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

PREPARED REBUTTAL TESTIMONY

OF JACK GUIDI

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

(TRACK 3 - ACCOUNTING)

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

September 2025

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**PREPARED REBUTTAL TESTIMONY OF JACK GUIDI
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

I. INTRODUCTION

SDG&E's Track 3 request is limited to costs incurred to promote wildfire and PSPS risk reduction above and beyond those authorized by the California Public Utilities Commission ("Commission" or "CPUC") in SDG&E's most recent 2024 and 2019 General Rate Case ("GRC") Decisions,[1] or in any other SDG&E cost recovery mechanism. The expansion of SDG&E's wildfire mitigation program in response to Assembly Bill ("AB") 1054 and Senate Bill ("SB") 901 (collectively, the "Wildfire Legislation") created substantial additional work beyond that contemplated and forecast in SDG&E's 2019 GRC, which was developed and submitted in 2017—long before the enactment of the Wildfire Legislation. The increased work performed required SDG&E to hire additional employees and contractors and incur substantial additional costs beyond those authorized in SDG&E's Test Year 2019 GRC Decision, ("D.")19-09-051. Both the work described in SDG&E's Track 3 request and the associated costs described in my opening testimony are incremental to those authorized and thus proper for recovery here.

Costs included in this application are based on recorded amounts for our Wildfire Mitigation Plan ("WMP") and include the following:

- Operations and maintenance ("O&M") costs incurred during 2023; and
- Capital expenditures associated with 2023 WMP initiatives

As further explained in this rebuttal testimony and as supported by Ernst & Young LLP's ("E&Y") report, SDG&E's process for calculating its request for recovery and offsetting amounts previously authorized in the 2019 GRC confirms that SDG&E seeks only costs incremental to those previously authorized.

My rebuttal testimony herein is in response to the July 14, 2025 testimony from the Public Advocates Office at the California Public Utilities Commission ("Cal Advocates"), Protect Our Communities Foundation ("PCF"), Small Business Utility Advocates ("SBUA") and The Utility Reform Network ("TURN"). The absence of a response to any issue in this rebuttal testimony does not imply or constitute agreement by SDG&E with the proposal or contention made by these or other parties.

[1] D.24-12-074 ("2024 GRC Decision"); D.19-09-051 ("2019 GRC Decision").

II. SDG&E PROVIDED EXTENSIVE DOCUMENTARY SUPPORT FOR ITS REQUEST FOR RECOVERY

To varying degrees, Cal Advocates, TURN, and SBUA claim that SDG&E's submission lacks sufficient supporting documentation to justify the reasonableness and incrementality of its WMPMA expenditures.[2] Cal Advocates asserts that "SDG&E's WMPMA lacked necessary supporting documentation for recorded costs to verify and demonstrate that all the costs recorded to the WMPMA are reasonable,"[3] and concludes that this should prevent the Commission from fully evaluating the reasonableness or prudence of any expense. SBUA contends that "SDG&E's application does not provide the level and quality of comparison information identified," referring to the Southern California Edison ("SCE") precedent that directed SCE to provide "tables summarizing program and activity costs authorized in the relevant GRC."[4] Although TURN fails to state what additional information should be required, TURN likewise claims that SDG&E's submission fails to establish that SDG&E acted as a "prudent manager" in implementing its WMPs and that the Commission should require SDG&E to refile with additional information.

These assertions are belied by the actual contents of SDG&E's Track 3 application and supporting evidence, which include extensive documentation and transparency across all wildfire mitigation categories and over 1,000 pieces of supporting documentation. More specifically, SDG&E provided:

- Over 2 million line-item cost details directly from SDG&E's enterprise accounting system (SAP), demonstrating traceability[5]

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[2] Exhibit ("Ex.") CA-01,*Report on the Results of Operations for San Diego Gas & Electric Company General Rate Case Test Year 2024* (July 14, 2025) ("Ex. CA-01 (Hunter)") at 7, Ex. CA-02, *Report on the Results of Operations for San Diego Gas & Electric Company General Rate Case Test Year 2024* (July 14, 2025) ("Ex. CA-02 (Quam)") at 5, Ex. CA-03, *Report on the Results of Operations for San Diego Gas & Electric Company General Rate Case Test Year 2024* (July 14, 2025) ("Ex. CA-03 (Yang)") at 8, Ex. CA-04, *Report on the Results of Operations for San Diego Gas & Electric Company General Rate Case Test Year 2024* (July 14, 2025) ("Ex. CA-04 (Kang)") at 7, Ex. SBUA-T3-01, *Direct Testimony of Ariel Strauss on Track 3 on Behalf of Small Business Utilities Advocates* (May 16, 2022) ("Ex. SBUA-T3-01 (Strauss)") at 4.

[3] Ex. CA-01 (Hunter) at 7.

[4] Ex. SBUA-T3-01 (Strauss) at 4.

[5] *See* SDG&E's Responses to Data Request Number PAO-SDGE-402-CQU (May 16, 2025), Question 1.

- Detailed direct capital and O&M costs aligned with the Commission-approved WMP cost categories, including 2019 GRC workpaper support for corresponding authorized amounts to clearly demonstrate how SDG&E accurately calculated incrementality by offsetting authorized direct costs from actual direct dollars.[6]
- Over 1,000 invoices, journal entries, contracts and other documentation supporting contractor payments which well substantiate external expenditures.[7]
- Detailed memorandum accounts schedules, including all capital-related and O&M costs, as well as clearly offsetting 2019 GRC authorized revenues included in the WMPMAs.[8]
- All debit and credit accounting entries made to the WMPMAs.9
- A rigorous, independent cost analysis conducted by E&Y, a highly reputable and respected accounting firm, which provides substantial and credible support that SDG&E's wildfire mitigation costs were in fact supported, reasonable, incremental, and directly attributable to its WMP.[10]
- O&M line-item detail for Advanced Protection, Distribution Overhead System Hardening, Avian Protection, Distribution OH Detailed Inspections, Transmission OH Detailed Inspections, Distribution OH Patrols and Lightning Arrestor Replacement that support and align with the amounts shown in Mr. Woldemariam's testimony. This supports that SDG&E cost tracking and record

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[6] *See* Ex. SDG&E-T3-WMPMA-01, *Chapter 1 Prepared Direct Testimony of Jonathan Woldermariam on Behalf of San Diego Gas & Electric Company (Track 3 – Wildfire)* (April 2025) ("Ex. SDG&E-T3-WMPMA-01 (Woldemariam)"), Appendix 2 "Capital and O&M Direct Costs and Units" at JW-2.

[7] *See* SDG&E's Responses to Data Request Numbers PAO-SDGE-402, PAO-SDGE-405, PAO-SDGE-408, PAO-SDGE-411, PAO-SDGE-412, and PAO-SDGE-417

[8] *See* Ex. SDG&E-T3-WMPMA-02, *Chapter 2 Prepared Direct Testimony of Jack Guidi on Behalf of San Diego Gas & Electric Company (Track 3 – Accounting)* (April 2025) ("Ex. SDG&E-T3-WMPMA-02 (Guidi)"), Appendices 3 (WMPMA Electric Schedules) and 4 (WMPMA Gas Schedules).

[9] Provided in SDG&E's Responses to Data Request Number PCF-SDGE-T3-001 (July 22, 2025).

[10] SDG&E notes that any costs identified as not incremental or related to wildfire mitigation work by E&Y were excluded from this request.

keeping are accurate and reliable, and is contrary to Cal Advocates claims that these O&M costs were without supporting documentation.[11]

This level of documentation is robust, meets the standard required in a reasonableness review, and clearly demonstrates SDG&E's commitment to documentation and transparency. Intervenors' assertion that the Commission cannot evaluate the reasonableness of any expense due to lack of documentation and support cannot be credited, as it disregards this substantial and appropriate evidence already on record. Further, this claim is undermined by the intervening parties' own testimony. For instance, Cal Advocates, SBUA, and TURN would have been unable to make specific and detailed—albeit erroneous—recommendations to disallow costs if SDG&E had not provided such detailed evidence of those costs and the activities and WMP initiatives they supported.

III. SDG&E'S REQUEST IS INCREMENTAL TO AMOUNTS AUTHORIZED IN D.19-09-051

A. SDG&E Has Proven Incrementality by All Known Standards

Intervening parties wrongfully and inaccurately assert that SDG&E's Track 3 request is not incremental. TURN's claim that SDG&E "falls short of the incrementality standard"[12] because it fails to demonstrate that all requested costs are attributable to wildfire mitigation work exceeding that authorized in SDG&E's 2019 GRC mischaracterizes SDG&E's accounting treatment and controls. More specifically, TURN argues that SDG&E "cannot have it both ways," asserting that SDG&E cannot criticize the Crowe audit's narrow scope while calculating incremental spending based on a subset of cost areas – referring to SDG&E's demonstration of incrementality at the revenue requirement level.[13] TURN's claim presents a false dichotomy, however, that ignores the nuances of the regulatory accounting and accepted standards of utility ratemaking.

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[11] See Mr. Woldemariam's rebuttal testimony at Section IV.C. for further discussion regarding the O&M line-item detail that supports Advanced Protection, Distribution Overhead System Hardening, Avian Protection, Distribution OH Detailed Inspections, Transmission OH Detailed Inspections, Distribution OH Patrols and Lightning Arrestor Replacement costs.

[12] Ex. TURN-02, *Prepared Testimony of Sylvie Ashford Addressing Incrementality Issues in "Track 3" of San Diego Gas and Electric Company's 2024 General Rate Case* (July 14, 2025) ("Ex. TURN-02 (Ashford)") at 1.

[13] *Id.* at 6-7.

TURN first fails in asserting a new and undefined incrementality standard that runs contrary to years of Commission precedent allowing flexibility through the GRC process so that utilities may reallocate funds as necessary to respond to issues as they arise over the course of a rate case cycle.[14] As a general matter, SDG&E is both 1) permitted to reprioritize GRC-authorized funding among categories,[15] and 2) not required to demonstrate incrementality strictly at the direct cost-level for WMP initiatives,[16] which would be incomplete. More specifically, as further discussed below, the statutory mandate that requires electrical corporations to separately track and recover incremental wildfire costs facilitates an incrementality analysis because costs are isolated from base rates. Similar to the Commission's conclusion in D.23-02-017 allowing PG&E to recover incremental wildfire mitigation costs (over objections from TURN similar to those raised here), the *work and costs* requested by SDG&E in this proceeding are incremental in that they were not forecasted in SDG&E's 2019 General Rate Case, were incurred to support wildfire mitigation activities, and are presented consistent with past Commission precedent.[17]

Nevertheless, SDG&E has effectively demonstrated incrementality at both the direct cost by WMP initiative level (activity-by-activity),[18] and at the WMPMA balance (revenue requirement) level in its Track 3 showing. SDG&E provided a schedule including detailed direct capital and O&M costs aligned with the Commission-approved cost categories.[19] Importantly, this schedule includes direct references to 2019 GRC workpaper support for corresponding authorized amounts to clearly demonstrate which previously authorized amounts were offset against the new WMP-related costs to accurately demonstrate incremental costs, as stated above.

Contrary to TURN's assertions[20] SDG&E took deliberate steps to ensure that wildfire mitigation costs – including labor-related and overhead costs – tracked in the WMPMA are incremental and not duplicative of previously authorized costs. To accomplish this, SDG&E

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[14] Ex. TURN-02 (Ashford) at 3.

[15] D.20-01-002 at 38 ("Commission has always acknowledged that utilities may need to reprioritize spending between GRCs."); *accord id.* at 33, and 36.

[16] See D.24-03-008, Finding of Fact 5.

[17] *Id.* at 26.

[18] *See* Ex. SDG&E-T3-WMPMA-01 (Woldemariam), Appendix 2 "Capital and O&M Direct Costs and Units" at JW-2.

[19] *Id.*

[20] Ex. TURN-02 (Ashford) at 10-11.

transferred 2019 GRC-authorized revenues for activities approved in the 2019 GRC into the WMPMA to offset those costs. Specifically, SDG&E reclassified authorized dollars, which included straight time labor, materials, overheads and other non-labor costs, to partially offset the WMPMA balance. This accounting treatment ensures that ratepayers would not be charged twice for the same work and that all costs in the WMPMA are either 1) wholly new or 2) properly offset, i.e. matched with the 2019 GRC-authorized amounts for activities that ultimately became formalized WMP initiatives. Additionally, in connection with the annual WMP filing, SDG&E reassessed the authorized capital expenditures and O&M to ensure the authorized costs were appropriately categorized between WMP and non-WMP. If needed, SDG&E updated the WMP revenue requirement based on any reclassification of authorized direct costs. TURN seems to simply ignore this fact, or it otherwise does not want to do the work to read the entirety of SDG&E's submission,[21] which directly tracked and presented the work performed above and beyond that authorized in D.19-09-051.

Because of this meticulous carve out, SDG&E effectively created a new 2019 baseline of GRC costs *and* a separate WMPMA account that tracked incremental costs for dedicated WMP-related activities along with the authorized amounts. This approach was consistent with both the Preliminary Statement for the WMPMA as well as the Wildfire Legislation, which forbids electrical corporations from diverting revenues authorized to implement a wildfire mitigation plan to any activities or investments outside of the plan.[22]

Further, SDG&E was required to specifically carve out these costs and track them separately. Pursuant to California Public Utilities Code section 8386.4, "at the time of approval of an electrical corporation's wildfire mitigation plan, the commission shall authorize the electrical corporation to establish a memorandum account to track costs incurred to implement the plan." This statutory requirement made clear that wildfire mitigation-related costs were to be separately tracked and used exclusively for WMP initiatives. Therefore, the assertion that SDG&E has not demonstrated incrementality overlooks these structural safeguards and revenue matching in its accounting system that were implemented and described in my prior testimony, and complies with these statutory requirements.

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[21] California Public Utilities Code Section 8386.3(d)(1).

[22] California Public Utilities Code Section 8386.3(d)(1).

On the second point, SDG&E demonstrated WMPMA incrementality at the revenue requirement level in my direct testimony. However, in the interest of providing substantial evidence, SDG&E also included a detailed schedule showing direct costs by WMP initiative, paired with the corresponding authorized capital expenditures from the 2019 GRC decision, as an appendix to Mr. Woldemariam's direct testimony. In effect, SDG&E showed each of these direct costs were incremental as well. However, if SDG&E had *only* shown incrementality at the direct cost level, and not the revenue requirement level, its showing would have been incomplete. The WMPMA balance inherently shows the total amount of revenue requirement requested for recovery, including returns, income and property taxes, and other components.

Finally, SDG&E engaged E&Y to conduct an independent review of its costs associated with its 2023 wildfire mitigation plan initiatives recorded to the WMPMA. E&Y's procedures were designed to assess whether costs were sufficiently supported, reasonable, incremental, and directly attributable to WMP-related activities. Their report concludes that the costs were not duplicative of those authorized in SDG&E's 2019 GRC and found no systematic errors or omissions. This independent validation from a credible professional utilizing accepted methodologies supports the conclusion that the costs recorded to the WMPMA are therefore incremental, not duplicative and eligible for cost recovery in this proceeding.

The depth and detail of SDG&E's Track 3 submission and supporting testimony more than demonstrates the incrementality of the costs at issue. SDG&E's submission in fact mirrors many of the same aspects to which the Commission cited in D.23-02-017 in finding that costs requested in PG&E's Wildfire Mitigation and Catastrophic Events application were incremental. The Commission cited to "three different mechanisms to track the incrementality of the costs requested."[23] First, like SDG&E, PG&E tracked costs associated with the incremental work in memorandum accounts separate from base rates, and tied those costs to specific work orders "to ensure they had not already been recovered through existing rates, other proceedings, or any other recovery mechanism." Second, like PG&E, SDG&E hired an independent auditor, Ernst & Young, to perform *the same scope of work* that the Commission cited in finding PG&E's wildfire mitigation costs incremental. SDG&E removed any costs E&Y determined to be not reasonable

[23] D.23-02-017 at 24.

or incremental from its request—just as PG&E did.[24] And finally, as the Commission cited in finding PG&E's costs incremental, SDG&E has also continued to incorporate lessons learned from prior filings to address its methodology for assessing incrementality,[25] including the submission of Appendix 2 to Mr. Woldemariam's testimony.

B. SDG&E Has Clearly Satisfied the Recommendations of the Crowe Audit in Demonstrating the Incrementality of its Costs

TURN starts out by inaccurately mischaracterizing the nature and scope of the Performance Audit of San Diego Gas & Electric Wildfire Mitigation Plan Expenditures ("Crowe Audit").[26] The audit did not find that "SDG&E did not meet the incrementality standard," or that SDG&E was requesting "duplicative costs from ratepayers for its wildfire mitigation work,"[27] because the audit was not prepared in response to a cost recovery application. As clearly evidenced in the audit report, Crowe reviewed SDG&E's WMPMA expenditures over an extremely limited period of time (2019-2020), compared those to SDG&E's 2020 Risk Spend Accountability Report ("RSAR"), and made two recommendations pertaining to any future cost recovery proceedings for SDG&E's incremental wildfire mitigation costs, as follows:

- SDG&E should provide the CPUC evidence that the deferred projects were completed prior to approval of Application for Recovery of Undercollection Recorded in the Tree Trimming Balancing Account (TTBA), submitted July 1, 2020, and the Application for Interim Rate Relief for WMP costs, submitted July 30, 2021. In the case where these projects were not completed, SDG&E should not be allowed future recovery of incremental wildfire expenditures from 2019 to 2020 that were funded as a result of SDG&E deferring and never completing GRC adopted projects or activities.

[24] *Id.* at 25. The Commission recently found PG&E's vegetation management costs incremental citing to a similar independent review process (*see* Application ("A.") 22-12-009, *Proposed Decision Approving Partial Recovery of Pacific Gas and Electric Company's 2021 Wildfire Mitigation, Catastrophic Events, and Other Costs, and Approving Settlement* (August 15, 2025).

[25] *Id.* at 24.

[26] Office of Energy Infrastructure Safety, *Crowe's Performance Audit of San Diego Gas & Electric Wildfire Mitigation Plan Expenditures Final Report* (December 15, 2021) ("Crowe Audit"), *available at*: https://energysafety.ca.gov/wp-content/uploads/docs/audits/20211223_sdge-wmp-expenditures-performance-audit-report.pdf.

[27] Ex. TURN-02 (Ashford) at 5.

- As part of the WMP process, SDG&E should provide wildfire mitigation costs separately for capital and for operating expenditures at the core work activity account code level for easier reconciliation to capital and operating costs adopted as part of the GRC process which are presented at the core work activity code level.[28]

The Crowe Audit made no recommendations that SDG&E be denied rate recovery for incremental costs. It simply encouraged the Commission to hold SDG&E to a reasonable burden to prove the incrementality of costs when they were requested. TURN's apparent confusion over the context and recommendations of the Crowe Audit should give the Commission pause in assessing the accuracy of their recommendations and representations.

The Crowe Audit's perspective represents a point in time early in SDG&E's Test Year 2019 GRC cycle when many projects would have appeared to be underspent, given the nature of capital planning and expenditures, which typically build up over the course of the cycle.[29] This was particularly an issue in 2019, since due to a GRC decision relatively late in the year, SDG&E had not yet commenced many capital projects ultimately authorized in the decision. Crowe also recognized that, due to the transition period between GRC approval cycles and the creation of the WMP, they understood that management prioritized certain WMP activities that *"were critical or emergency in nature to defend against wildfires and adhere to WMP requirements."*[30]

SDG&E explained the flaws of relying on the 2020 RSAR in response to the Crowe Audit, noting that capital spending would likely increase and should be viewed overall at the end of the cycle. Crowe recognized this aspect of GRC ratemaking in its final audit report and tailored its rebuttal to reflect that general principle, stating that if SDG&E was "significantly

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[28] Crowe Audit at 5.

[29] SDG&E also notes that relying on an audit of 2020 costs here is not within the scope of this proceeding, as it pertains to 2023 costs.

[30] Crowe Audit at 18 (emphasis added). ("Crowe notes that this finding is an outcome of differences in the timing of the GRC ratemaking process and Wildfire Mitigation Plan (WMP) implementation. Crowe agrees with SDG&E's definition of incrementality and does not dispute that costs captured in the memorandum accounts are reasonable. However, GRC approval cycles did not align with the requirements for additional work outlined in the WMPs. We acknowledge that during this transitional period between GRC cycles, we understand that management prioritized certain WMP activities that were critical or emergency in nature to defend against wildfires and adhere to WMP requirements and that these new incremental WMP costs be recorded in memorandum accounts.")

underspent" on electric distribution costs but had moved costs to be tracked in the incremental wildfire memorandum accounts, the Commission should require evidence of overall incrementality. Crowe also recognized that its finding was "an outcome in the differences in the timing of the GRC ratemaking process and the [WMP] implementation" and acknowledged that "management prioritized certain WMP activities that were critical or emergency in nature to defend against wildfires and adhere to WMP requirements and that these new incremental WMP costs be recorded in memorandum accounts."[31]

SDG&E has met or exceeded all of the recommendations set forth in the Crowe Audit through its Track 3 submission. Parties continue to ignore that, for the most part, Crowe did not question SDG&E's wildfire mitigation expenditures. In fact, "*Crowe agree[d] with SDG&E's definition of incrementality and [did] not dispute that the costs captured in the memorandum accounts are reasonable*."[32] The audit findings ultimately reflect that there was a potential for confusion during future cost recovery proceedings regarding alignment between SDG&E's GRC—which predated the WMP requirements—and WMP initiative categories. And it made recommendations that the Commission ensure that Utilities meet their burden for demonstrating incrementality in those future cost recovery proceedings. Thus, in many ways, Crowe merely reminded the Commission to hold SDG&E to its burden of proof in this case. SDG&E has done so in a manner that proves the incrementality of its costs in the organized manner of detail, consistent with the Crowe Audit recommendations and past Commission precedent addressing similar cost recovery requests.

TURN relies on an inaccurate subset of GRC authorized costs in support of its claim that SDG&E is underspent on electric distribution capital, thus its WMPMA expenditures are not incremental.[33] But citing only to electric distribution capital costs—and the evident underspend in that category—fails to reflect longstanding principles of ratemaking and the flexibility afforded utilities through the GRC process. Again, SDG&E has demonstrated that it overspent its authorized revenue requirement in total. As described above, SDG&E's WMPMAs include costs authorized in the 2019 GRC to implement wildfire mitigation activities; there is no question that

[31] *Id.*

[32] *Id.*

[33] Ex. TURN-02 (Ashford) at 10-11.

SDG&E significantly overspent the amounts authorized to implement its WMP on wildfire mitigation work.

With respect to other funds authorized in base rates through SDG&E's GRC, SDG&E retained the flexibility to reprioritize non-WMP funds across the business.[34] The Commission explicitly recognizes a utility's flexibility to reprioritize spending during GRC cycles is a feature, not a flaw, of the ratemaking process.[35] This is why it is neither reasonable nor accurate to gauge an incrementality analysis based only on SDG&E's Electric Distribution Capital spending, as TURN argues the Commission should.[36] Funds authorized for non-WMP electric distribution activities were reprioritized away from those projects to facilitate programs across the business, separate and apart from its incremental wildfire mitigation spending, including in gas, information technology, and other areas. TURN argues that the Commission should ignore this longstanding principle of GRC ratemaking and narrow its incrementality analysis to only one category of GRC authorized activities. But SDG&E is not trying to "have it both ways,"[37] rather it is offering two separate but important facts that prove its WMPMA balances are incremental. TURN's argument would effectively upend the Commission's longstanding precedent providing utilities flexibility to reprioritize spending within GRC cycles. If TURN's position was adopted, it would make it nearly impossible for utilities to respond to new and changing challenges over a four-year period.

C. SDG&E's Labor Costs are Incremental

Cal Advocates questions the incrementality of labor costs included in SDG&E's Track 3 request, claiming that "SDG&E includes internal labor, labor-related overhead, and employee benefits that are already funded through existing rates and included in its authorized GRC

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[34] Energy Division, *Safety-Related Spending Accountability Report for Southern California Edison (May 2017) (Safety Report)* at 10, *available at*: https://www.cpuc.ca.gov/-/media/cpuc-website/files/uploadedfiles/cpuc_public_website/content/safety/scesafety-relatedspending.pdf; see also Resolution ("Res.") E-4464 (effective May 10, 2012) at 7 ("Under GRC ratemaking, the utilities are given an authorized revenue requirement to manage various parts of their utility business. Recognizing that the utilities may need to re-prioritize spending and spend more or less in a particular area of their business, the Commission affords them substantial flexibility to decide how much to spend in any particular area.").

[35] D.11-05-018 at 27.

[36] Ex. TURN-02 (Ashford) at 6-7.

[37] *Id*. at 6.

revenues."[38] Further, Cal Advocates recommends that the "Commission should not authorize SDG&E's request for Stright-Time Labor (STL) and paid time off, such as Vacation and Sick Leave (V&S)"[39] and employee benefit costs.[40] SDG&E disputes Cal Advocates' claims and supports the incrementality of these costs through the following approaches:

1) Demonstrating the creation of new wildfire-specific roles and departments,
2) Demonstrating the increase and reprioritization of labor toward new and largely expanded wildfire mitigation activities,
3) Discussing SDG&E's robust labor tracking methodology, and
4) Providing a comparative analysis showing actual labor costs exceeded the implied 2019 GRC baseline of authorized labor costs.

The Commission's recent SCE decision in D.25-06-051 provides additional guidance and precedent on addressing the incrementality of labor costs and their reasonableness. In that decision, the Commission emphasized the importance of presenting a clear methodology to determine whether labor activities exceed the existing revenue requirement, specifically noting that "SCE could have, for example, presented its method for determining what activities exceed the existing revenue requirement."[41] This guidance highlights the importance of a structured approach to demonstrate that labor costs are incremental to those already authorized. SDG&E has met this guidance here by:

- Establishing an authorized labor baseline from its 2019 GRC,
- Segregating wildfire mitigation labor costs in the WMPMA using budget codes and internal orders at the WMP initiative level or via overhead cost pools in its accounting system, and
- Applying offsetting revenues for authorized activities by prudently moving those dollars to the WMPMA.

Stating and clearly demonstrating this methodology with detailed evidence aligns with the Commission's expectations and provides an appropriate framework for evaluating the reasonableness of SDG&E's labor cost recovery.

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[38] Ex. CA-01 (Hunter) at 6.

[39] Ex. CA-02 (Quam) at 6.

[40] *Id.* at 8. Ex. CA-03 (Yang) at 13.

[41] D.25-06-051 at 65-66.

1. SDG&E Created Several New Wildfire-Specific Roles and Departments That Were Not Forecast in its GRC

Following the establishment of the WMPs, SDG&E created new departments and roles dedicated to wildfire mitigation. SDG&E also expanded its contractor workforce. These organizational changes represent a measurable increase in labor scope. SDG&E tracked this labor separately through its accounting system, ensuring only WMP-related costs were booked to the WMPMA for these roles, departments and contractors, creating clear segregation and ensuring incrementality of the associated costs. And finally, these costs were found to be incremental by Ernst & Young in its review of SDG&E's 2023 WMPMA.

For example, between 2019 and 2022, SDG&E hired 35 full-time employees for its Wildfire & Climate Science division, maintaining those positions in 2023. Of these:

- 17 supported Wildfire-Related Data, Algorithms, and Allocation Methodology
- 18 supported the Fire Potential Index, Emergency Preparedness Plan, and Public Emergency Communication Strategy.[42]

This increase in wildfire-specific roles and departments demonstrates that Cal Advocates' claim that labor costs presented in our Track 3 application are already in rates is not aligned with reality.

2. Increased and Reprioritized Labor

While SDG&E did utilize internal labor for some wildfire mitigation initiatives, this does not automatically render those costs non-incremental, as Cal Advocates claims. SDG&E reallocated any related authorized labor revenues from the 2019 GRC to the WMPMA to offset any reallocated authorized costs, rendering the additional costs incremental.[43] In other words, SDG&E ensured that any reprioritized internal labor costs were incremental by properly offsetting these costs against costs already authorized.

In addition to this offset process, SDG&E's data supports a significant growth in the labor force across the Company—further demonstrating the incrementality of the WMPMA-specific labor as an increase SDG&E's overall workforce and not just a shift of employees within the workforce. The table below shows the substantial increase in the number of overall

[42] SDG&E's Responses to Data Request Number PAO-SDGE-416-CQU (June 20, 2025).

[43] Ex. CA-03 (Yang) at 12.

company employees and contractors from 2017 through 2023 (not Full Time Equivalents); further illustrating that the labor performed in support of SDG&E's wildfire mitigation activities was largely new.

Tables JG-1 and JG-2 SDG&E Employee and Contractor Count

Employee Count Growth Rate[44]

Year	SDG&E Total	Compound Annual Growth Rate from 2017
2017	4,116	
2023	4,894	**3%**

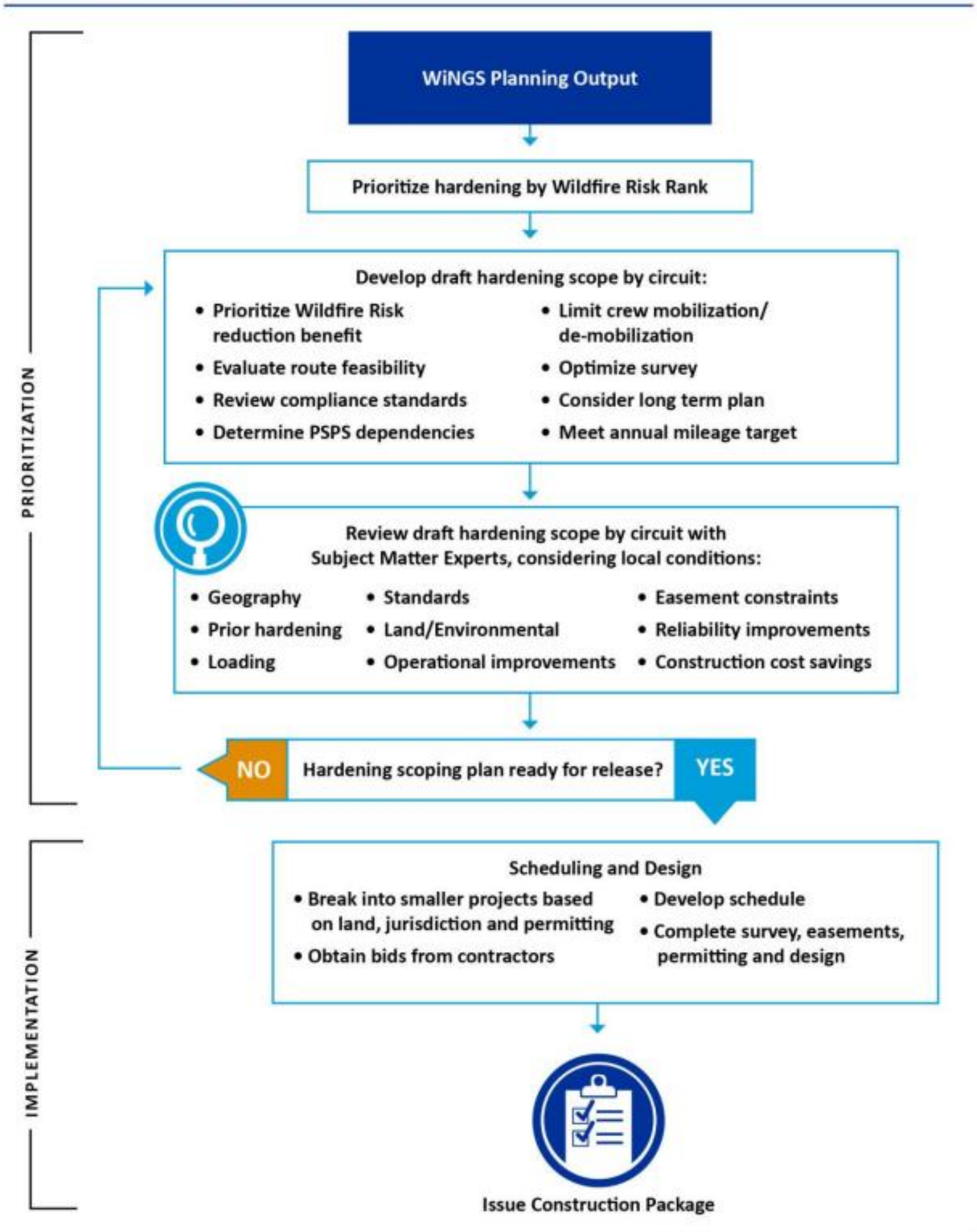
Contractor Count Growth Rate

Year	Engineering Division	SDG&E Total	Compound Annual Growth Rate from 2017
2017	1,469	3,856	
2023	2,992	7,139	**13% | 11%**

For example, one of the largest drivers of indirect labor—engineering support—increased substantially due to the scale and complexity of wildfire mitigation work, such as scoping and prioritization, coordinated feasibility review, and engineering and design work for grid hardening projects. The engineering support functions are discussed in Section 7.1.4 of SDG&E's 2023 WMP and presented in Figure 7-4, as shown below. Specifically, the engineering support scoping and feasibility studies include an assessment of geography, prior hardening, loading, standards, land/environmental, operational improvements, easement constraints, reliability improvements, and construction cost savings. Again, the scale and complexity of these and other critical activities were not anticipated or funded in the 2019 GRC, which predates CPUC's wildfire mitigation mandates and Wildfire Legislation. The engineering and other labor-related costs applied to WMPMA work are therefore incremental, as they result from new or greatly expanded workstreams.

[44] U.S. Securities and Exchange Commission, Sempra Form 10-K (Fiscal years ended December 31, 2017 and December 31, 2023).

Figure 7-4: High-Level Mitigation Prioritization to Reduce Wildfire and PSPS Risk



3. SDG&E's Labor Tracking Methodology

SDG&E's accounting system uses budget codes and internal orders to allocate labor costs to specific regulatory accounts, including the WMPMA. Straight-time labor is captured through SDG&E's timekeeping system (MyTime) and costs are posted to internal orders that are mapped to a budget code associated with wildfire mitigation categories and initiatives. This process ensures:

- Labor costs for WMP projects are booked directly to the WMPMA,
- Labor costs for WMP projects are clearly separated from other base GRC spending, and
- Any labor costs that were authorized in the 2019 GRC are properly offset by corresponding authorized revenues in the WMPMA.

When direct or indirect labor costs associated with 2023 WMP initiatives were incurred, SDG&E's timekeeping system posted those costs to the appropriate internal orders and cost centers. These costs are then booked to the WMPMA utilizing SDG&E's accounting system, SAP, segregating them from base GRC dollars, as follows:

- Direct O&M labor: booked to the WMPMA as incurred.
- Direct capital labor: Accumulated in CWIP until the project goes into service, then reflected as capital-related costs in the WMPMA.
- Indirect capital labor: Pooled and loaded onto capital projects at established overhead rates, accumulating in CWIP until the project goes into service, then reflected as capital-related costs in the WMPMA.
- Indirect O&M labor: Pooled and allocated to O&M internal orders at established overhead rates based on project activity, then posted to the WMPMAs as O&M costs.

This clear tracking approach supports the demonstration of incrementality by ensuring WMP-related labor costs are distinctly identified and separated from base GRC activities.

4. Labor Incrementality Analysis

Although SDG&E's 2019 GRC Results of Operations (RO) model does not produce an explicitly authorized labor budget included as part of the final GRC decision, the model was expressly built on assumptions from 2017 that predate the WMP framework. Despite this constraint, SDG&E took the step to impute authorized amounts and presents the analysis below, which calculates implied authorized labor costs from the 2019 GRC Decision compared to actual labor costs incurred to support SDG&E's 2023 WMP (including all labor—straight-time, overtime, V&S and other categories). This analysis demonstrates that the net incremental labor costs were both new and necessary to meet incremental wildfire mitigation mandates.

Tables JG-3 and JG-4 SDG&E Capital and O&M Incremental Labor Analysis

Capital ($000)

WMP Category	Actual Labor	Authorized Labor	Differential Labor
Wildfire Mitigation Strategy Development	$451	-	$451
Grid Design, Operations, and Maintenance	$21,545	$11,642	$9,903
Vegetation Management and Inspections	-	-	-
Situational Awareness and Forecasting	$81	$162	($81)
Emergency Preparedness	$1,441	$41	$,1,400
Community Outreach and Engagement	-	-	-
Total	**$23,518**	**$11,845**	**$11,673**

O&M ($000)

WMP Category	Actual Labor	Authorized Labor	Differential Labor
Wildfire Mitigation Strategy Development	$3,340	$1,506	$1,834
Grid Design, Operations, and Maintenance	$5,155	$4,984	$171
Vegetation Management and Inspections	$401	$222	$179
Situational Awareness and Forecasting	$1,452	$804	$648
Emergency Preparedness	$5,638	$3,170	$2,468
Community Outreach and Engagement	$66	-	$66
Total	**$16,052**	**$10,686**	**$5,366**

Again, this analysis shows that SDG&E's actual labor costs for WMP-related activities exceeded the 2019 GRC baseline, and that any authorized costs were offset by transferred authorized revenues, ensuring no duplication. This refutes Cal Advocates' claim that "SDG&E

has failed to demonstrate that its Stright-Time Labor expenses … are incremental"[45] and demonstrates their calculated removals within these categories is unfounded.[46] This evidence, combined with SDG&E's testimony about its procedures for determining incrementality and supporting accounting procedures, meets the Commission's expectations as established in D.25-06-051 precedent and shows these labor and labor-related costs at issue were not already included in SDG&E's authorized revenue requirements.

D. Indirect Costs are Incremental

Cal Advocates likewise opposes SDG&E's request for recovery of labor-related indirect costs, claiming that these costs should not be recovered for the same reasons as the direct labor costs, asserting that "SDG&E failed to meet its burden of proof by providing documentation to support its request for labor-related indirect costs."[47] But Cal Advocates' arguments regarding indirect labor costs are unfounded for the same reasons detailed above as to SDG&E's direct labor costs. Further, by Cal Advocates own logic, since SDG&E provides clear evidence of labor incrementality above, the associated indirect costs should also be recognized as incremental.

Cal Advocates' position wrongly disregards the documentation SDG&E provided. And it ignores the substance of SDG&E's accounting methodology for accurately allocating the labor-related overhead costs to the WMPMA—such as payroll tax, incentive compensation, pensions and benefits. SDG&E utilizes robust indirect cost tracking and allocation-based methodology to establish the incrementality of its labor-related indirect costs.

Specifically, SDG&E uses SAP to apply indirect costs to direct O&M and capital costs using predefined allocation rates. These rates are based on actual cost drivers and reviewed periodically to ensure alignment with operational realities. Indirect costs are applied through budget codes and internal orders linked to specific work activities.

For wildfire mitigation efforts, SDG&E created dedicated internal orders under the WMPMA. Overhead costs are only applied when direct labor or materials are charged to those orders. This ensures that labor-related indirect costs recorded in the WMPMA are directly tied to incremental wildfire mitigation work, not to base GRC-funded activities. While Cal Advocates

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[45] Ex. CA-03 (Yang) at 13.

[46] *Id.* at 8-16.Ex. CA-02 (Quam) at 6-10.

[47] Ex. CA-02 (Quam) at 10-11.

notes that "SDG&E could not confirm if new hires allocated 100% of their work to WMP initiatives,"[48] SDG&E explained in its response to their data request that this is because these charges are done on an "allocation basis,[49] which is appropriate and prudent accounting and ensures indirect costs are recorded accurately to the WMPMA. Cal Advocates points to no requirement that a new SDG&E hire must allocate 100% of their work to WMP initiatives to be recovered. Instead, the only requirement is that the time that is allocated to WMP initiatives is incremental to what was authorized in SDG&E's 2019 GRC.

E. Capital Expenditures in 2024

Cal Advocates also requests $13.315 million in disallowances on the basis that "SDG&E is now requesting recovery of capital costs incurred in 2024" and recommends removing them because they are "outside of Track 3 scope."[50] But these costs were incurred to implement SDG&E's 2023 WMP and in excess of SDG&E's authorized revenues. The recommendation to exclude 2024 costs from Track 3 thus ignores that these expenditures are directly tied to SDG&E's 2023 WMP initiatives and were unforeseen in SDG&E's General Rate Case presentations.

The 2024 GRC was filed in May of 2022 and forecasted capital expenditures for 2024 as of that date. But at the time, SDG&E expected that these projects would be complete in 2023. As such, SDG&E's 2024 GRC forecasts did not account for these projects. Cal Advocates' position would thus provide no avenue for SDG&E to recover just and reasonably incurred capital expenditures—simply because SDG&E did not accurately predict the future and could not anticipate that certain projects would take longer than expected. But such an argument is contrary to the regulatory compact. Therefore, these costs are appropriately within the scope of Track 3 and should be considered for recovery.

Cal Advocates also raises questions about the consistency of responses related to costs incurred in 2024, asserting that "SDG&E provided corresponding responses for three of the four

[48] Ex. CA-02 (Quam) at 10.

[49] SDG&E's Responses to Data Request Number PAO-SDGE-416-CQU (June 20, 2025).

[50] Ex. CA-03 (Yang) at 37.

initiatives" but for PSPS Sectionalizing Enhancement, "provided a response for trailing costs,"[51] which suggested its response was incomplete and inconsistent.

However, my direct testimony provided valid reasoning for the explanations for the two different types of 2024 cost categories.[52] Specifically, there were two types of 2024 costs: 1) trailing costs associated with finalizing 2023 projects already placed into service; and 2) costs not contemplated in the 2024 GRC. As my direct testimony details,

> "Second, SDG&E's requested revenue requirement also includes new capital expenditures incurred in 2023 and 2024 to support the completion of SDG&E's 2023 WMP initiative targets and objectives and recorded to SDG&E's WMPMAs as capital additions. Third, SDG&E is seeking the recovery of $15 million of "trailing costs" incurred in 2024 for assets that were completed and went into service in 2023. Trailing costs are expenses incurred after completion of a project for purposes of finalizing or finishing the asset (e.g. quality inspections). Trailing costs occur after an asset is placed into service (i.e., is used and useful) for final expenses and are therefore typically relatively smaller amounts."[53]

SDG&E even provided its definition of trailing costs for enhanced clarity on this topic. As the data request response related to PSPS Sectionalizing states, the trailing costs were "primarily attributable to project closeout activities, final inspections, and adjustments for jobs completed as late as October 23[54] which is consistent with SDG&E's stated definition above. As such, the reason that SDG&E included trailing costs for PSPS Sectionalizing in its response is because the 2024 costs that SDG&E is seeking for that program includes both trailing costs and new costs incurred in 2024 not included in the 2024 GRC for 2023 WMP initiative targets. Nor does the presence of mixed cost types alone invalidate their reasonableness and eligibility for cost review.

F. SDG&E's Request is Consistent with Longtime Fundamental Principles of Utility Ratemaking in California

TURN's assertion that SDG&E's proposal is "not the total amount that SDG&E seeks to recover in rates" is misleading because it mischaracterizes both the structure of utility cost recovery and the transparency of SDG&E's filing.[55] SDG&E has been clear and forthcoming

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[51] *Id.* at 38.

[52] Ex. SDG&E-T3-WMPMA-02 (Guidi) at JG-8-10.

[53] *Id.* at JG-9.

[54] See SDG&E's Responses to Data Request Number PAO-SDGE-408-WY2 (June 2, 2025).

[55] Ex. TURN-1, *Prepared Testimony of Robert Finkelstein in "Track 3"* (July 14, 2025) ("Ex. TURN-1 (Finkelstein)") at 2.

regarding the full scope of the costs of the activities for which it is seeking recovery; including both direct and indirect components and the full revenue requirement through 2027 until SDG&E's next rate case. This is consistent with Commission precedent for forecasting GRC revenue requirements. For example, Mr. Woldemariam and my direct testimony both provide a summary of the direct costs. And my direct testimony then provided the fully-loaded capital expenditures, including indirect costs and applicable gas and electric revenue requirements in its request.[56]

TURN's complaint of a "hangover revenue requirement"[57] ignores the fundamental principles of utility ratemaking, somehow trying to attack the longstanding principal that the cost of long-lived capital assets be collected over their useful lives. This approach appropriately matches the timing of benefits received by customers, who will benefit for years from these critical investments. This is not a "hangover," but rather a well-established regulatory practice. TURN's objections and discussion of ongoing revenue requirements associated with these activities beyond 2027 is not within the scope of this proceeding. They will instead be addressed in future General Rate Cases.

IV. SBUA'S REQUEST TO EVALUATE AFFORDABILITY ON SMALL COMMERCIAL CUSTOMERS

Finally, SBUA asserts that SDG&E should be required to evaluate the affordability of its request on small commercial customers.[58] This request should be rejected in this proceeding. The affordability framework is well outside of the scope for this proceeding and is better addressed in the Affordability Order Instituting Rulemaking (OIR) 18-07-006. The current Affordability Ratio (AR) Calculator, which allows for the calculation of the AR metrics, is developed by Energy Division and contains data relevant to only residential customers, such as household income and housing cost assumptions. Neither of those metrics would be relevant or appropriate for non-

[56] Ex. SDG&E-T3-WMPMA-01 (Woldemariam) at JW-8 and Ex. SDG&E-T3-WMPMA-02 (Guidi) at JG-7-8.

[57] Ex. TURN-1 (Finkelstein) at 2.

[58] Ex. SBUA-T3-01 (Strauss) at 3.

residential customers. These are just some of the many questions that would need to be addressed holistically prior to any kind of non-residential affordability metrics analysis being required.[59]

SBUA also recommends that SDG&E be required to "estimate the aggregate rate impact of all active requests."[60] This information already exists and is publicly available in the quarterly submitted Cost and Rate Trackers ("CRT") report, which includes all authorized and pending revenue requirements and the resulting projected rate and bill impacts for select residential and small commercial rate schedules.[61] The CRT was developed with the Commission's Energy Division to comprehensively analyze the cumulative impact of rate requests and programs.[62] The Commission should deny SBUA's effort to go around the ongoing OIR on affordability metrics and use this proceeding to forum shop for an alternative and potentially conflicting regulatory outcome.

V. CONCLUSION

This concludes my prepared rebuttal testimony.

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[59] As previously stated on this issue, SDG&E does not object to establishment of a statewide working group to consider affordability metrics for small business customers, but such a discussion is more appropriately addressed in the Affordability OIR.

[60] Ex. SBUA-T3-01 (Strauss) at 3.

[61] CPUC, *Itemized List of Revenue Requests & Cost and Rate Trackers (CRT)*, *available at:* https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/affordability/quarterly-revenue-request-reports.

[62] D.22-08-023 at 31-32.