SAN DIEGO GAS & ELECTRIC COMPANY

TO6 FORMULA DEPRECIATION RATE CHANGE FOR COMMON PLANT AND ELECTRIC GENERAL PLANT

October 30, 2025

Docket No. ER26-___-____

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October 30, 2025

The Honorable Debbie-Ann Reese
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: San Diego Gas & Electric Company's Sixth Transmission Owner Formula Depreciation Rate Change for Common Plant and Electric General Plant, Docket No. ER26-___

Dear Secretary Reese:

Pursuant to Section 205 of the Federal Power Act ("FPA"),[1] Section 35.13 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") regulations,[2] and San Diego Gas & Electric Company's (SDG&E) Sixth Transmission Owner ("TO") Formula rate mechanism ("TO6" or "TO6 Formula"), SDG&E submits this "single-issue" depreciation rate filing ("Filing"). This Filing updates SDG&E's depreciation rates for Common Plant and Electric General Plant that will be utilized for the 2024 Base Period and True Up Period in the TO6 second annual informational filing ("Cycle 2"). SDG&E submits this filing to update its non-transmission depreciation rates to be consistent with SDG&E's 2024 California Public Utilities Commission ("CPUC") Decision ("D.") 24-12-074 ("2024 GRC Decision") setting SDG&E's CPUC-jurisdictional depreciation rates, as provided for in SDG&E's TO6 Formula Rate Protocols.

The impact of the revised depreciation rates for Common Plant and Electric General Plant on SDG&E's Base Transmission Revenue Requirement ("BTRR") will be contained in SDG&E's TO6 Cycle 2 filing—which will be filed by December 1, 2025 for a January 1, 2026 effective date.

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1 16 U.S.C. § 824d

2 18 C.F.R. § 35.13.

I. NATURE AND PURPOSE OF FILING

SDG&E submits this single-issue filing under Section D.5 of its TO6 Formula Rate Protocols.[3] Section D.5 provides that SDG&E may make a single-issue filing under FPA Section 205 to reflect the depreciation rates for Common Plant and Electric General Plant for 2024. Those rates will be used for the Base Period and True Up Period in the TO6 Cycle 2 informational filing.

II. LIST OF DOCUMENTS SUBMITTED

This Filing consists of the following items:

1. Transmittal Letter; and

2. Exhibit No. SDG-1 - Affidavit of Honglin Liu on behalf of San Diego Gas & Electric Company, with the following appendices:

   a. Appendix A – TO6 Cycle 2 Depreciation Rates for Common Plant and Electric General Plant (2024 Common and Electric General Plant Depreciation Rates—including impact of using 2023 Common Plant and Electric General Plant Depreciation Rates in 2024) (TO6 Cycle 2 Base Period – Statement AJ work papers); and

   b. Appendix B –2024 GRC Decision (Relevant Excerpts).

III. PROPOSED DEPRECIATION RATE REVISIONS

SDG&E requests Commission approval of its revised 2024 Common Plant and Electric General Plant depreciation rates—and the resulting 2024 depreciation expense reflected in the TO6 Cycle 2 informational filing. Those rates are consistent with SDG&E's 2024 GRC Decision, as provided for in Section D.5 of SDG&E's TO6 Formula Rate Protocols. That Protocol Section provides that SDG&E has the right to make a single-issue filing to "change the depreciation rates for General Plant and Common Plant and the amortization periods for Intangible Plant upon approval of the CPUC or revised depreciations rates and/or amortization rates for these plant categories." SDG&E is only proposing to revise the aspects of the depreciation inputs within the authorized parameters (Life, curve, and future net salvage percentage) approved within that CPUC decision.

Ms. Liu's Affidavit explains the basis for and recalculation of the 2024 depreciation rates for Common Plant and Electric General Plant. Ms. Liu compares the 2023 and 2024 depreciation rates for those two areas by applying the depreciation rates to a consistent depreciable base to illustrate the impact of the rate change on the BTRR. Appendix A shows the overall change in

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[3] SDG&E TO Tariff, Appendix VIII, Attachment 1, D.5

depreciation expense totaling approximately ($884) thousand, a 0.7% decrease over SDG&E's current depreciation rates. From this total, approximately ($140) thousand is allocated to the transmission function. This includes a decrease of ($104) thousand from Common Plant and a decrease of ($36) thousand in Electric General Plant.

IV. EFFECTIVE DATE

Consistent with its TO6 Formula, SDG&E respectfully requests that the Commission permit this Filing to be reflected in SDG&E's TO6 Cycle 2 informational filing for the Rate Effective Period, commencing January 1, 2026. Permitting the revised depreciation rates to be reflected as proposed: (1) ensures consistency in the application of the CPUC-adopted depreciation rates for FERC-jurisdictional and CPUC-jurisdictional rates; and (2) avoids any timing gap in effectuating consistent depreciation rates across SDG&E's federal and state jurisdictional assets.

SDG&E believes that the information contained in this Filing provides a sufficient basis for acceptance. SDG&E requests, however, that, to the extent deemed necessary, the Commission waive any other filing requirements contained in Part 35 of its regulations to permit SDG&E to reflect the proposed Common Plant and Electric General Plant depreciation rates and impact on BTRRs in its TO6 Cycle 2 informational filing, effective January 1, 2026.

V. SERVICE

Electronic copies are being served on the Docket No. ER25-270 service list. Electronic copies are also being served on the California Public Utilities Commission and the CAISO.

VI. CORRESPONDENCE

Correspondence and other communications concerning this filing should be addressed to the following individuals:

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VII. CONCLUSION

SDG&E respectfully requests that the Commission review and approve the revised Common Plant and Electric General Plant depreciation rates reflected in this filing, consistent with SDG&E's TO6 Formula. SDG&E will include these 2024 depreciation rates in its TO6 Cycle 2 informational filing, to become effective January 1, 2026.

Respectfully submitted,

/s/ Ross R. Fulton

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

October 30, 2025

EXHIBIT NO. SDG-1

Affidavit of Honglin Liu

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company) Docket No. ER26-____-000

AFFIDAVIT OF HONGLIN LIU
FOR SAN DIEGO GAS & ELECTRIC COMPANY

I, Honglin Liu, being duly sworn, depose and state as follows:

I. INTRODUCTION

1. My name is Honglin Liu. I am a principal accountant in the Asset and Project Accounting Department at San Diego Gas & Electric Company ("SDG&E"). My business address is 8680 Balboa Ave, San Diego, California 92123.

2. I am submitting this affidavit on behalf of SDG&E. The statements made herein are true and correct to the best of my knowledge and belief, and I adopt them as my sworn testimony in this proceeding.

3. I have worked at SDG&E for more than 15 years. My current responsibilities include the preparation of depreciation and amortization rates, monthly analyses, estimation, studies, monitoring of depreciation and amortization practices utilized at SDG&E, and special projects. Additionally, I have held other positions in Financial Business Planning, where my responsibilities were to develop annual budgets and financial outlooks, prepare financial variance analysis, provide financial accounting, planning, budgeting and regulatory filings support.

4. I hold a Master of Science in Accountancy degree from the San Diego State University.

5. I have not previously testified before the Federal Energy Regulatory Commission ("FERC").

6. The purpose of my affidavit is to describe SDG&E's proposed revisions to the non-transmission depreciation rates reflected in SDG&E's sixth Transmission Owner Formula Rate Tariff filing ("TO6" or "TO6 Formula"), Cycle 2, Annual Informational Filing. The proposed revisions are necessary to implement the California Public Utilities Commission ("CPUC") Decision D.24-12-074 ("Decision") approved December 19, 2024, on Application A.22-05-015/016 ("Application"), also known as the 2024 General Rate Case for SDG&E ("2024 GRC"), as provided for in Section D.5 of SDG&E's TO6 protocols. SDG&E is only proposing to revise the aspects of the depreciation inputs within the authorized parameters (Life, curve, and future net salvage percentage) approved within that CPUC decision.

7. My affidavit is organized as follows:

- Section I: Introduction and Qualifications
- Section II: Background on SDG&E's Formula Rate and the calculation of non-transmission depreciation expense under the Formula Rate;
- Section III: Depreciation Parameters Adopted from SDG&E's 2024 GRC, the method of determination of non-transmission depreciation rates in the CPUC Decision, and the proposed revised non-transmission depreciation rates as adopted in the CPUC Decision;
- Section IV: Revisions to the depreciation module of the Formula Rate necessary to conform to the CPUC Decision on non-transmission depreciation rates; and

- Section V: Quantification of the changes in Electric General Rates and Common Rates.
- Section VI: Conclusion

II. BACKGROUND ON SDG&E'S FORMULA RATE

8. SDG&E's TO6 Tariff Formula consists of Appendix VIII, including two attachments, the Formula Rate Protocols ("Protocols"), and a Formula Rate Spreadsheet.

9. The TO6 Formula filing includes annual information filings (Referred to as "Cycles"), with Cycle 1 being included in the TO6 formula rate case application. Pursuant to the formula protocols, SDG&E submits an informational filing to become effective January 1st of the given calendar year and remains in effect through December 31st of the applicable calendar year. This TO6 Cycle 2 Rate Effective Period is January 1, 2026 through December 31, 2026.

10. Pursuant to Section D.5 of the TO6 Formula Rate Protocols, SDG&E will make a single-issue Section 205 filing to change the depreciation rates and/or amortization periods for Common Plant, Electric General Plant, and Intangible Plant, within approved depreciation parameters of SDG&E's 2024 GRC.

11. This is the first filing SDG&E has made under the TO6 Formula to change the depreciation rates for Common Plant and Electric General Plant.

III. DEPRECIATION PARAMETERS ADOPTED FROM SDG&E'S 2024 GRC

12. On December 19, 2024 the CPUC approved D.24-12-074. The decision adopted a revenue requirement for SDG&E's CPUC-jurisdictional assets to be effective on January 1, 2024.

13. SDG&E's 2024 GRC Decision maintained SDG&E's existing depreciation and amortization parameters and methodologies for all other Electric General and Common accounts. To capture the given year's plant balance and cost-weighted remaining service life, calendar rates are updated annually by applying the authorized parameters for each appropriate account. This includes the Common and Electric General depreciation rates that are utilized to derive the Base Transmission Revenue Requirements ("BTRR") in this TO6 Cycle 2 informational filing.

14. SDG&E's 2024 GRC Decision required no changes to the currently effective Intangible Plant amortization periods and subsequent rates. Accordingly, this Filing does not address amortization.

15. This Filing, which is applicable to TO6 Cycle 2, reflects the recalculation of the 2024 Common Plant and Electric General Plant depreciation rates and is the sole basis for this filing.

16. Statistical methodologies were applied in accordance with CPUC Standard Practice U-4, *Determination of Straight-Line Remaining Life Depreciation Accruals*, to determine depreciation parameters by asset depreciation group, as well as calculate expectancy and associated depreciation rates.

IV. REVISIONS TO THE TO6 CYCLE 2 INFORMATIONAL FILING

17. The changes to the Common Plant and Electric General Plant depreciation rates require modifications to Appendix A, included in this Filing, that will change the depreciation rates effective January 1, 2024; the base year and true up year utilized for this TO6 Cycle 2 Annual Information Filing.

18. Under SDG&E's Formula Rate Protocols, this Filing to change the depreciation rates for Common Plant and Electric General Plant does not result in a redetermination of the BTRR

and transmission rates. Any rate impact resulting from changes to the Common Plant and Electric General Plant depreciation rates will be reflected in the SDG&E TO6 Cycle 2 informational filing.

V. QUANTIFICATION OF DEPRECIATION RATE CHANGE IMPACT

19. Although this filing does not change the BTRR and transmission rates, I have provided in Appendix A, for illustration purposes, a comparison of SDG&E's recorded depreciation expense for Common Plant and Electric General Plant to what it would be based upon the TO6 Cycle 2 rates.

20. As shown, there is a decrease in depreciation expense for Common Plant of approximately $704 thousand, a 0.7% decrease from depreciation rates at present. Additionally, there is a decrease in depreciation expense for Electric General Plant of approximately $180 thousand, a 0.6% decrease from depreciation rates at present. In total, a decrease of approximately $140 thousand is allocated to the transmission function, $104 thousand from Common Plant and $36 thousand from Electric General Plant.

VI. CONCLUSION

21. My Affidavit demonstrates that the revisions SDG&E is proposing to the Formula Rate are necessary to properly reflect the CPUC Decision in the 2024 GRC, as provided for in SDG&E's TO6 Formula Rate Protocols. Such revisions to depreciation rates for Common Plant and Electric General Plant are effective for the full 2024 calendar year, in accordance with SDG&E's Formula Rate Protocols.

EXHIBIT SDG-1 – APPENDIX A

TO6 CYCLE 2 DEPRECIATION RATES FOR ELECTRIC GENERAL PLANT AND COMMON PLANT

SAN DIEGO GAS & ELECTRIC COMPANY
Common & Electric General Plant Depreciation Rates
for the 12-month period ended December 31, 2024

FERC Account / Depreciation Group	2024 Depreciable Base	2024 Depreciation Rates Life	2024 Depreciation Rates Removal	2024 Depreciation Rates Net	2024 Recorded Expense	2023 Net Depreciation Rates	Depreciation Expense at 2023 Rates	Impact of Rate Update
	(a)=(e)÷(d)	(b)	(c)	(d)=(b)+(c)	(e)	(f)	(g) = (a) * (f)	(h) = (e) - (g)
Common Plant								
C390.10-Struct & Imprv-Other	$ 650,078,269	3.07%	0.49%	3.56%	$ 23,142,786	3.56%	$ 23,142,786	$ -
C391.10-Offc Furn & Eq-Other	$ 46,319,712	5.66%	-	5.66%	$ 2,621,696	5.67%	$ 2,626,328	$ (4,632)
C391.20-Offc Furn & Eq-Cmptr	$ 135,637,662	20.02%	-	20.02%	$ 27,154,660	20.63%	$ 27,982,050	$ (827,390)
C392.10 - Trans Eq - Autos	$ 740,903	9.60%	-	9.60%	$ 71,127	7.00%	$ 51,863	$ 19,263
C392.20-Transprtn Eq-Trailer	$ 107,976	4.59%	-	4.59%	$ 4,956	4.76%	$ 5,140	$ (184)
C392.30-Transprtn Eq-Aviation	$ 29,070,821	9.56%	-	9.56%	$ 2,779,171	9.49%	$ 2,758,821	$ 20,350
C393.10-Stores Equip-Other	$ 332,983	4.51%	-	4.51%	$ 15,018	4.68%	$ 15,584	$ (566)
C394.11-Portable Tools-Other	$ 1,506,929	3.94%	-	3.94%	$ 59,373	4.02%	$ 60,579	$ (1,206)
C394.21-Shop Equip - Other	$ 139,251	1.57%	-	1.57%	$ 2,186	1.63%	$ 2,270	$ (84)
C394.31-Garage Equip -Other	$ 1,865,328	6.01%	-	6.01%	$ 112,106	6.09%	$ 113,598	$ (1,492)
C395.10-Laboratory Eq -Other	$ 2,243,133	4.22%	-	4.22%	$ 94,660	4.30%	$ 96,455	$ (1,795)
C397.10-Commun Equip -Other	$ 510,791,165	7.78%	-	7.78%	$ 39,739,553	7.76%	$ 39,637,394	$ 102,158
C398.10-Misc Equip - Other	$ 3,293,181	6.26%	-	6.26%	$ 206,153	6.52%	$ 214,715	$ (8,562)
	$ 1,382,127,314				**$ 96,003,444**		**$ 96,707,582**	**$ (704,138)**
Electric General Plant								
E390.00-Struct. and Improv.	$ 45,347,620	2.50%	-	2.50%	$ 1,133,690	2.53%	$ 1,147,295	$ (13,604)
E392.20-Transprtn Eq-Trailer	$ 56,895	4.27%	-	4.27%	$ 2,429	4.32%	$ 2,458	$ (28)
E393.10-Stores Equip.-Other	$ 46,032	4.00%	-	4.00%	$ 1,841	4.01%	$ 1,846	$ (5)
E394.11-Portable Tools-Other	$ 43,716,169	3.74%	-	3.74%	$ 1,634,985	3.73%	$ 1,630,613	$ 4,372
E394.20-Shop Equipment	$ 146,280	1.94%	-	1.94%	$ 2,838	2.23%	$ 3,262	$ (424)
E395.10-Laboratory Eq.-Other	$ 6,183,350	4.52%	-	4.52%	$ 279,487	4.54%	$ 280,724	$ (1,237)
E397.10-Commun. Equip.-Other	$ 470,172,171	3.09%	1.72%	4.81%	$ 22,615,281	4.84%	$ 22,756,333	$ (141,052)
E397.20-Commun. Equip.-SWPL	$ 8,243,845	2.68%	1.58%	4.26%	$ 351,188	4.34%	$ 357,783	$ (6,595)
E397.60-Commun. Equip.-SRPL	$ 14,167,521	3.07%	-	3.07%	$ 434,943	3.10%	$ 439,193	$ (4,250)
E397.70-Commun Dev - Telecom	$ 36,685,512	3.33%	1.70%	5.03%	$ 1,845,281	5.07%	$ 1,859,955	$ (14,674)
E398.10-Misc. Equip. - Other	$ 3,130,952	6.18%	-	6.18%	$ 193,493	6.25%	$ 195,685	$ (2,192)
	$ 627,896,346				**$ 28,495,457**		**$ 28,675,147**	**$ (179,689)**
	$ 2,010,023,660				$ 124,498,902		$ 125,382,729	$ (883,828)

	Labor Ratio	Impact of Rate Update	Allocation
Allocation of Common Plant Rate Update Impact to Electric	*73.87%*	*$ (704,138)*	*$ (520,147)*
Allocation of Electric Portion of Common Plant Rate Update Impact to Electric Transmission	20.00%	$ (520,147)	**$ (104,029)**
Allocation of Electric General Plant Rate Update Impact to Electric Transmission	20.00%	$ (179,689)	**$ (35,938)**
			$ (139,967)

EXHIBIT SDG-1 – APPENDIX B

CPUC D. 24-12-074 (2024 GRC DECISION)

(Relevant Excerpt(s))

ALJ/ML2/JOR/jnf **Date of Issuance 12/23/2024**

Decision 24-12-074 December 19, 2024

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U904G) for Authority, Among Other Things, to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2024.	Application 22-05-015
And Related Matter.	Application 22-05-016

DECISION ADDRESSING THE 2024 TEST YEAR GENERAL RATE CASES OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY

38. Depreciation

Depreciation is an accounting tool used to convert capital investments into annual expenses, referred to as depreciation expense. Within the context of ratemaking, depreciation allows utilities to recover the original cost of fixed capital assets less the estimated net salvage over the useful life of the property by means of charges to the utility's operating expenses.[2723] Through depreciation, the utility recovers through rates the costs it incurs to buy, install, and remove assets over the useful life of the assets. This is a mechanism for customers to pay through rates the portion of the assets' cost from which they receive benefit.[2724] The systematic recovery of asset capital costs over the useful life also furthers the concept of intergenerational equity since an asset's life may span several generations of ratepayers who benefit.[2725]

The utility's depreciation expense is one of the primary means through which forecast capital investments increase revenue requirements (RRQ). This expense has traditionally been calculated for ratemaking purposes using a "Straight-line" depreciation method defined in Commission Standard Practice U-4 based on the following equation:[2726]

[2723] Sempra Opening Brief at 774; SDG&E Ex-36-R at 4; SCG Ex-32-2R at 2.

[2724] D.21-08-036 at 506.

[2725] D.14-08-032 at 588–589.

[2726] CPUC Standard Practice U-4, Determination of Straight-Line Remaining Life Depreciation Accruals, dated January 3, 1961.

$$d = (1 - c)/L$$

Where

d = total life straight-line depreciation rate

c = average net salvage ratio (gross salvage less cost of removal) during total service life

L = total service life of unit or average service life of group of units

The primary areas of dispute over Sempra's depreciation components are SoCalGas's and SDG&E's requests to increase Gas Plant depreciation expense[2727] by modifying gas asset service lives and net salvage rates.[2728] This section also discusses proposals by other parties to change SDG&E's electric and common plant depreciation rates, which SDG&E proposes to hold constant.

38.1. Gas Plant Depreciation Rates

Sempra proposes increasing gas plant depreciation rates based on an updated depreciation study. A depreciation study is a comprehensive analysis of the property characteristics of a utility's assets. It is specific to each utility and that utility's assets to determine the appropriate annual depreciation accrual rate for each asset account.[2729]

The complex process of the depreciation study involves data collection, analysis, evaluation, and calculation phases. The data collection includes historical data through December 31, 2020. The analysis phase determines the lives and net salvage percentages for the different property groups by conferring with field personnel, engineers, and managers responsible for the installation,

[2727] SCG Ex-401/SDG&E Ex-401 at A1, line 22.

[2728] SCG Ex-32R at 17-48; SDG&E Ex-36.

[2729] Sempra Opening Brief at 775.

operation, and removal of the assets to gain their input into the operation, maintenance, and salvage of the assets. Sempra evaluates the information obtained from company representatives, combined with the depreciation study results, to determine how the results of the historical asset activity analysis, in conjunction with the Company's expected future plans, should be applied.

In the final phase, Sempra calculates depreciation rates and the theoretical reserve. This involves selecting an average service life and a survivor curve, which represents the percentage of property remaining in service at various age intervals.[2730]

For each asset group in the depreciation study, Sempra calculated depreciation expense using the straight-line method, broad average-life group procedure, and remaining-life depreciation method. For each plant account life, Sempra divided the difference between the surviving investment, adjusted for estimated net salvage, and the allocated book depreciation reserve by the average remaining life to yield the annual depreciation expense.[2731]

In addition to calculating historical lives and net salvage data, Sempra considered other factors in making life and net salvage recommendations. Sempra incorporated future trends, changes in equipment and Company-specific operational information before finally making life and net salvage recommendations. Such recommendations are a blend of judgment concerning historical data, current conditions, future trends, and considering potential flaws in statistical assumptions.[2732]

[2730] Sempra Opening Brief at 775.

[2731] Sempra Opening Brief at 776; SCG Ex-32-R at 8.

[2732] Sempra Opening Brief at 775-776.

For 2024, SDG&E forecasts $94.733 million in depreciation expense compared to an accrual of $67.057 million as of 2021 under current rates.[2737] The total depreciation expense is summarized by the primary categories in the table below, and SDG&E's proposed depreciation rates for all its depreciable property are detailed in its testimony.[2738]

Table 38.2
SDG&E's Total Depreciation Expense

Depreciation Expense[2739]	**2021 Recorded (2021 $, Thousands of Dollars)**	**2024 Test Year (2024 $, Thousands of Dollars)**
Underground Storage	$95	$105
Transmission	$10,937	$9,057
Distribution & General Plant	$55,839	$85,211
Amortization (Land Rights)	$186	$360
Total Depreciation & Amortization Expense	**$67,057**	**$94,733**

38.1.2. Intervenor Positions and Recommendations

38.1.2.1. Cal Advocates

Cal Advocates recommends reducing both SoCalGas's and SDG&E's forecasted depreciation expenses for several policy reasons. First, under current depreciation parameters, Cal Advocates claims that both SoCalGas and SDG&E are collecting more than adequate funds in rates to fund the future cost of removals.[2740]

Second, Cal Advocates states that SoCalGas collected more revenues in rates to fund removal costs than it spent to pre-fund removal costs between 2018 and 2021. For the 2018-2021 period, Cal Advocates states that for every dollar

[2737] Sempra Opening Brief at 778; SDG&E Ex-401.

[2738] SCG Ex-32-2R, Attachment C: Depreciation Study report, Appendix A.

[2739] Sempra Opening Brief at 788, which excludes Common Plant.

[2740] Cal Advocates Opening Brief at 299.

expenditure incurred for cost of removal, SoCalGas collected $1.21 in rates, and for the same time period, for every dollar expenditure incurred for cost of removal, SDG&E collected $1.84 in rates.[2741]

Third, Cal Advocates states that the analytical tools in Sempra's depreciation studies for establishing base line depreciation parameters should be used in conjunction with other factors, including: 1) comparisons between the annual costs of removal being currently collected in rates and how much of those funds are being expended on cost of removal; 2) the rising cost of energy and rates; 3) rate affordability; and 4) inflation, and other economic uncertainties.[2742]

Cal Advocates discusses SoCalGas's proposed changes to asset account service lives and net salvage values, most of which would result in increases in depreciation expense. Cal Advocates generally opposes Sempra's proposed changes to negative net salvage based on the policy considerations above.[2743] In support of the position of maintaining current net salvage values, Cal Advocates states that SoCalGas has underspent the amounts in the following asset categories or accounts:

1. Transmission Plant Account 376 – Mains: During the four-year period from 2018 through 2021, Cal Advocates states that SoCalGas underspent its authorized cost of removal amounts for this account by approximately $206 million.[2744]
2. Distribution Plant Account 380 – Services: From 2018 through 2021, Cal Advocates states that SoCalGas

[2741] Cal Advocates Opening Brief at 300.

[2742] Cal Advocates Opening Brief at 299.

[2743] Cal Advocates Opening Brief at 300.

[2744] Cal Advocates Opening Brief at 303.

underspent the authorized cost of removal amounts for this amount by approximately $116 million.[2745]

38.1.2.2. TURN

Based on its own analysis, TURN recommends average service lives and net salvage values resulting in total depreciation expense reductions of more than $100 million compared to Sempra's total depreciation expense forecasts and approximately $50 million compared to currently authorized depreciation expense.[2746]

As with Sempra's analysis, TURN's recommended service lives are the product of data recorded by Sempra. TURN's analysis is also based on mathematical and visual curve fitting, and expert judgment to derive reasonable curves for each of the accounts in dispute.[2747] In addition, TURN states that its approach is consistent with the industry practices recognized by Sempra.[2748] Based on TURN's analysis, TURN states that it identified a number of plant accounts for which SoCalGas's or SDG&E's proposed, estimated service life was too short to accurately describe the mortality characteristics supported by the actual data for the account.[2749] Most of TURN's survivor curves also fall in between those proposed by the utilities and the observed life tables. As a result, TURN argues

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[2745] Cal Advocates Opening Brief at 304.

[2746] TURN Opening Brief at 367. TURN's proposed parameters would reduce SoCalGas's depreciation expense by approximately $88 million and SDG&E's by $11.6 million, both as compared to the utility's proposals applied to 2021 plant balances. The reductions as compared to currently authorized parameters are approximately $23 million for SoCalGas and $24 million for SDG&E. Since the adopted depreciation rates are percentage figures that would be applied to 2024 plant balances, to the extent the 2024 plant balances are higher than the 2021 plant balances, the savings figures reflected in the authorized 2024 revenue requirement will also be higher than these figures. TURN Opening Brief at 367, fn. 1202.

[2747] TURN Opening Brief at 374-379.

[2748] TURN Opening Brief at 375.

[2749] TURN Opening Brief at 377.

that its survivor curves provide a superior fit to the data than those proposed by Sempra. On this basis, TURN proposed a longer service life for each of those accounts.[2750]

For Net Salvage, TURN recommends increasing the net salvage costs less than the amount proposed by Sempra consistent with the principle of gradualism that the Commission has employed for the last ten years.[2751] Originally, the Commission limited net salvage increases for any account to no more than 25 percent of the utility-proposed increase.[2752] However, TURN states that, since Sempra did not identify the net salvage rates they would have proposed absent gradualism, much less present any supporting analysis for such rates, TURN proposed two alternative approaches to increasing the currently authorized net salvage rates for the accounts in dispute in a manner more consistent with gradualism than the approach taken by Sempra.[2753]

TURN recommends using 25 percent of the increase proposed by Sempra, labeled the "traditional" approach by TURN. But since Sempra limited their requested increases to 25 basis points for many accounts, TURN proposes an alternative approach that is higher than those calculated using the "traditional" approach to gradualism here, without adopting the much higher increases sought by Sempra. This alternative uses a proxy for what Sempra's requested change for each account might have been. TURN's proxy used the sum of the increases each utility had sought for the same plant account in the 2016 and 2019 GRCs. TURN then applied the 25 percent factor to that proxy increase, consistent with

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[2750] TURN Opening Brief at 378-79.

[2751] TURN Opening Brief at 384-386.

[2752] D.14-08-032 (PG&E 2014 Test Year GRC)at 597-602.

[2753] TURN Opening Brief at 386-387.

gradualism as described and applied in previous decisions. As TURN's testimony explained, this is a very conservative (that is, favorable to the utility) approach to developing a proxy, as it effectively assumes that the increases sought in the two earlier GRCs were reasonable, even though the Commission determined in D.19-09-051 that the utilities had provided inadequate support for the increases sought in the 2019 GRC.[2754]

38.1.2.3. Other Intervenors

EDF proposes accelerating depreciation on Sempra's gas assets using a method called the "unit of production" method because it accounts for stranded asset risks and is better suited to currently projected declines in gas demand.[2755]

Indicated Shippers recommends increasing the average service lives of FERC Accounts 354, 367, 368, 369, 376, and 380, resulting in a reduction of $42.92 million to SoCalGas's depreciation expense forecast.[2756]

38.1.3. Discussion

38.1.3.1. Service Lives

In reply, Sempra alleges various flaws in intervenor positions and recommendations regarding Sempra's proposed service lives.[2757] With regard to Cal Advocates, Sempra asserts the following: 1) Cal Advocates "cherry-picks" SoCalGas's and SDG&E's gas depreciation study, accepting SoCalGas's and SDG&E's gas service life proposals when they maintain or lengthen lives, while rejecting any suggestion to shorten lives; 2) Cal Advocates' proposal to not allow an increase in Test Year depreciation expense is not based upon a study. Instead,

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[2754] Sempra Opening Brief at 387-388.

[2755] EDF Ex-01 at 49.

[2756] IS-01 at 4.

[2757] Sempra Reply Brief at 597-599.

it is based solely on Cal Advocates' policy position that "[g]iven that rates are currently high and increasing, any changes to depreciation parameters that result in increasing Test Year depreciation expense should be denied;" 3) Cal Advocates' position is inconsistent with the precedent allowing a utility to recover the original cost of the assets, as well as the net salvage value (salvage minus cost of removal) over the life of the asset.

With regard to TURN, Sempra contends the following: 1) TURN is overly reliant upon mathematical fitting and improperly relies upon only one placement and experience band;[2758] 2) TURN's depreciation analyst provided no indication that they looked for the best fit among multiple bands; 3) TURN did not state or provide evidence that it tempered the use of mathematical fitting based upon SoCalGas or SDG&E employee input; and 4) For several accounts, TURN relied on the 1991-2020 experience band that does not provide a good fit for that account data.[2759] Sempra made similar arguments against Indicated Shippers' analysis as well.[2760]

With regard to EDF's proposal to accelerate depreciation of gas assets, Sempra contends the following: 1) As Indicated Shippers states, such a proposal leads to higher rates today; 2) Issues regarding accelerating depreciation on gas assets are better addressed as part of a more comprehensive evaluation of depreciation methodologies in a standalone rulemaking proceeding; and 3) It is premature to assume that gas customer growth will be smaller going forward

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[2758] Sempra Reply Brief at 599.

[2759] Sempra Reply Brief at 597-598.

[2760] Sempra Reply Brief at 598-599.

because customer count is actually anticipated to grow over the period of the GRC.[2761]

As discussed above, the analysis of depreciation parameters and resulting estimations for depreciation expense involves the collection, analysis, evaluation, calculation of data, and considerable judgment. The result is a range of proposals, from Sempra's proposed increases in expense to TURN's proposed decreases, that creates a range of reasonable alternatives for recovery of the original cost of the assets, as well as the net salvage value over the life of the asset. The Commission finds insufficient evidence that SoCalGas and SDG&E are behind in the amount of accumulated depreciation they have collected for capital gas assets.[2762] The Commission finds that retaining depreciation parameters, including service lives, for the Test Year[2763] strikes a reasonable balance between these positions and the competing considerations discussed above. This conclusion is also consistent with SDG&E's uncontested proposal discussed below to hold its electric and common plant depreciation rates constant, partly to address affordability concerns.[2764]

38.1.3.2. Net Salvage

"Net salvage" represents the net amount of costs the utility is expected to incur at the time plant reaches the end of its service life. The net salvage for utility assets is often a negative number (generally expressed as a percentage) because the cost of removing the assets from service typically exceeds any proceeds received from selling the assets for salvage. A negative net salvage rate represents an additional amount to be collected over the expected life of the plant. Therefore,

[2761] Sempra Opening Brief at 787-788; Sempra Reply Brief at 599.

[2762] TURN Opening Brief at 372; SDG&E Ex-236-E at 3; SCG Ex-232 at 2.

[2763] Cal Advocates Opening Brief at 300.

[2764] Sempra Opening Brief at 774.

a more negative net salvage rate equates to a higher depreciation rate and expense, all else held constant.[2765]

In reply to intervenor arguments, Sempra alleges various flaws in intervenor positions and recommendations regarding Sempra's proposed net salvage values.[2766] With regard to Cal Advocates' position, Sempra contends the following: 1) Cal Advocates' proposal to freeze net salvage is inconsistent with the principle of gradualism; and 2) Cal Advocates' contention that SoCalGas and SDG&E have been collecting more than adequate funds for the cost of removal is incorrect because the cost of removal for many accounts is in the early stages.[2767]

With regard to TURN's position, Sempra contends the following: 1) TURN's interpretation to simplistically apply the precedent to limit an increase in negative net salvage to no more than 25 percent of a utility's proposed increase would require a utility to propose an actual negative net salvage amount—knowing that it is inconsistent with Commission precedent—just so another party or the Commission could take 25 percent of that amount; 2) TURN would alter the Commission's gradualism precedent such that, if a utility does follow that precedent and propose a 25 percent increase, the outcome would then be taking 25 percent of that utility proposal, for a six percent change; and 3) TURN's interpretation of gradualism has led to absurd arguments.[2768]

For net salvage values, the Commission finds similarly as for service lives, that retaining net salvage values for the Test Year is reasonable. This is consistent with the concept of gradualism as D.14-08-032 never intended a limit of "no more

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[2765] TURN Opening Brief at 384.

[2766] Sempra Reply Brief at 599-600.

[2767] Sempra Reply Brief at 600.

[2768] Sempra Reply Brief at 600-601.

than 25%" to become a target for any increase in negative net salvage of 25 percent.

Clarification with regard to whether SoCalGas has been underspending its authorized cost of removal amounts is also needed. Cal Advocates states that SoCalGas has underspent its authorized cost of removal for several accounts. However, SoCalGas states that is incorrect because some evidence indicates that the cost of removal for many accounts is in the early stages because the life cycle for certain accounts is up to 120 years, but the average age of plant is only 17.35 years.[2769] Cal Advocates also states that overspending in one category of accounts does not mean the utility is recovering inadequate funds in rates to cover its overall cost of removal obligations. Instead, Cal Advocates argues that the evidence highlights SoCalGas's ability to reallocate funds to areas where the need for asset removal had the highest priorities and that the company's overall revenue requirement needs to fund costs of removal were ultimately fulfilled.[2770] Unfortunately, this discrepancy is not resolved. As a result, better evidence will have to be provided on this issue in the next GRC. In the meantime, the Commission finds that retaining the current net salvage values for the Test Year strikes a reasonable balance between these competing positions.

[2769] Sempra Reply Brief at 600; SCG Ex-232 at 50; SDG&E Ex-236-E at 29.

[2770] Cal Advocates Opening Brief at 304.

Table 38.4
SDG&E Current vs Proposed Net Salvage Rates

	SDG&E Current (Adopted)	SDG&E Proposed
Account G366 – Struct. and Land Imp.	0%	-5%
Account G368 – Compressor Station Equip.	-10%	-14%
Account G375 – Struct. & Imp.	0%	-5%
Account G376 – Mains	-55%	-80%
Account G380 – Services	-70%	-95%
Account G387 – CNG Net Salvage	0%	-5%
Account G363.6 – LNG Distrib. Storg. Eq.	0%	-5%
Account G382 - Meter & Reg. Instllns.	-30%	-5%

38.2. SDG&E's Electric and Common Depreciation Rates

SDG&E proposes a one-time, non-precedential proposal to hold the Company's electric and common depreciation rates constant throughout this GRC cycle for two reasons. First, SDG&E's investments in wildfire mitigation will pay dividends in the future—such that wildfire mitigation may constitute a less significant portion of future SDG&E costs. Second, decarbonization will lead to expanded electric end uses, resulting in an increase in electric volumes sold and electric revenues.[2772]

Holding these depreciation rates constant through this GRC cycle will keep the overall electric depreciation rate at 4.08 percent compared to 4.44 percent, and the overall common depreciation rate will remain 7.04 percent compared to 7.19 percent. According to Sempra, this would result in an overall saving for ratepayers of $42.9 million based on 2021 accumulated reserve balances.[2773]

[2772] Sempra Opening Brief at 790-791.

[2773] Sempra Opening Brief at 790.

Cal Advocates does not object to SDG&E's one-time proposal to maintain depreciation rates for Electric and Common categories at current levels.[2774] With regard to TURN, the Commission finds TURN's position on this proposal unclear and therefore difficult to assess.[2775] Accordingly, the Commission finds SDG&E's proposal to hold the depreciation levels for electric and common depreciation rates constant to be reasonable and adopts it.

39. Taxes

SoCalGas's and SDG&E's estimated tax expenses for the 2024 Test Year include payroll taxes, ad valorem taxes, and income taxes. SoCalGas forecasts a 2024 Test Year payroll tax expense of $59.4 million, ad valorem tax expense of $172.8 million, and income tax expense of $188.9 million.[2776] SDG&E forecasts a 2024 Test Year payroll tax expense of $23.0 million, ad valorem tax expense of $149.2 million, and income tax expense of $153.1 million.[2777]

The Tax Cuts and Jobs Act (TCJA), enacted on December 22, 2017, made comprehensive changes to federal tax law. Major impacts to SoCalGas and SDG&E include the following: (a) reducing the federal corporate income tax rate from 35 percent to 21 percent beginning in 2018; (b) eliminating the bonus depreciation deduction for regulated utilities; (c) eliminating the deduction for transportation fringe benefits provided to employees beginning in 2018; (d) requiring SoCalGas and SDG&E to return plant-related excess deferred taxes created by the reduction in the corporate income tax rate to ratepayers using the Average Rate Assumption Method (ARAM) as described in the TCJA; and (5)

[2774] Cal Advocates Opening Brief at 305.

[2775] Sempra Reply Brief at 602-603.

[2776] Sempra Opening Brief at 793.

[2777] Sempra Opening Brief at 793.

VERIFICATION

State of California)
County of San Diego)

Honglin Liu, being first duly sworn, on oath, says that she is the Honglin Liu identified in the foregoing Affidavit of Honglin Liu; that she prepared or caused to be prepared such Affidavit on behalf of San Diego Gas & Electric Company; that the statements appearing therein are true to the best of her knowledge and her belief; and that, if asked, her statements would, under oath, be the same.

s/ Honglin Liu ____________________________

Honglin Liu