

APPENDIX VIII

FORMULA FOR CALCULATING ANNUAL BASE TRANSMISSION REVENUE REQUIREMENTS UNDER SDG&E'S TRANSMISSION OWNER TARIFF

This Appendix VIII sets forth the formula for calculating the annual Base Transmission Revenue Requirements (“BTRRs”) and is organized into the following sections:

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INTRODUCTION

This Appendix sets forth details with respect to the determination each year of San Diego Gas & Electric Company's ("SDG&E") Base Transmission Revenue Requirements used to derive the charges assessed by SDG&E to its End Use Customers ("BTRR_{EU}") and SDG&E's Base Transmission Revenue Requirements used to derive the transmission charges assessed by SDG&E pursuant to its Transmission Owner ("TO") Tariff and by the California Independent System Operator Corporation ("CAISO") pursuant to the CAISO Tariff ("BTRR_{CAISO}"). This Appendix VIII, which includes the Formula Rate Protocols as Attachment 1 and the Formula Rate Spreadsheet as Attachment 2, constitutes the "TO4 Formula." SDG&E shall calculate its BTRRs¹ using the formula rate that is presented in the spreadsheet format in the Formula Rate Spreadsheet.

The Formula Rate Spreadsheet contains fixed formulae that are described in this Appendix VIII and are embedded in the Formula Rate Spreadsheet. If there is any conflict between the text of this Appendix VIII and the Formula Rate Spreadsheet, the embedded formulae in the Formula Rate Spreadsheet shall control. The fixed formulae in the Formula Rate Spreadsheet are subject to change only pursuant to Sections 205 and 206 of the Federal Power Act ("FPA") and in accordance with Section G.3 of the Formula Rate Protocols, and will be populated with data from SDG&E's annual Form 1 filing or SDG&E's underlying ledger accounts in accordance with the Formula Rate Protocols.

SDG&E shall update its BTRRs in accordance with the procedures and timelines set forth in the Formula Rate Protocols. SDG&E shall have the burden of demonstrating that its updates to the BTRRs are just and reasonable, consistent with Section C.4 of the Formula Rate Protocols. An Interested Party (as defined in the Protocols) shall have the right to challenge SDG&E's updates, consistent with Sections C.3 and C.4 of the Formula Rate

¹ The term "BTRRs" includes the BTRR_{EU} and the BTRR_{CAISO} calculated in each annual update.

Protocols.

SDG&E has the right to modify the TO4 Formula through single-issue filings under Section 205 of the Federal Power Act only as provided in Section D of the Protocols. The BTRR_{EU} and BTRR_{ISO} for each Rate Effective Period will each be comprised of the following four parts:

- (i) — the Prior Year Revenue Requirements (“PYRR”)
- (ii) — the Forecast Period Capital Addition Revenue Requirements (“FC”);
- (iii) — a True-Up Adjustment
- (iv) — and an Interest True-Up Adjustment

The PYRR, FC and True-Up Adjustment, including the Interest True-Up Adjustment, shall be designed to reflect SDG&E’s cost to own, operate and maintain its transmission facilities.

The PYRR will be an annual calculation based on the previous calendar year’s data as shown in SDG&E’s FERC Form No. 1: Annual Report of Major Electric Utilities, Licensees, and Others (“Form 1”) for that year and underlying ledger accounts. SDG&E shall make available the data reflected in the underlying ledger accounts used to determine SDG&E’s PYRR in the annual informational filing described below. Valley Rainbow Project Costs (as defined below) shall be recovered commencing October 1, 2003 through September 2013 in accordance with this Appendix VIII as a component of PYRR as defined in Sections II.B and C hereof. The extent to which Transmission Related Abandoned Project Cost (as defined below) will be included in SDG&E’s formula rate will be determined on a case-by-case basis pursuant to FERC authorization. CPUC Intervenor Funding Expense (as defined below) will be recovered as a component of PYRR for End Use Customers, but not for CAISO customers. The FC component will be an annual calculation based on an estimate of the revenue requirements associated with the

~~transmission-related plant investments expected to be placed in service during the Forecast Period. The True-Up Adjustment for each True-Up Period will be an annual reconciliation of the difference between~~

~~SDG&E's actual cost of providing transmission service during the applicable True-Up Period as determined by application of the PYRR component of the formula rate; and actual revenues billed by SDG&E and paid by transmission customers for transmission service during the True-Up Period.~~

~~SDG&E shall submit to the Commission on or before August 15, 2013 an informational filing (the "Informational Filing") showing the rates in effect for the Rate Effective Period beginning September 1 2014 and ending August 31, 2015. For subsequent cycles, SDG&E shall submit the Informational Filing on or before October 15 of each year, showing the rates in effect for the Rate Effective Period beginning January 1 and ending December 31 of that same year. Further, the Informational Filing shall show:~~

~~1. _____ for the PYRR or Base Period, the average of the thirteen monthly balances for transmission-related plant investment and the transmission-related plant retirements, reclassifications or additions causing such change; and~~

~~2. _____ for the Forecast Period, any weighted forecast plant additions to transmission-related plant net of forecast retirements and reclassifications of Transmission Plant anticipated during that Forecast Period.~~

~~On or before June 15, or October 15 as applicable, SDG&E shall provide to the California Public Utilities Commission ("CPUC"), and make available to any other interested parties, by posting on its OASIS at www.sdge.com/rates-regulations/tariff-information/open-access-ferc-tariffs, a draft (the "Draft Informational Filing") of the Informational Filing, for review, comment and discussion prior to the submission of the Informational Filing on August 15 or October 15. Additional Information on individual project forecast plant additions will be provided to the CPUC and to parties other than the CPUC requesting this information, subject~~

~~to the execution by such party of a non-disclosure agreement accompanying the Protective Order that the Commission accepts concurrently with its acceptance of the TO4 Formula, should SDG&E reasonably determine that such information should be treated as confidential to protect transmission system security or to prevent competitive cost information from being made publicly available. The Draft Informational Filing will also be available through a link to SDG&E's web page that is located on the CAISO OASIS accessible at www.caiso.com.~~

~~The Informational Filing shall not subject the formula set forth in this Appendix VIII to modification, but rather is contestable only with respect to prudence of the costs and expenditures included for recovery, as well as the accuracy of data and the consistency with the formula of the changes shown in the Informational Filing.~~

~~Any revisions to the information reflected in the Draft Informational Filing after it has been made available to the public but prior to submission of the Informational Filing to the Commission will be reflected in the Informational Filing, which will be filed no later than August 15 or October 15 as applicable. Any revisions and refunds related to End Use Customer Base Transmission Revenue Requirements ("BTRR_{EU}") resulting from a Commission Order will be reflected as provided by such a Commission Order in subsequent billings.~~

~~Revisions to CAISO Base Transmission Revenue Requirements ("BTRR_{CAISO}") resulting from a Commission Order, will be made to billings pursuant to such Commission Order and as prescribed by the CAISO Tariff. All changes or corrections to rates that result in refunds will be with interest as calculated pursuant to 18 C.F.R. Section 35.19a.~~

~~In the event of a challenge to any cost reflected in charges derived under this Appendix VIII, SDG&E shall bear the burden of demonstrating that such costs and expenditures included for recovery were prudently incurred, as well as the accuracy and consistency with the formula of the information contained therein.~~

I. DEFINITIONS

Capitalized terms not otherwise defined in Section 3 of SDG&E's Transmission Owner Tariff, or in the CAISO Tariff, or in this Appendix VIII have the following definitions:

A. ALLOCATION FACTORS

1. High Voltage (HV) and Low Voltage (LV) -Allocation Factors: For purposes of SDG&E's BTRR_{CAISO}, SDG&E will allocate its Base Transmission Revenue Requirements between recorded High Voltage ("HV") and recorded Low Voltage ("LV") Transmission Facilities based on the ratio of HV transmission plant and, LV transmission plant, respectively, and to total gross transmission plant, plus weighted forecast HV and ~~forecast~~ LV Transmission Facilities based on the respective percentages and in-service dates of such facilities owned by SDG&E, which are classified as such in accordance with CAISO's Tariff.
2. Seven-Element Adjustment Factor shall be a factor calculated by SDG&E to be applied by SDG&E to the relevant accounts, if necessary, for the purposes of properly functionalizing such accounts between transmission and distribution in accordance with the guidelines set forth in the Commission's Order No. 888, as those guidelines, as applicable to SDG&E, may be modified by the Commission from time to time. Electric Miscellaneous Intangible Plant will not be taken into account in the derivation of the Seven Element Adjustment Factor.

3. Transmission Plant Allocation Factor shall equal the ratio of the sum of SDG&E's total investment in (a) Transmission Plant, (b) Transmission Related General Plant, ~~(c) and~~ Transmission Related Common Plant and ~~(ed)~~ Transmission Related Electric Miscellaneous Intangible Plant to SDG&E's Total Plant in Service.
4. Transmission Plant Property Insurance Allocation Factor shall equal the ratio of the sum of SDG&E's total investment in Transmission Plant and Transmission Related General Plant and Transmission Related Common Plant, to SDG&E's Total Plant in Service, excluding SDG&E's ownership share in the San Onofre Nuclear Generation Station ("SONGS").
5. Transmission Related Property Tax Allocation Factor shall equal the ratio of SDG&E's total Transmission Plant and Transmission Related General Plant and Transmission Related Common Plant, to SDG&E's Total Plant In Service, excluding SONGS and Electric Miscellaneous Intangible Plant.
6. Transmission Wages and Salaries Allocation Factor shall equal the ratio of SDG&E's transmission-~~related~~ direct wages and salaries to SDG&E's total direct wages and salaries, excluding administrative and general wages and salaries.

B. TERMS

1. Accumulated Deferred Income Taxes shall equal the net of the property-related deferred tax balance recorded in FERC Account Nos. 281-283 and the deferred tax balance recorded in FERC Account No. 190.

2. Administrative and General Expense (A&G)—~~Electric~~ shall equal SDG&E's expenses recorded in FERC Account Nos. 920-935, excluding FERC Account No. 930.1 (General Advertising Expense). ~~These expenses shall be either (a) allocated across applicable functions based on Transmission Wages and Salaries Allocation factor and/or (b) directly assigned to the transmission function where: (i) direct assignment is consistent with cost causation principles, (ii) the relationship between cost incurrence and cost responsibility is obvious and reviewable and (iii) direct assignment is reasonable and cost allocation is unreasonable, e.g., it would be unreasonable to use a labor ratio to allocate costs to both distribution and transmission functions where the costs at issue have been affirmatively linked to the transmission function only. The dollar threshold for direct assignment shall be \$5 Million per event for Account 925 expenses and \$1 Million per event for expenses related to the other referenced A&G accounts.~~
3. Amortization of Investment Tax Credits shall equal SDG&E's credits recorded in FERC Account No. 411.4.
4. Amortization of ~~Unamortized~~ Loss on Reacquired Debt shall equal SDG&E's expenses recorded in FERC Account No. 428.1.
5. Annual Fixed Charge Rate ("AFCR") for both ~~e~~End ~~u~~Use and CAISO customers shall be defined as reflected in Attachment 2 (Formula Rate Spreadsheet).~~Section B.3.1.~~
6. Base Period, shall be the calendar year for which SDG&E's most recent FERC Form 1 is available; except for the ~~initial~~TO4 Cycle 1 Base Period, which shall be the 12-month period ending May 31, 2012.
7. CAISO Base Transmission Revenue Requirement (BTTR_{CAISO}) shall be

calculated as defined in [Attachment 2 \(Formula Rate Spreadsheet\), Section 2.C.](#)

8. Common Plant shall equal SDG&E's gross plant balance recorded in FERC Account Nos. 303 and 389 through 398.
9. Common Plant Depreciation Expense shall equal SDG&E's depreciation expenses related to Common Plant recorded in FERC Account Nos. 403, 404, and 405 in accordance with depreciation rates [approved by FERC, as shown in Statement AJ work papers. These rates may not be changed absent a Section 205 or 206 filing.](#) ~~authorized by the CPUC.~~
10. Common Plant Depreciation Reserve shall equal SDG&E's depreciation reserve balance related to Common Plant recorded in FERC Account Nos. 108 and 111.
11. CPUC Intervenor Funding Expense shall equal those expenses recorded in FERC Account No. 928 incurred by SDG&E associated with its requirement to reimburse intervenors participating in CPUC regulatory proceedings involving transmission projects as ordered and approved by the CPUC.
12. Electric Miscellaneous Intangible Plant shall equal SDG&E's costs recorded in FERC Account No. 303 related to Electric Miscellaneous Intangible Plant.
13. Electric Miscellaneous Intangible Plant Amortization Expense shall equal SDG&E's costs recorded in FERC Account No. 404 related to the amortization of Electric Miscellaneous Intangible Plant [as approved by FERC, shown in Statement AJ work papers. These Amortization Periods may not change absent a Section 205 or 206 filing.](#)
14. Electric Miscellaneous Intangible Plant Amortization Reserve shall equal

SDG&E's costs recorded in FERC Account No. 111 related to the amortization reserve of Electric Miscellaneous Intangible Plant.

15. End Use Customer Base Transmission Revenue Requirement (BTRR_{EU}) shall be calculated as defined in [Attachment 2 \(Formula Rate Spreadsheet\)](#). ~~Section 2, B.1 to B.5.~~
16. Forecast Period with respect to each twelve month Rate Effective Period, with the exception of TO4 Cycle 1, shall be the 24-month period beginning January 1, just after the Base Period, and ending the following year on December 31. The second year of the Forecast Period corresponds to the Rate Effective Period., ~~which corresponds to the last month of the Rate Effective Period.~~ For TO4 Cycle 1, the Forecast Period will be June 1, 2012 through August 31, 2014. For Cycle 2, the Forecast Period will be January 1, 2014 to August 31, 2015. The 24-month Forecast Period will use actual monthly data to the extent that it is available at the time the forecast is developed.
17. General Plant shall equal SDG&E's gross plant balance recorded in FERC Account Nos. 389-399.
18. General Plant Depreciation Expense shall equal SDG&E's depreciation expenses related to General Plant recorded in FERC Account Nos. 403, 404, and 405 in accordance with depreciation rates [approved by FERC as shown in Statement AJ work papers](#). ~~These rates may not be changed absent a Section 205 or 206 filing authorized by the CPUC.~~
19. General Plant Depreciation Reserve shall equal SDG&E's depreciation reserve balance related to General Plant recorded in FERC Account Nos. 108 and 111.
20. Incentives refer to any of the items delineated in FERC Order No. 679,

as may be modified from time to time, including the following:

- a) Incentive Return on Equity ~~(ROE)~~
- b) 100% Construction Work in Progress (CWIP) in rate base.
- c) 100% recovery of Abandoned Project Costs

The input values for the incentive as defined herein shall be zero in the Formula until the Commission accepts or approves the recovery of the cost associated with the incentive. SDG&E must submit a Section 205 filing to recover the cost of Incentives in accordance with Section D.2 of the Formula Rate Protocols.

21. Incentive Annual Fixed Charge Rate shall be calculated as reflected in Attachment 2 (Formula Rate Spreadsheet).

~~21. Incentive Abandoned Project Cost shall include costs associated with abandoned projects for which SDG&E is authorized to collect under FERC Order NO. 679. These costs shall be recorded in FERC Account No.426.5 (Other Deductions).~~

~~22.~~

~~23.~~22. Incentive Transmission Construction Work in Progress shall be

construction work in progress for which SDG&E is authorized to collect Incentives under FERC Order No. 679. These costs shall be recorded in FERC Account No. 107.

~~24.~~23. Incentive Project shall be a transmission capital project for which the recovery of an Incentive has been approved as permitted by FERC Order No. 679, as it may be modified from time to time.

~~25.~~24. Incentive Return and Associated Income Taxes shall equal the product of the Incentive Transmission Rate Base and Incentive Cost of Capital Rate, as adjusted for income taxes, as defined in Attachment 2 (Formula Rate

Spreadsheet)Section II. A, below.

- ~~26-25.~~ Incentive Return on Equity shall equal the Return on Equity that the FERC authorizes SDG&E to collect on Incentive Project(s). The Incentive Return on Equity may vary by Incentive Project.
- ~~27.~~ Incentive Abandoned Project Cost shall include costs associated with abandoned projects for which SDG&E is authorized to collect under FERC Order NO. 679. These costs shall be recorded in FERC Account No.426.5 (Other Deductions).
26. Incentive Transmission Plant shall be the transmission plant for Incentive Projects, which includes incentive projects for which SDG&E is authorized to collect Incentives under FERC Order No. 679. Incentive Transmission Plant shall be tracked individually by Incentive Project.
- ~~27.~~ Incentive Transmission Plant Abandoned Project Cost shall be the costs associated with abandoned Incentive Projects which SDG&E is authorized to collect under FERC Order NO. 679. These costs shall be recorded in FERC Account No.182.2 and amortized to FERC Account No. 407.
28. Incentive Transmission Plant Abandoned Project Cost Accumulated Deferred Income Taxes shall equal the balance of Incentive Transmission Plant Abandoned Project Cost Accumulated Deferred Income Taxes, as reflected in a footnote to SDG&E's annual FERC Form 1 which SDG&E shall reference by page in its Informational Filing. Incentive Transmission Plant Abandoned Project Cost Accumulated Deferred Income Taxes shall exclude Financial Accounting Standard 109 or its successor, costs. Incentive Transmission Plant Abandoned Project Cost Accumulated Deferred Income Taxes do not include the

Transmission Plant Abandoned Project Cost Accumulated Deferred
Income Taxes.

~~28-29.~~ Incentive Transmission Plant Abandoned Project Cost Amortization
Expense shall equal the annual amortization expense recorded in FERC
Account No. 407 related to Incentive Transmission Plant Abandoned
Project Cost as approve by FERC. Incentive Transmission Plant
Abandoned Project Cost Amortization Expense does not include
Transmission Plant Abandoned Project Cost Amortization Expense.

~~29-30.~~ Incentive Transmission Plant Accumulated Deferred Income Taxes shall
equal the balance of accumulated deferred income taxes related to
Incentive Transmission Plant ~~Accumulated Income Taxes applicable to
Incentive Transmission Plant~~, as reflected in a footnote to SDG&E's
annual FERC Form 1, which SDG&E shall reference by page in its
Informational Filing. ~~Total~~ Incentive Transmission Accumulated Deferred
Income Taxes shall exclude Financial Accounting Standard 109 or its
successor, costs. Incentive Transmission Plant Accumulated Deferred
Income Taxes shall be tracked individually by Incentive Project.

~~30-31.~~ Incentive Transmission Plant Depreciation Expense shall equal SDG&E's
depreciation expenses related to Incentive Transmission Plant recorded
in FERC Account Nos. 403, 404, and 405 in accordance with the TO4
Transmission Plant dDepreciation rRates as reflected in Statement AJ
work papers. Incentive Transmission Plant Depreciation Expense shall be
tracked individually by Incentive Project. ~~authorized by the CPUC.~~

~~31-32.~~ Incentive Transmission Plant Depreciation Reserve shall equal the
balance of incentive transmission reserves related to Incentive
Transmission Plant recorded in FERC Account Nos. 108 and 111.

~~applicable to~~ Incentive Transmission Plant Depreciation Reserve shall be tracked individually by Incentive Project.

~~32. Incentive Transmission Plant Other Regulatory Assets/Liabilities shall equal SDG&E's electric balance of any Other Regulatory Assets/Liabilities applicable to Incentive Transmission Plant.~~

33. Incentive Weighted Forecast Plant Additions for any Forecast Period shall be the estimated capital investment associated with Incentive Transmission Plant SDG&E anticipates placing in service during such Forecast Period. Such estimated capital investment shall be calculated using the same methodology for Weighted Forecast Plant Additions as specified in this Appendix VIII defined in Section 1, Definitions.

~~33-34.~~ Incentive Weighted Forecast Transmission Construction Work In Progress for any Forecast Period shall be determined as follows: a) if the Incentive CWIP for any applicable project closes to plant after the end of the Base Period but before the beginning of the Rate Effective Period, such weighted forecast incentive transmission CWIP shall equal the difference between the transmission incentive CWIP balance in the month that the project will close to plant in-service less the balance of CWIP for the project at the end of the December of the Base Period; and b) if the incentive CWIP closes to plant during the Rate Effective Period, the weighted forecast incentive transmission CWIP shall equal 13-month average incremental CWIP balance during the Rate Effective Period. The incremental CWIP balance shall be equal to the difference between the CWIP balance at the end of the month in the Forecast Period just prior to the first month of the Rate Effective Period, less the CWIP balance at the end of the Base Period; this difference shall be

added to the monthly CWIP expenditures during the Rate Effective Period until the Incentive Project goes into service. The above calculations for a) or b), as applicable, will be done for each Incentive Project.

~~34-35.~~ Materials and Supplies shall equal SDG&E's balance of total electric Materials and Supplies recorded in FERC Account No. 154, excluding those materials and supplies assigned to construction as reflected on SDG&E Form 1.

~~35-36.~~ Municipal Franchise Tax Expense shall equal the amounts recorded in FERC Account No. 927.

~~36-37.~~ Other Regulatory Assets/Liabilities shall equal amounts recorded in FERC Account No. 182.3 that the Commission has accepted for recovery under Section 205 of the ~~Federal Power Act (FPA)~~. Other Regulatory Assets/Liabilities for the initial Rate Effective Period shall be zero.

~~37-38.~~ Payroll Taxes shall equal those payroll tax expenses recorded in FERC Account No. 408.1.

~~38-39.~~ Prepayments shall equal SDG&E's prepayment balance recorded in FERC Account No. 165.

~~39-40.~~ Property Insurance shall equal SDG&E's expenses recorded in FERC Account No. 924.

~~40-41.~~ Property Taxes shall equal SDG&E's expense recorded in FERC Account No. 408.1.

~~41-42.~~ Rate Effective Period shall be a 12 month calendar year period; provided, however, that for Cycle 1 of the TO4 Formula, the Rate Effect Period shall begin September 1, 2013 and end ~~August~~December 31, 2014 and for Cycle 2 and subsequent cycles, the Rate Effective Period

shall begin ~~January~~ September 1, 2014 and end December 31, ~~2015~~.

~~42.43.~~ Return and Associated Income Taxes shall equal the product of the Transmission Rate Base and the Cost of Capital Rate, as adjusted for income taxes, as defined in Attachment 2 (Formula Rate Spreadsheet) Section II below.

~~43.44.~~ Return on Equity shall be ~~11.3%~~ 10.05%, including the 50 basis point adder for CAISO participation.

~~44.45.~~ South Georgia Income Tax Adjustment shall equal the amount set forth in the applicable FERC Form 1.

~~45.46.~~ Total Plant in Service shall equal SDG&E's total gross plant balance recorded in FERC Account Nos. 301 through 399.

~~46.~~ Transmission Depreciation Reserve shall equal SDG&E's transmission reserve balance recorded in FERC Account Nos. 108 and 111.

47. Transmission, General, Common Plant Depreciation Expense, and Electric Miscellaneous Intangible Depreciation Amortization Expense shall equal the product of sum of (a) Transmission Plant Depreciation Expense for Transmission Plant, plus an allocation of (b) General Plant Depreciation Expense, (c) and Common Plant Depreciation Expense, and (d) Electric Miscellaneous Intangible Plant Amortization Expense, multiplied ~~calculated by multiplying both General Plant Depreciation Expense and Common Plant Depreciation Expense,~~ by the Transmission Wages and Salaries Allocation Factor; ~~plus (b) Electric Miscellaneous Intangible Plant Amortization Expense directly assigned to transmission, consistent with the cost causation principles as defined in Term 66.~~

48. Transmission Operation and Maintenance Expense shall equal SDG&E's expenses recorded in FERC Account Nos. 560-573, minus transmission

costs recorded in FERC Account Nos. 561.4 and 561.8, minus transmission costs currently recorded in FERC Account No. 565 (Transmission of Electricity by Others) relating to the purchase of power on behalf of or to serve SDG&E's bundled retail customers, minus CAISO Grid Management Charge expenses recorded in these accounts, and minus expenses currently recorded in FERC Account No. 566 that are not transmission related, including, but not limited to, Reliability Must Run and Market Redesign Technology Update ("MRTU") costs, Transmission Revenue Balancing Account Adjustment ("TRBAA") expenses, and Transmission Access Charge Balancing Account Adjustment expenses ("TACBAA") expenses.

49. Transmission Plant shall equal SDG&E's Gross Plant balance recorded in FERC Account Nos. 350-359, excluding the portion of any facilities, the cost of which is directly assigned under the CAISO Tariff or is included in Incentive Transmission Plant.

50. Transmission ~~Related Plant~~ Abandoned Project Cost shall equal an amount, ~~other than~~ exclusive of Valley Rainbow Project Costs and exclusive of Incentive Transmission Plant Abandoned Project Cost, relating to abandoned transmission projects that is recorded in FERC Account No. 182.2. The ratemaking treatment to be afforded such costs shall be determined by the Commission on the basis of a filing made by SDG&E with the Commission under Section 205 of the FPA for recovery in accordance ~~under~~ with this Appendix VIII. In the Section 205 of the FPA proceeding, SDG&E reserves its right to request recovery of up to 100% of the Transmission Related-Plant Abandoned Project Cost and parties reserve their full rights to contest

100% recovery as provided for in this Appendix VIII. Transmission Related Plant Abandoned Project Cost for the initial Rate Effective Period shall be zero

51. Transmission Plant Abandoned Project Cost Accumulated Deferred Income Taxes shall equal the balance of Transmission Plant Abandoned Project Cost Accumulated Deferred Income Taxes, as reflected in a footnote to SDG&E's annual FERC Form 1 which SDG&E shall reference by page in its Informational Filing. Transmission Plant Abandoned Project Cost Accumulated Deferred Income Taxes shall exclude Financial Accounting Standard 109 or its successor, costs. Transmission Plant Abandoned Project Cost Accumulated Deferred Income Taxes do not include the Incentive Transmission Plant Abandoned Project Costs Accumulated Deferred Income Taxes.

50-52. Transmission Related Plant Abandoned Project Cost Amortization Expense shall equal the annual amortization expense recorded in FERC Account No. 407 related to Transmission Related Plant Abandoned Project Cost. Transmission Plant Abandoned Project Cost Amortization Expense does not include Incentive Transmission Plant Abandoned Project Amortization Expense.

51-53. Transmission Plant Depreciation Expense shall equal SDG&E's transmission expenses recorded in FERC Account Nos. 403, 404, and 405 pursuant to the TO4 Settlement, excluding Incentive Transmission Plant Depreciation Expense. Both Transmission Plant Depreciation Expense and Incentive Transmission Plant Depreciation Expense will be calculated using the rates shown in Statement AJ work papers. The

Transmission Plant Depreciation Rates for each subaccount will not change during the term of TO4. However, the overall composite depreciation rate of 2.52% (based on plant balances as of May 31, 2012, except for the Sunrise Powerlink Project, which reflects plant balances as of July 31, 2012) will change based upon the plant balances in the subaccounts, authorized ASL, Iowa Curve, and FNS% for each FERC subaccount as shown in the following table:

TO4 Transmission Plant Depreciation Rates

--	--	--	--	--	--	--	--

~~* ASL — Average Service Life ** FNS — Future Net Salvage *** COR —~~

~~Cost of Removal~~

~~SDG&E reserves the right to update rates over time using the authorized parameters set forth above. To the extent that SDG&E seeks to change the authorized parameters, SDG&E shall make a Section 205 filing explicitly requesting authorization to change such parameters.~~

~~52-54.~~ Transmission Plant Depreciation Reserve shall equal SDG&E's transmission reserve balance recorded in FERC Account Nos. 108 and 111. Transmission Plant Depreciation Reserve does not include Incentive Transmission Plant Depreciation Reserve.

~~53-55.~~ Transmission Plant Held for Future Use shall equal SDG&E's balance recorded in FERC Account No. 105 for projects approved by the CPUC. Gain or loss on the sale of plant held for future use shall be recorded in FERC Account Nos. 411.6 and 411.7.

~~1.~~ Transmission Related Abandoned Project Cost shall equal an amount, other than Valley Rainbow Project Costs, relating to abandoned transmission projects that is recorded in FERC Account No. 182.2. The ratemaking treatment to be afforded such costs shall be determined by the Commission on the basis of a filing made by SDG&E with the Commission under Section 205 of the FPA for recovery under this Appendix VIII. In the Section 205 of the FPA proceeding, SDG&E reserves its right to request recovery of up to 100% of the Transmission Related Abandoned Project Cost and parties reserve their right contest 100% recovery as provided for in this Appendix VIII. Transmission Related Abandoned Project Cost for the initial Rate Effective Period shall be zero.

~~54.~~ Transmission Related Abandoned Project Cost Amortization Expense shall equal the annual amortization expense

~~recorded in FERC Account No. 407 related to Transmission
Related Abandoned Project Cost.~~

~~55-56. Transmission Related Accumulated Deferred Income Taxes shall equal the balance of Transmission Plant Accumulated Deferred Income ~~†~~Taxes, plus the balance of Transmission Related Electric General and Common Plant Accumulated Deferred Income Taxes, plus Transmission Related Electric Miscellaneous Intangible Plant Deferred Income Taxes, less the Incentive Transmission Plant Accumulated Deferred Income Taxes, -Aas reflected in a footnote to SDG&E's annual FERC Form 1 which SDG&E shall reference by page in its Informational Filing. ~~Total~~ Transmission Related Accumulated Deferred Income Taxes shall exclude Financial Accounting Standard 109 or its successor, costs.~~

~~56-57. Transmission Related A&G Expenses shall equal (1) ~~directly assigned transmission A&G Electric as set forth in Section I.B.2.~~ plus (2) ~~other A&G expenses that will be allocated to transmission using the Transmission Wages and Salaries Allocation Factor, specifically the Administrative and General Expense included in FERC Account Nos. 920-935, excluding non-transmission-related expenses, which include but are not limited (a) directly assigned transmission A&G expenses and (b) to~~ non-transmission-related expenses in in FERC Account No. 924 (Property Insurance), FERC Account No. 925 (Damages and Injuries), FERC Account No. 927 (Franchise Requirements), FERC Account No. 930.1 (General Advertising Expenses), FERC Account No. 930.2 (Miscellaneous General Expenses), and FERC Account No. 935 (Maintenance of General Plant), and any CPUC Intervenor Funding~~

Expense recorded in FERC Account No. 928 (Regulatory Commission Expenses), multiplied by the Transmission Wages and Salaries Allocation Factor, plus (32) Property Insurance in FERC Account No. 924, excluding insurance costs related to nuclear plant serving SDG&E's bundled retail customers, multiplied by the Transmission Plant Property Insurance Allocation Factor, minus (43) CPUC mandated costs recovered through retail rates. For purposes of SDG&E's TO4 Cycle 2 True-Up Adjustment (September 1, 2013 to December 31, 2013) and SDG&E's TO3 Final True-Up Adjustment (April 1, 2012 to August 31, 2013), SDG&E will file in 2014 for approval of the PBOP costs recorded in 2012 and 2013, in 2014. provided, however, if the rate(s) of expense accrual for SDG&E's post-employment benefits other than pensions ("PBOP"), as recorded in FERC Account No. 926, change from those expense levels recorded in SDG&E's February 2013, TO4, SDG&E may reflect such changes in charges under this formula only to the extent approved by the Commission under Section 205 of the FPA.

57-58. Transmission Related Amortization of Excess Deferred Tax

Liabilities shall equal an amount recorded in FERC Account Nos. 190, 282, and 283 related to transmission as reflected in a footnote in SDG&E's annual FERC Form 1 as referenced by page in its annual Informational Filing.

58-59. Transmission Related Amortization of Investment Tax Credits shall

equal the amount set forth in the applicable FERC Form 1 until fully amortized. SDG&E shall reflect in a footnote in its annual FERC Form 1 any Transmission Related Amortization of Investment Tax

Credits, which SDG&E shall reference by page in its annual Informational Filing.

~~59-60.~~ Transmission Related Cash Working Capital shall be a 12.5% allowance (45 days/360 days) of Transmission Operations and Maintenance and Transmission Related A&G Expenses.

~~60-61.~~ Transmission Related Common Plant shall equal SDG&E's balance of investment in Common Plant multiplied by the Transmission Wages and Salaries Allocation Factor.

~~61-62.~~ Transmission Related Common Plant Depreciation Expense shall equal the balance of SDG&E's Common Plant Depreciation Expense recorded in FERC Account Nos. 403, 404, and 405 multiplied by the Transmission Wages and Salaries Allocation Factor.

~~62-63.~~ Transmission Related Common Plant Depreciation Reserve shall equal that portion allocated to transmission using the Transmission Wages and Salaries Allocation Factor.

~~63-64.~~ Transmission Related Depreciation Reserve shall equal the balance of Transmission Depreciation Reserves, plus the balance of Transmission Related General Plant Depreciation Reserves, plus Transmission Related Common Plant Depreciation Reserves, plus the balance of Transmission Related Electric Miscellaneous Intangible Plant Amortization Reserves. Transmission Related Depreciation Reserve does not include Incentive Transmission Plant Depreciation Reserve.

~~64-65.~~ Transmission Related General Plant shall equal SDG&E's balance of investment in General Plant multiplied by the Transmission Wages and Salaries Allocation Factor.

~~65-66.~~ Transmission Related General Plant Depreciation Expense shall equal the balance of SDG&E's General Plant Depreciation Expense recorded in FERC Account Nos. 403, 404, and 405 multiplied by Transmission Wages &and Salaries Allocation Factor.

~~66-67.~~ Transmission Related General Plant Depreciation Reserves shall equal the balance in General Plant Depreciation Reserves multiplied by the Transmission Wages &and Allocation Factor.

~~67-68.~~ Transmission Related Electric General and Common Plant Accumulated Deferred Income Taxes shall equal SDG&E's total General and Common Accumulated Deferred Income Taxes, as reflected in a footnote to SDG&E's annual FERC Form 1, which SDG&E shall reference by page in its Informational Filing, multiplied by the Transmission Wages and Salaries Allocation Factor. Such Accumulated Deferred Income Taxes shall exclude Financial Accounting Standard 109 or its successor; costs.

~~68-69.~~ Transmission Related Electric Miscellaneous Intangible Plant shall equal the total amount of Electric Miscellaneous Intangible Plant recorded in FERC Account No. 303 multiplied by the Transmission Wages and Allocation Factor. ~~associated with transmission as a result of either (a) an allocation to transmission function based on Transmission Wages and Salaries Allocation Factor or (b) directly assigned to the transmission function where: (i) direct assignment is consistent with cost causation principles, (ii) the relationship between cost incurrence and cost responsibility is obvious and reviewable and (iii) direct assignment is reasonable and cost allocation is unreasonable, e.g., it would be unreasonable to use a~~

~~labor ratio to allocate the balance to both distribution and transmission functions where the costs at issue have been affirmatively linked to the transmission function only.~~

~~69-70.~~ Transmission Related Electric Miscellaneous Intangible Plant

Accumulated Deferred Income Taxes shall be that portion of Electric Miscellaneous Intangible Plant Accumulated Deferred Income Taxes allocated to transmission using the Transmission Wages and Salaries Allocation Factor ~~directly assigned to transmission~~ as reflected in a footnote to SDG&E's annual FERC Form 1 which shall be reference by page in its Informational Filing. Such Accumulated Deferred Income Taxes shall exclude Financial Accounting Standard 109 or its successor, costs.

~~70-71.~~ Transmission Related Electric Miscellaneous Intangible Plant

Amortization Expense shall equal the balance of SDG&E's Electric Miscellaneous Intangible Plant Amortization Expense ~~balance~~ recorded in FERC Account No. 404 multiplied by the Transmission Wages and Allocation Factor ~~and shall be accounted for as set forth in Section I.B.65.~~

~~71-72.~~ Transmission Related Electric Miscellaneous Intangible Plant

Amortization Reserve shall equal SDG&E's balance of Electric Miscellaneous Intangible Plant Amortization Expense recorded in FERC Account No.111 multiplied by the Transmission Wages and Allocation Factor. ~~and shall be accounted for in the manner set forth in Section I.B.65.~~ SDG&E shall footnote these amounts in its annual FERC Form 1, which SDG&E shall reference by page in its Informational Filing.

~~72-73.~~ Transmission Related Materials & Supplies shall equal SDG&E's electric balance of Materials and Supplies multiplied by the Transmission Plant Allocation Factor.

~~73-74.~~ Transmission Related Municipal Franchise Tax Expense shall equal: a) the Base Transmission Revenue Requirement ("BTRR") prior to the inclusion of Municipal Franchise Tax expense, multiplied by the Municipal Franchise Tax Expense rate that the CPUC authorizes from time to time, currently 1.0275%, which shall be recovered as part of the BTRR rates, plus b) an amount of Municipal Franchise Tax Expense that the CPUC authorizes SDG&E to collect from customers who reside in the City of San Diego. This latter amount shall be reflected on the electric bills of customers residing in the City of San Diego, and shall not be included as part of the wholesale BTRR.

~~74-75.~~ Transmission Related Payroll Taxes Expense shall equal SDG&E's total electric Payroll Taxes expense recorded in FERC Account No. 408.1, multiplied by the Transmission Wages and Salaries Allocation Factor.

~~75-76.~~ Transmission Related Prepayments shall equal SDG&E's electric balance of prepayments recorded in FERC Account No. 165 multiplied by the Transmission Plant Allocation Factor.

~~76-77.~~ Transmission Related Property Taxes shall equal Property Taxes, excluding property taxes directly assigned to SONGS, multiplied by the Transmission Related Property Tax Allocation Factor. SDG&E shall footnote in its annual FERC Form 1 the directly assigned property taxes attributable to SONGS, which SDG&E shall reference by page in its Informational Filing.

~~77-78.~~ Transmission Related Regulatory Debits shall equal SDG&E's

amortization expense associated with Other Regulatory Assets/Liabilities debited to FERC Account No. 407.3 that the Commission has accepted for recovery under Section 205 of the FPA. Transmission Related Regulatory Debits for the initial Rate Effective Period shall be zero.

~~78-~~79. Transmission Related Revenue Credits shall include Rents Received from Electric Property recorded in FERC Account No. 454 associated with such Electric Property included in Transmission Rate Base as defined in [Attachment 2 \(Formula Rate Spreadsheet\) Section II.A below](#), plus Other Electric Revenues recorded in FERC Account No. 456 that recover the cost associated with SDG&E's Transmission Rate Base, excluding any revenues credited through the TRBAA or another mechanism.

~~79-~~80. Transmission Related Uncollectible Expense shall equal the Base Transmission Revenue Requirement_{EU} [End Use customers prior to the inclusion of uncollectible expenses](#) multiplied by the [percentage allowance for uncollectible expenses approved from time to time by the CPUC, and should not be included as part of the wholesale BTRR](#). ~~Currently, the rate is 0.141%.~~

~~80-~~81. True-Up Period shall be 12 months ended December 31 [of the Base Period](#) of each year; *provided, however*, that for TO4 Cycle 2, the True-Up Period shall be 4 months September 1, 2013 through December 31, 2013.

~~81-~~82. Uncollectible Expense shall equal SDG&E's charges for uncollectible accounts recorded in FERC Account No. 904.

~~82-~~83. Valley Rainbow Project Costs Amortization Expense shall equal \$1,892,694, which represents the annual amortization over a ten-year period, ending September 2013 of certain costs associated with the

cancelled Valley Rainbow transmission project. The Valley Rainbow cost will expire September 30, 2013 and an amount of \$157,724 will appear in TO4 C2 True-Up Adjustment. After September 2013 the cost of Valley Rainbow will be fully recovered.

~~83.~~84. Weighted Forecast Plant Additions for any Forecast Period, except for Cycles 1 and 2, shall be the estimated capital investment in new Transmission Plant, Transmission Plant Held for Future Use, and Transmission Related General and Common Plant SDG&E anticipates placing in service during such Forecast Period. Such estimated capital investments shall be determined for each month of the Forecast Period as described herein and each such estimated capital investment shall be multiplied by a weighting factor such that the magnitude of such capital investment as reflected in the determination of SDG&E's transmission revenue requirement pursuant to this Appendix VIII formula reflects the number of months during the Forecast Period those investments in new transmission facilities are actually in service. Any new transmission facilities expected to be placed in service during the Forecast Period but prior to the end of the first month of the ~~following~~ associated Rate Effective Period, i.e., January 31 of the second year of the Forecast Period, shall be assigned a weighting factor of 1.00. Any new transmission facilities expected to be placed in service during the Forecast Period as of the beginning of the second month of the Rate Effective Period, i.e., February 1, or thereafter through and including December 31, shall be assigned a weighting factor based on the number of months during the Rate Effective Period for which those facilities are expected to be in service divided by 12. Thus, for example, a plant

addition expected to be placed in service in February of the Rate Effective period would be assigned a weighting factor of 11 divided by 12 or 0.917. For Cycles 1 and 2, the weighted forecast plant additions for the Forecast Period shall be calculated in the same manner as described above except that the first month of the Rate Effective Period shall be September 2013 for Cycle 1 and ~~January~~ September 201~~5~~4 for Cycle 2.

II. CALCULATION OF ANNUAL BASE TRANSMISSION REVENUE REQUIREMENTS

A. [Formula Rate Protocols – See Attachment 1](#)~~Return and Associated Income Taxes~~

B. [Formula Rate Spreadsheet – See Attachment 2](#)

[The TO4 Formula Rate Spreadsheet consists of the following:](#)

- [Statement BK1 \(Derives End Use BTRR\) and BK2 \(Derives CAISO BTRR\),](#)
- [Statements AD through AV and Miscellaneous Statement \(provide data embedded in Statement BK1 and BK2, and](#)
- [Statement AD through AV work papers, the True-Up Adjustment and Interest True-Up Adjustment work papers, and the Summary of High and Low Voltage split for Forecast Plant addition work papers \(provide data embedded in Statement AD through AV\).](#)

[Data cells within the Formula Rate Spreadsheet that are color coded yellow are identical to other cells within the Formula Rate Spreadsheet. Data cells that are color coded green, mainly Statements AD through AV work papers, are based on work papers and/or FERC Form 1 data that are external to the Formula Rate Spreadsheet. Uncolored cells reflect inputs that are either fixed as part of the Formula \(e.g., the ROE, or the number of days in a month\) or contain formulas based on other Formula cells \(e.g., cells representing the sum of preceding lines\). SDG&E will include these work papers in each Annual Informational Filing.](#)

[Blank lines that show up in the Formula Rate Spreadsheet will not be populated with numbers absent a Section 205 filing.](#)

[Formula Rate Spreadsheet File embedded below.](#)



[Exh_3_TO4_Formula
_Rate_Spreadsheet_](#)

~~Return and Associated Income Taxes shall equal the product of the Transmission Rate Base and a Cost of Capital Rate, which are defined as follows:~~

~~1. Transmission Rate Base~~

~~The Transmission Rate Base will be calculated as follows:~~

- ~~(a) Transmission Plant based on the weighted average of the thirteen monthly balances, plus~~
 - ~~(b) Transmission Related General Plant based on the average of the sum of the beginning and end of year balances, plus~~
 - ~~(c) Transmission Related Common Plant based on the average of the sum of the beginning and end of year balances, plus~~
 - ~~(d) Transmission Related Electric Miscellaneous Intangible Plant based on the average of the sum of the beginning and end of year balances, minus~~
 - ~~(e) Transmission Depreciation Reserve based on the weighted average of the thirteen monthly balances, minus~~
 - ~~(f) Transmission Related General Plant Depreciation Reserve based on the average of the sum of the beginning and end of year balances, minus~~
 - ~~(g) Transmission Related Common Plant Depreciation Reserve based on the average of the sum of the beginning and end of the year balances, minus~~
 - ~~(h) Transmission Related Electric Miscellaneous Intangible Plant Amortization Reserve based on the average of the sum of the beginning and end of year balances, plus~~
 - ~~(i) Transmission Plant Held for Future Use based on the average of thirteen monthly balances, plus~~
 - ~~(j) Transmission Plant Accumulated Deferred Income Taxes based on the average of the sum of the beginning and end of year balances, minus~~
 - ~~(k) Transmission Related General and Common Plant Accumulated Deferred Income Taxes based on the average of the sum of the beginning and end of year balances, minus~~
 - ~~(l) Transmission Related Electric Miscellaneous Intangible Plant Accumulated Deferred Income Taxes based on the average of the sum of the beginning and end of year balances, plus~~
- ~~Other Regulatory Assets/Liabilities, plus~~
- ~~Transmission Related Prepayments based on the weighted average of the sum of the thirteen monthly balances, plus~~
- ~~Transmission Related Materials and Supplies based on the weighted average of the thirteen monthly balances, plus~~

~~Transmission Related Cash Working Capital, plus
Transmission Related Abandoned Project Cost, minus
Transmission Abandoned Plant Accumulated Deferred Income Taxes,
Where:~~

- ~~(1) — Transmission Plant shall be as defined in Section 1.B, Terms.~~
- ~~(2) — Transmission Related General Plant shall be as defined in Section 1.B, Terms.~~
- ~~(3) — Transmission Related Common Plant shall be as defined in Section 1.B, Terms~~
- ~~(4) — Transmission Related Electric Miscellaneous Intangible Plant shall be as defined in Section 1.B, Terms~~
- ~~(5) —~~
- ~~(6) — Transmission Plant Depreciation Reserves shall be as defined in Section 1.B, Terms~~
- ~~(7) — Transmission Related General Plant Depreciation Reserve shall be as defined in Section 1.B, Terms.~~
- ~~(8) — Transmission Related Common Plant Depreciation Reserve shall be as defined in Section 1.B, Terms.~~
- ~~(9) — Transmission Related Electric Miscellaneous Intangible Plant Amortization Reserve shall be as defined in Section 1.B, Terms.~~
- ~~(10) — Transmission Plant Held for Future Use shall be as defined in Section 1.B, Terms.~~
- ~~(11) — Transmission Related Accumulated Deferred Income Taxes shall be as defined in Section 1.B, Terms~~
- ~~(12) — Other Regulatory Assets/Liabilities shall be as defined in Section 1B, Terms.~~
- ~~(13) — Transmission Related Prepayments shall be as defined in Section 1B, Terms~~
- ~~(14) — Transmission Related Materials and Supplies shall be as defined in Section 1.B, Terms.~~
- ~~(15) — Transmission Related Cash Working Capital shall be as defined in Section 1.B, Terms.~~
- ~~(16) — Transmission Related Abandoned Project Cost shall be as defined in Section 1.B, Terms.~~
- ~~(17) — Transmission Related Abandon Project Accumulated Deferred Income Taxes shall be as defined in Section 1.B, Terms.~~

2. — Incentive Transmission Rate Base

~~The Incentive Transmission Rate Base shall be calculated as follows:~~

- ~~a) — Incentive Transmission Plant based on the average of 13-month balances, minus~~

~~b) Incentive Transmission Construction Work in Progress based on the average of 13 month balances, plus~~

~~c) Incentive Transmission Construction Work in Progress based on a 13 month weighted average balance, minus~~

~~d) Incentive Transmission Plant Accumulated Deferred Income Taxes based on the average of the sum of the beginning and end of year balances.~~

Where,

~~1. Incentive Transmission Plant shall be as defined in Section 1.B, Terms.~~

~~2. Incentive Transmission Plant Depreciation Reserves shall be as defined in Section 1.B, Terms.~~

~~3. Incentive Transmission Construction Work in Progress shall be as defined in Section 1.B, Terms.~~

~~4. Incentive Transmission Plant Accumulated Deferred Income Taxes shall be as defined in Section 1.B, Terms.~~

~~3. Cost of Capital Rate~~

~~The Cost of Capital Rate will equal (a) SDG&E's Weighted Cost of Capital, plus (b) Federal Income Tax, plus (c) State Income tax.~~

~~(a) The Weighted Cost of Capital will be calculated based upon end of period capital structure as of December 31 and will be equal to the weighted cost of SDG&E's (i) long term debt, (ii) preferred stock and (iii) common equity with each such cost being weighted by the percentage that each such capital component is to SDG&E's total capital. (Thus, for example, if long term debt represents 40.00% of total capital and has a cost of 10.00 %, the weighted long term debt cost component would be 4.00 %). SDG&E's total capital shall equal the sum of SDG&E's balance of long term debt, preferred stock issued and outstanding, and common stock issued and outstanding. The respective costs of these components will be calculated as follows:~~

~~(i) the long term debt component, shall be the actual weighted average embedded cost to maturity of SDG&E's long term debt then outstanding. The actual weighted average embedded cost to maturity of SDG&E's long term debt shall equal: (1) The sum of (a) FERC Account No. 427 – Interest on Long Term Debt; (b) plus FERC Account No. 428 – Amortization of Debt Discount and Expenses; (c) plus FERC Account No. 428.1 – Amortization of Unamortized Loss on Reacquired Debt; (d) less FERC Account No. 429 – Amortization of Premium on Debt – Credit; and (e) less FERC Account No. 429.1 –~~

~~Amortization of Gain on Recquired Debt—Credit divided by (2) the sum of the following accounts: (a) FERC Account No. 221—Bonds; (b) less FERC Account No. 222—Recquired Bonds; (c) plus FERC Account No. 224—Other Long Term Debt plus (d) FERC Account No. 225—Unamortized Premium on Long Term Debt, less (e) FERC Account No. 226—Unamortized Discount on Long Term Debt.~~

~~(ii) — the preferred stock component, shall be the weighted cost to maturity of SDG&E's preferred stock and shall be computed as the ratio of the total cost recorded in FERC Account No. 437—Dividends Declared—Preferred Stock, to the total Preferred Stock Issued as recorded in FERC Account No. 204.~~

~~(iii) — the Return on Equity component, shall be as follows:~~

~~(a) — Return on Equity shall equal XX.X%;~~

~~(b) — Return on Equity shall be applied to proprietary capital as shown on page 112 of FERC Form 1, less FERC Account No. 204—Preferred Stock Issued, found on line 3 of said page.~~

~~(b) — Federal Income Tax shall equal~~

$$\frac{(A+[(C-B)/D])(FT)}{1-FT}$$

~~where:~~

~~FT is the Federal Income Tax Rate in effect on July 1 of each year;~~

~~A is the sum of the preferred stock component and the Return on Equity component, as determined in Sections II.A.2.a.(ii) and (iii) above;~~

~~B is Transmission Related Amortization of Investment Tax Credits and Transmission Related Amortization of Excess Deferred Tax Liabilities, as determined in Sections I.B.57 and I.B.56 above;~~

~~C is the Equity AFUDC Component of Transmission Depreciation Expense and shall equal the amount of Transmission Depreciation Expense related to the Equity AFUDC Component of Transmission Plant; and~~

~~D is Transmission Rate Base, as determined in Section II.A.1, above.~~

~~(c) — State Income Tax shall equal
$$\frac{A + [(C - B) / D] + \text{Federal Income Tax}}{1 - ST}$$~~

~~where:~~

~~**ST** is the State Income Tax Rate in effect on July 1 of each year;~~

~~**A** is the sum of the preferred stock component and Return on Equity component determined in Sections II.A.2.a.(ii) and (iii) above;~~

~~**B** is the Transmission Related Amortization of Investment Tax Credits and Transmission Related Amortization of Excess Deferred Tax Liabilities, as determined in Section I.B.57 and I.B.56, above;~~

~~**C** is the equity AFUDC Component of Transmission Depreciation Expense and shall equal the amount of Transmission Depreciation Expense related to the Equity AFUDC Component of Transmission Plant; and~~

~~**D** is the Transmission Rate Base, as determined in Section II.A.1, above and Federal Income Tax is the rate determined in Section II.A.2.b above.~~

~~**4. — Incentive Cost of Capital Rate**~~

~~The Incentive Cost of Capital Rate shall be defined the same as the Cost of Capital Rate, except that the Incentive Return on Equity rate shall be as defined in Section 1.B, Terms. In addition, Transmission Rate Base shall be as used in Section II.A. 2.~~

~~**B. — Base Transmission Revenue Requirement**~~

~~Base Transmission Revenue Requirement (“BTRR_{EU}”) for a given Rate Effective Period shall be:~~

~~$$\text{BTRR}_{\text{EU}} = \text{PYRR}_{\text{EU}} + \text{FC}_{\text{EU}} + / - \text{True Up Adjustment} + / - \text{Interest True Up Adjustment}$$~~

~~where:~~

~~$$\text{PYRR}_{\text{EU}} = \text{PYRR}_{\text{EU-NIR (non-incentive revenues)}} + \text{PYRR}_{\text{EU-IR (incentive revenues)}}$$~~

~~and where:~~

~~B.1 — PYRR_{EU-NIR} shall be determined on the basis of transmission cost data recorded in Form 1 and underlying ledger accounts for the prior year and such other costs and information provided in SDG&E’s annual Informational Filing and shall be calculated as follows:~~

~~(A) — Return and Associated Income Taxes, plus~~

~~(B) — Transmission, General, Common and Electric Miscellaneous Intangible Plant Depreciation & Amortization Expense, plus~~

- ~~(C) — Transmission Related Regulatory Debits, minus~~
- ~~(D) — Transmission Related Amortization of Investment Tax Credits, minus~~
- ~~(F) — Transmission Related Amortization of Excess Deferred Tax Liabilities, plus~~
- ~~(G) — Transmission Related Payroll Taxes Expense, plus~~
- ~~(H) — Transmission Related Property Taxes, plus~~
- ~~(I) — Transmission Operation and Maintenance Expense, plus~~
- ~~(J) — Transmission Related A&G Expenses, plus~~
- ~~(K) — Valley Rainbow Project Costs Amortization Expense, plus~~
- ~~(L) — Transmission Related Abandoned Project Cost Amortization Expense, minus~~
- ~~(M) — Transmission Related Revenue Credits, plus~~
- ~~(N) — Transmission Related Municipal Franchise Tax Expense, plus~~
- ~~(O) — Transmission Related Uncollectible Expense, plus~~
- ~~(P) — CPUC Intervenor Funding Expense, plus~~
- ~~(Q) — South Georgia Income Tax Adjustment, plus~~
- ~~(R) — Gains and losses on Transmission Plant Held for Future Use.~~

~~B.2 — PYRR_{EU-IR} for Incentive Transmission Plant shall be determined from records maintained individually for each Incentive Project and shall be calculated as follows:~~

- ~~(A) — Incentive Return and Associated Income Taxes applicable to Incentive Transmission Plant as defined in Section 1.B, Terms, plus~~
- ~~(B) — plus~~
- ~~(C) — Transmission Related Municipal Franchise Expense applicable to Incentive Transmission Plant, plus~~
- ~~(D) — Transmission Related Uncollectible Expense applicable to Incentive Transmission Plant.~~

~~B.3 — Forecast Period Capital Addition Revenue Requirements (“FC_{EU}”) shall be the product of Weighted Forecast Plant Additions and an Annual Fixed Charge Rate (“AFCR”).~~

~~B.3.1 — Forecast Period Capital Addition Revenue Requirements shall be calculated as follows:~~

~~$FC_{EU} = \text{Weighted Forecast Plant Additions excluding Transmission Plant Held for Future Use} \times AFCR_{EU}$~~

~~where:~~

~~AFCR_{EU} shall be the Annual Fixed Charge Rate for purposes of determining the amount of revenue requirements associated with Weighted Forecast Plant Additions to be included in the determination of BTRR_{EU-T}, and is calculated as follows:~~

~~$AFCR_{EU} = PYRR_{EU}$ minus the South Georgia Income Tax Adjustment plus Transmission Related Amortization of Investment Tax Credit, plus Transmission Related Amortization of Excess Deferred Tax Liability, minus Valley Rainbow Project Costs Amortization Expense, plus CPUC Intervenor Funding Expenses, plus (Gains)/Losses from Sale of Plant Held for Future Use, divided by the sum of Transmission Plant, Transmission Related General Plant, Transmission Related Common Plant and Transmission Related Electric Miscellaneous Intangible Plant balances (which said balances, in each instance, shall be calculated in accordance with 18 CFR Section 35.13).~~

~~B.3.1.1 Revenue requirements for Transmission Plant Held for Future Use during the Forecast Period shall be determined by multiplying the Cost of Capital Rate by Forecast Period Transmission Plant Held for Future Use using the same weighting method that is used for determining the revenue requirements for Weighted Forecast Plant Additions. In addition, Transmission Rate Base, as used in II.3.(b) D, shall be changed to weighted Transmission Plant Held for Future Use.~~

~~B.3.2 Forecast Period Capital Addition Incentive Revenue Requirements for Incentive Projects that receive an Incentive Return on Equity shall be calculated as follows:~~

~~$$FC_{EU-IR} = \text{Weighted Forecast Plant Additions} \times AFCR_{EU-IR}$$~~

~~where:~~

~~$AFCR_{EU-IR}$ shall be calculated using the methodology in II.B.3.1 above, using Incentive Transmission Plant as if it were Transmission Plant and substituting the Cost of Capital Rate with the Incentive Cost of Capital Rate.~~

~~B.3.3 Forecast Transmission Incentive CWIP Revenues~~

~~The Forecast Transmission Incentive CWIP Revenues to be included in the derivation of the Retail and Wholesale BTRR shall be calculated by multiplying the Cost of Capital Rate by the 13-month weighted average incremental CWIP balance during the Rate Effective Period. The incremental CWIP balance shall be equal to the difference in the CWIP balance at the end of the month in the Forecast Period just prior to the first month of the Rate Effect Period, less the CWIP balance at the end of the Base Period. This difference shall be added to the monthly CWIP expenditures during the Rate Effective Period until the Incentive Project goes into service. The Cost of Capital Rate shall be equal to that used in the Base Period.~~

~~B.4 True-Up Adjustment shall be calculated in accordance with Section II.D below.~~

~~B.5—Interest True-Up Adjustment shall be calculated in accordance with Section II. E below.~~

~~**C.—CAISO Base Transmission Revenue Requirement**~~

~~C.1—CAISO Base Transmission Revenue Requirement (“ $BTRR_{CAISO}$ ”) for a given Rate Effective Period shall equal:~~

~~$BTRR_{EU}$, plus CPUC Intervenor Funding Expense, minus South Georgia Income Tax Adjustment, minus Transmission Related Amortization of Excess Deferred tax Liabilities.~~

~~C.2— $BTRR_{CAISO}$ shall be further allocated between HV Transmission Facility revenue requirements (“ $BTRR_{CAISO-HV}$ ”) and LV Transmission Facility revenue requirements (“ $BTRR_{CAISO-LV}$ ”) as set forth in Appendix IX:~~

~~**D.—True-Up Adjustment shall be calculated as follows:**~~

~~1.—Derivation of True-Up Adjustment:~~

~~SDG&E will derive the end use customers True-Up Adjustments as follows. Please note that the end use customers True-Up Adjustments is also applicable to $BTRR_{CAISO}$:~~

~~A.—The Derivation of Retail True-Up Adjustment shall be calculated as follows: The sum of monthly revenues recorded during the True-Up Period minus the sum of monthly true-up cost of service (“TUCS”) during the True-Up Period.~~

~~Such True-Up Adjustments shall be calculated for each month of the True-Up Period and adjusted for Interest as described below.~~

~~B.—Derivation of the Retail True-Up Cost of Service applicable to the True-Up Period:~~

~~In order to derive the End Use True-Up Cost of Service (“ $TUCS_{EU}$ ”) for any True-Up Period, SDG&E shall determine its cost of providing transmission service for that True-Up Period using the cost of service methodology described in Sections II.B of this Appendix VIII, and shall distribute that $TUCS_{EU}$ to each month of the True-Up Period by stating its True-Up Cost of Service on an average annual rate and multiplying said annual average rate times the actual recorded monthly determinants for each month of the True-Up Period, as more fully described below. Pursuant to the methodology set forth in Appendix IX, SDG&E shall compute the following to derive the $TUCS_{EU}$:~~

~~a.—The $TUCS_{EU}$ for each month of the True-Up Period for each class of service specified in Appendix IX of SDG&E’s Transmission Owner Tariff shall be calculated by dividing the $TUCS_{EU}$ for the True-Up Period by the annual billing determinants for that customer class and multiplying the resulting amount by the recorded monthly billing determinants for that customer class for that month.~~

~~2.—Derivation of End Use True-Up Revenues during the True-Up Period:~~

~~SDG&E shall determine for each month of the True-Up Period the following;~~

~~a. True-Up Revenues for the End Use Customers (“TUR_{EU}”) shall equal the total End Use Base Transmission Revenue Requirement revenues SDG&E recorded for each month of the True-Up Period as received from End Use Customers. Such Base Transmission Revenue Requirements shall exclude for the rate effective period recorded True-Up Adjustment revenues and interest true-up adjustment revenues that are embedded in recorded revenues. To the extent the True-Up Adjustment and the Interest True-Up Adjustment balances are not fully amortized at the end of the Rate Effective Period, SDG&E will zero-out such balances in the month of the Rate Effective Period.~~

~~3. Derivation of Interest Related to Over and Under Recovery of Costs:~~

~~For each month of the True-Up Period, for any over or under recovery of its costs as determined by comparing TUCS and TUR, SDG&E shall calculate an applicable amount of Interest pursuant to 18 CFR Section 35.19a.~~

~~**E. Interest True-Up Adjustment Calculation**~~

~~a. The Interest True-Up adjustment for any formula cycle filing shall be calculated for the current cycle True-Up Period in two parts. First, for the current cycle filing, SDG&E shall take the previous cycle True-Up Adjustment overcollection (undercollection) balance and calculate the interest that accrues on this balance for the first 12 months of the current True-Up Adjustment Period (January 1 through December 31). SDG&E shall calculate the interest amount pursuant to 18 CFR Section 35.19, by compounding the related interest on a quarterly basis.~~

~~b. Second, interest shall be calculated monthly on the unamortized overcollection (undercollection) balance of the sum of the interest that occurred in the first 12 months as calculated in (a) above December. The monthly amount by which the balance decreases will be calculated by multiplying an amortization rate per kWh times each month's retail sales in kWhs. The amortization rate per kWh will be calculated by taking the beginning overcollection/(undercollection) balance as of the start of the rate effective period and dividing it by the kWhs in the current Rate Effective Period.~~

~~c. The interest in parts (a) and (b) above for an overcollection (undercollection) balance shall be summed and credited to the current cycle formula True-Up Adjustment. In the event interest is determined on an undercollection balance in part (a) and (b) above, such interest shall be added to the current cycle True-Up Adjustment.~~

~~d. The unamortized Interest True-Up Adjustment balance from the current Interest True-Up Adjustment (balance as of December 31) will be carried forward to the following~~

~~cyclic filing and used as the beginning monthly unamortized balance beginning the first month of the True-Up Adjustment Process (January). This unamortized balance shall be amortized over the remaining months of the current cycle Rate Effective Period months (January through December). Monthly interest on the unamortized balance for these months will then be calculated. This interest will then be added to the interest calculated as part of the following cycle's True-Up Adjustment.~~

~~In the following cycle filing, the process described in items (a) through (c) shall be repeated including the calculation of interest described in item (d) above. Note should be made that in the following cyclic filing's Interest True-Up Adjustment process the interest calculations described in items (c) and (d) will overlap for the first five months of the Interest True-Up calculation process (April through August).~~