized in Table AC-4:

TABLE AC-4
Capital-Related Component Summary

(\$ in millions)	2029		2030		2031	
Capital-Related Revenue Requirement Increase ^{22, 23}	7.89%	\$200.1	7.03%	\$192.4	7.00%	\$204.8

D. Capital Attrition Mechanism: Budget-Based Exception

In addition to escalating the authorized test year capital additions forecast, SDG&E proposes that the PTY attrition mechanism for capital costs include a budget-based exception for Wildfire Mitigation Plan (WMP) Strategic Undergrounding program. As reflected in the table below and more fully described in the Wildfire Mitigation and Vegetation Management testimony (Ex. SDGE-07 – Chapter 1), SDG&E expects to make significant capital investments in the post-test years for strategic undergrounding projects necessary for safety and reliability. Because these investments are expected to ramp up over the post-test years of 2029-2031, and are also significant in magnitude, they are not adequately reflected or accounted for in the proposed test-year capital additions mechanism.

Details on the WMP Strategic Undergrounding program and the associated costs are in the prepared direct testimony and workpapers, as noted in Table AC-5 below. Table AC-6 provides the capital-related revenue requirement for the capital project listed in Table AC-5.

TABLE AC-5
Project Sponsors of Capital Post-Test Year Exceptions

Project	Chapter	Exhibit
WMP Strategic Undergrounding	Wildfire Mitigation and Vegetation Management	SDGE-07, Chapter 1

²² Annual revenue requirement adjustments include the rate base impacts of the subject attrition year estimated capital additions plus the residual weighting of the prior year estimated capital additions.

²³ Excludes the impact of the Senate Bill 254-related equity exclusion discussed in the Summary of Earnings testimony (Ex. SDGE-32).

TABLE AC-6
Capital Post-Test Year Exceptions Revenue Requirement Summary

(\$ in millions)	2029	2030	2031
WMP Strategic Undergrounding	\$33.6	\$73.2	\$125.4

The Commission approved a similar budget-based exception in SDG&E's TY 2024 GRC decision (D.24-12-074) under similar circumstances as those faced by SDG&E in this GRC cycle. For SDG&E's PTY mechanism in its 2024 GRC, the Commission authorized a separate PTY revenue requirement (budget-based exception) for Covered Conductor and Strategic Undergrounding programs, based on capital additions forecasted beyond TY 2024:

Consistent with the Commission's adoption of TURN's post-test year capital WMVM recommendation above, the Commission authorizes revenue requirement in the post-test years of 2025-2027 for SDG&E's covered conductor and undergrounding as stated in this decision's Wildfire Mitigation and Vegetation Management Section.²⁴

Because SDG&E's Strategic Undergrounding program is expected to expand in scope during the post-test-year period, the related post-test-year revenue requirement aligns with the forecasted capital trajectory and provides the necessary revenue to support implementation of the program.

IV. EARNINGS SHARING MECHANISM

The California regulatory framework is designed to incentivize utilities to operate more efficiently by allowing utilities to retain the benefits of cost control and strong performance in the short-term with the knowledge that those efficiencies will be passed onto ratepayers in future GRCs through lower cost forecasts and resulting revenue requirements. This framework promotes favorable long-term outcomes for both the utility and its ratepayers. SDG&E is proposing an Earnings Sharing Mechanism which applies this same principle, while advancing ratepayer affordability within the current GRC cycle by providing more immediate ratepayer relief and offsetting costs.

For this GRC cycle, SDG&E proposes an annual Earnings Sharing Mechanism applicable during the post-test years, 2029 through 2031, pursuant to a 3-band framework.²⁵ The proposed

²⁴ D.24-12-074 at 907.

²⁵ No earnings sharing will apply in 2028.

framework includes a 200 basis point “inner band” around the ROR, as well as two outer sharing bands above and below this range. Within the inner band of 0 to 200 basis points above or below the authorized ROR, shareholders retain 100 percent of returns above the authorized ROR and absorb 100 percent of returns below the authorized ROR. This preserves appropriate incentives for efficient operations and cost management. In the 201 to 250 basis point band, returns above or below the authorized ROR are shared 50/50 between ratepayers and shareholders. The mechanism also includes a 250-basis-point earnings threshold, above which ratepayers receive 100 percent of returns in excess of that level. A reciprocal structure applies on the downside (below 250 basis points).

The table below illustrates the framework for SDG&E’s proposed Earnings Sharing Mechanism. Measurement of return would exclude cost and revenues associated with non-GRC activities. The mechanism is subject to a suspension in the event of a triggering extraordinary or non-controllable event, as described in more detail below, to ensure that only controllable performance is measured for purposes of the sharing mechanism.

TABLE AC-7
Earnings Sharing Mechanism

<u>Bands</u>	<u>Basis Points Above/Below Authorized ROR</u>	<u>Ratepayer %</u>	<u>Shareholder %</u>
Inner	0-200	0	100
1	201-250	50	50
2	Above 250	100	0

The proposed sharing mechanism is subject to suspension for extraordinary or non-controllable events. If a triggering event occurs and SDG&E’s achieved ROR is 201 basis points or more above or below the authorized ROR as a result of that event, the Earnings Sharing Mechanism may be suspended. Triggering events may include significant exogenous or non-operational factors; such as catastrophic events (*e.g.*, wildfires, mudslides, earthquakes, etc.), major regulatory or legislative matters (*e.g.*, disallowances), material accounting or tax matters (*e.g.*, ROE deferrals, bonus depreciation, etc.), substantial legal or settlement outcomes that could distort return outcomes beyond management’s reasonable control. Given its annual structure, the mechanism and SDG&E’s proposal to share any qualifying returns with ratepayers will be evaluated each year to determine whether a trigger event has occurred that may lead to suspension.

1 Overall, this proposed mechanism is designed to balance ratepayer protection with
2 continued incentives for efficient utility operations. It maintains strong incentive for cost control
3 and operational performance within the inner band, while ensuring that material deviations, both
4 positive and negative, are appropriately allocated to protect ratepayers and supports SDG&E's
5 financial stability.

6 **V. Z-FACTOR MECHANISM**

7 SDG&E proposes to continue the currently authorized Z-factor mechanism, unchanged
8 for this 2028-2031 GRC term.²⁶ The Z-factor mechanism uses a series of eight criteria outlined
9 in D.94-06-011,²⁷ and related decisions to identify exogenous cost changes that qualify for rate
10 adjustments prior to the next GRC test year.²⁸ If all eight criteria are met, the Z-factor
11 mechanism allows for rate adjustments for only the portion of the Z-factor costs not already
12 contained in SDG&E's annual revenue requirement and only for costs that exceed a \$5 million
13 deductible per event.

14 In the case of a potential Z-factor event, SDG&E will notify the Commission's Executive
15 Director of the event by letter, providing all relevant and available information about the event,
16 and will activate the Z-factor Memorandum Account for potential entries. Following this
17 notification, SDG&E would have the option to file an application for a revenue requirement
18 supplement if the Z-factor event exceeds the \$5 million per event deductible.

19 **VI. REGULATORY FILINGS**

20 Currently, SDG&E updates PTY revenue requirements through an annual advice letter
21 filing. SDG&E proposes to continue the process authorized in D.19-09-051 and D.24-12-074 to
22 file an annual Tier 1 advice letter on or before November 1 (beginning November 1, 2028) to
23 adjust the revenue requirement for each attrition year, per the adopted PTY ratemaking

²⁶ See SDG&E's Tariff Preliminary Statement (Part IV) for a description of the operation of the Z-factor mechanism, *available at* <https://tariffsprd.sdge.com/sdge/tariffs/?utilId=SDGE&bookId=ELEC§Id=ELEC-PRELIM>.

²⁷ See 1994 Cal. PUC Lexis 456.

²⁸ In D.05-03-023 at 78 (Ordering Paragraph 2) ("SoCalGas and SDG&E are authorized to file for rate adjustments using the mechanisms as described in the Settlement Agreement and as modified in this decision."); *see also id.*, Appendix C at 12. The eliminated criteria provided that the costs and events are not part of the rate update mechanism.

1 mechanism.²⁹ The resulting customer rate adjustments to recover the updated revenue
2 requirement would be effective January 1 of each PTY. The advice letter will contain all
3 calculations necessary to update the revenue requirement for the subsequent year.

4 SDG&E proposes that, with respect to its Earnings Sharing Mechanism, it will file a Tier
5 2 advice letter to report on actual vs. authorized returns in accordance with the applicable
6 Commission decision. The Tier 2 advice letter will be submitted within 60 days following the
7 filing of SDGE's Annual FERC Form 1 for the applicable year. The advice letter will include all
8 supporting calculations and documentation necessary to demonstrate the level of returns, any
9 resulting sharing obligations consistent with the adopted framework, and proposed rate
10 implementation, if any.

11 **VII. CONCLUSION**

12 SDG&E proposes a reasonable, two-part PTY attrition mechanism that separately
13 escalates O&M and capital-related components, recognizing their different impacts on revenue
14 requirement. This approach provides the necessary PTY revenue requirement to support on-
15 going safety and reliability investments throughout the GRC cycle. Similar two-part
16 mechanisms have recently been approved by the Commission for peer IOUs, and it is reasonable
17 to approve such a mechanism here.³⁰

18 The Commission should find reasonable SDG&E's use of utility-specific S&P Global
19 Market Intelligence indices to escalate general O&M and to translate the test-year capital
20 additions into PTY capital-related revenue requirements, as well as its use of an independent
21 WTW actuarial forecast to escalate medical costs separately from general O&M. Additionally,
22 SDG&E proposes a budget-based PTY exception for Strategic Undergrounding. Given the scale
23 and importance of these investments, an explicit PTY capital exception is warranted to avoid a
24 mismatch between revenue requirement and on-going safety work as spending ramps up in the
25 PTY period.³¹ Further, SDG&E seeks approval for the continuation of the current Z-factor
26 mechanism.

²⁹ See D.24-12-074 at 895-896; D.19-09-051 at 713.

³⁰ See, e.g., D.23-11-069 at 707-708; D.25-09-030 at 838-843.

³¹ See also D.24-12-074 at 907 (approving similar budget-based exceptions in SDG&E's TY 2024 GRC).

1 Finally, SDG&E also proposes an Earnings Sharing Mechanism to operate during the
2 PTY period, providing a structured framework for addressing return variability. The mechanism
3 shares returns outside a defined range, while incorporating suspension of the mechanism for
4 extraordinary or non-controllable events.

5 This concludes my prepared direct testimony.

1 **VIII. WITNESS QUALIFICATIONS**

2 My name is Anna Crevoiserat. My business address is 8330 Century Park Court, San
3 Diego, California 92123.

4 I am currently employed by SDG&E as the Director of Financial Planning. My
5 responsibilities include leading the Company's Financial Plan Reporting, Financial &
6 Operational Planning, Financial & Strategic Analysis, and Treasury Management functions. I
7 have been employed by Sempra since 2008 and have held positions of increasing responsibility
8 at SDG&E within Financial and Business Planning, including Business Planning Manager and
9 Financial Planning Manager.

10 I received a Master of Science degree in Accounting from San Diego State University
11 and a Bachelor of Arts degree in Economics from the University of California, San Diego.

12 I have not previously testified before this Commission.

APPENDIX A – GLOSSARY OF TERMS

Commission or CPUC	California Public Utilities Commission
CPI	Consumer Price Index
D.	Decision
GRC	General Rate Case
O&M	Operations and Maintenance
PG&E	Pacific Gas and Electric Company
PTY	Post-Test Year
RAMP	Risk Assessment and Mitigation Phase
RCP	Rate Case Plan
ROR	Rate of Return
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
SoCalGas	Southern California Gas Company
TY	Test Year
WTW	Willis Towers Watson

APPENDIX B – POST TEST YEAR ESCALATION EXAMPLES

SAN DIEGO GAS & ELECTRIC

Exemplary Calculation of 2029, 2030, and 2031 Revenue Requirements Assuming No Z-Factor

For Illustrative Purposes Only

Line No.	Description	(\$ in Millions)	
		Rev Req*	Escalation
2029 Escalation	1 2028 Total Revenue Requirement	\$ 3,748.2	
	1 Less: SB 254 Adjustment	\$ (96.0)	
	2 Less: 2028 Misc. Revenues	\$ 44.0	
	3 Less: 2028 Capital Related Costs (Depreciation, Taxes, Return)	\$ 2,535.2	
	4 Less: 2028 Medical Expense	\$ 36.1	
	5 Less: 2028 Franchise & Uncollectible	\$ 133.3	
	6 2028 Escalatable O&M Margin	\$ 1,095.7	
	7 2029 O&M Escalation Rate %	2.27%	
	8 2029 O&M Escalation \$ (L6 * L7)	\$ 24.8	\$ 24.8
	9 2029 Medical Escalation Rate %	6.00%	
	10 2029 Medical Escalation \$ (L4 * L9)	\$ 2.2	\$ 2.2
	11 2029 Capital Related Costs (Depreciation, Taxes, Return)	\$ 200.1	\$ 200.1
	12 2029 O&M Margin (L6 + L8)	\$ 1,120.6	
	13 2029 Medical Expense (L4 + L10)	\$ 38.3	
	14 2029 Capital Related Costs (as Proposed) (L3 + L11)	\$ 2,735.3	
	15 2029 Misc. Revenue (L2)	\$ 44.0	
	16 2029 FF&U (adjusted for uncollectible rate)	\$ 135.5	\$ 2.2
	17 SB 254 Adjustment	\$ -	\$ 96.0
	18 2029 Revenue Requirement (Sum of Lines 12 through 16)	\$ 4,073.5	\$ 325.3
2030 Escalation	19 Less: 2029 Misc. Revenues	\$ 44.0	
	20 Less: 2029 Capital Related Costs (Depreciation, Taxes, Return)	\$ 2,735.3	
	21 Less: 2029 Medical Expense	\$ 38.3	
	22 Less: 2029 Franchise & Uncollectible	\$ 135.5	
	23 2029 Escalatable O&M Margin	\$ 1,120.6	
	24 2030 O&M Escalation Rate %	2.40%	
	25 2030 O&M Escalation \$ (L22 * L23)	\$ 26.8	\$ 26.8
	26 2030 Medical Escalation Rate %	5.75%	
	27 2030 Medical Escalation \$ (L20 * L25)	\$ 2.2	\$ 2.2
	28 2030 Capital Related Costs (Depreciation, Taxes, Return)	\$ 192.4	\$ 192.4
	29 2030 O&M Margin (L22 + L24)	\$ 1,147.4	
	30 2030 Medical Expense (L20 + L26)	\$ 40.5	
	31 2030 Capital Related Costs (L19 + L27)	\$ 2,927.7	
	32 2030 Misc. Revenue (L18)	\$ 44.0	
	33 2030 FF&U (adjusted for uncollectible rate)	\$ 137.9	\$ 2.5
	34 2030 Revenue Requirement (Sum of lines 29 through 33)	\$ 4,297.5	\$ 223.9

2031 Escalation

35	Less: 2030 Misc. Revenues	\$	44.0	
36	Less: 2030 Capital Related Costs (Depreciation, Taxes, Return)	\$	2,927.7	
37	Less: 2030 Medical Expense	\$	40.5	
38	Less: 2030 Franchise & Uncollectible	\$	137.9	
39	2030 Escalatable O&M Margin	\$	1,147.4	
40	2031 O&M Escalation Rate %		2.49%	
41	2031 O&M Escalation \$ (L49 * L50)	\$	28.6	\$ 28.6
42	2031 Medical Escalation Rate %		5.25%	
43	2031 Medical Escalation \$ (L36 * L41)	\$	2.1	\$ 2.1
44	2031 Capital Related Costs (Depreciation, Taxes, Return)	\$	204.8	\$ 204.8
45	2031 O&M Margin (L38 + L40)	\$	1,176.0	
46	2031 Medical Expense (L36 + L42)	\$	42.6	
47	2031 Capital Related Costs (L35 + L43)	\$	3,132.5	
48	2031 Misc. Revenue (L34)	\$	44.0	
49	2031 FF&U (adjusted for uncollectible rate)	\$	140.9	\$ 3.0
50	2031 Revenue Requirement (Sum of lines 45 through 49)	\$	4,536.0	\$ 238.5

* Differences due to rounding.

2028 GRC Testimony Revision Log –September 2026

<u>Page</u>	<u>Line or Table</u>	<u>Revision Detail</u>
ii	Summary	2029 Original 8.70%; Updated 8.68%
ii	Summary	2030 Original 5.53%; Updated 5.50%
ii	Summary	2031 Original 5.57%; Updated 5.55%
ii	Summary	2029 Original \$327.1; Updated \$325.3
ii	Summary	2030 Original \$225.8; Updated \$223.9
ii	Summary	2031 Original \$240.4; Updated \$238.5
ii	FN 1	Updates to revenue requirement increase and percentage increase.
2	Table AC-1	2029 Original 8.70%; Updated 8.68%
2	Table AC-1	2030 Original 5.53%; Updated 5.50%
2	Table AC-1	2031 Original 5.57%; Updated 5.55%
2	Table AC-1	2029 Original \$327.1; Updated \$325.3
2	Table AC-1	2030 Original \$225.8; Updated \$223.9
2	Table AC-1	2031 Original \$240.4; Updated \$238.5
2	FN 5	Updates to revenue requirement increase and percentage increase.
7	Table AC-2	2029 Original \$25.1; Updated \$24.8
7	Table AC-2	2030 Original \$27.1; Updated \$26.8
7	Table AC-2	2031 Original \$28.8; Updated \$28.6
8	FN 19	Deleted.
11	Table AC-4	2029 Original 7.95%; Updated 7.89%
11	Table AC-4	2030 Original 7.09%; Updated 7.03%
11	Table AC-4	2031 Original 7.04%; Updated 7.00%
11	Table AC-4	2029 Original \$201.7; Updated \$200.1
11	Table AC-4	2030 Original \$194.0; Updated \$192.4
11	Table AC-4	2031 Original \$206.5; Updated \$204.8
B-2	Appendix B	Updated Table
B-3	Appendix B	Updated Table