

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

San Diego Gas & Electric Company

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Docket No. ER25-270-000

**EXPLANATORY STATEMENT IN SUPPORT OF  
OFFER OF SETTLEMENT AND STIPULATION**

Pursuant to Rule 602 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. § 385.602 (2025), San Diego Gas & Electric Company (“SDG&E”) respectfully submits this Explanatory Statement describing the contents of the accompanying Offer of Settlement and Stipulation (“Settlement”). The Settlement was negotiated among the active parties<sup>1</sup> in the docket identified above and is intended to resolve:

- (1) All of the issues set for hearing in SDG&E’s Sixth Transmission Owner (“TO6”) Formula Rate case (San Diego Gas & Electric Company, Docket No. ER25-270-000) (“TO6 Rate Case”);
- (2) Input issues into the first filing of SDG&E’s populated TO6 Formula Rate (“TO6 Cycle 1”) that are described in Section V below; and
- (3) Input issues into SDG&E’s TO5 Cycle 6 annual informational filing (“TO5, Cycle 6”) in docket number ER24-524-000 that are described in Section VI below.

All Settling Parties support or do not oppose the Settlement. SDG&E provided notice and a copy of the Settlement to all persons on the official service lists in each of

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<sup>1</sup> These parties (with SDG&E, collectively “Settling Parties” and individually a “Settling Party”) are the California Department of Water Resources State Water Project (“DWR”); the California Public Utilities Commission (“CPUC”); the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (“Six Cities”); and the Northern California Power Agency (“NCPA”).

the proceedings identified above for review and for parties or persons to raise any objections.

## I. PROCEDURAL HISTORY

On October 30, 2024, SDG&E filed its TO6 Rate Case to revise its Transmission Owner (“TO”) Formula Rate, including the Protocols and Formula Rate Spreadsheet (“TO6 Formula”) for the costs associated with its transmission facilities. SDG&E also filed proposed 2025 base Transmission Revenue Requirements (“BTRRs”) and associated retail and wholesale transmission rates based on the Formula Rate.

Timely motions to intervene and protests were filed by TANC; NCPA; DWR; the Six Cities; and the CPUC. On December 5, 2024, SDG&E filed an answer. NCPA, DWR and Six Cities filed answers to SDG&E’s answer.

On December 31, 2024, the Commission issued an order rejecting in part and accepting and suspending in part SDG&E’s proposed TO6 Formula, and establishing hearing and settlement judge procedures. The Commission granted summary disposition rejecting SDG&E’s request for the 50-basis point ROE Adder for SDG&E’s California Independent System Operator membership (“CAISO Adder”) and set for settlement judge and hearing procedures all the remaining issues.<sup>2</sup>

On January 7, 2025, Deputy Chief Administrative Law Judge Renee Terry issued an order designating Judge Joel deJesus as the Settlement Judge.<sup>3</sup> On February 6, 2025,

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<sup>2</sup> *S.D. Gas & Elec. Co.*, 189 FERC ¶ 61,248 (2024) (TO6 Order), *reh’g denied*, 192 FERC ¶ 61,015 (2025). These orders remain pending on appeal regarding the Commission’s grant of summary disposition. *S.D. Gas & Elec. Co. v. FERC*, No. 25-1980 (9th Cir. filed Mar. 26, 2025); *S.D. Gas & Elec. Co. v. FERC*, No. 25-5064 (9th Cir. filed Aug. 11, 2025) (“CAISO Adder Appeals”). These case numbers include appeals of *Cal. Pub. Util. Comm’n v. S.D. Gas & Elec. Co.*, 189 FERC ¶ 61,173 (2024), *reh’g denied*, 192 FERC ¶ 61,010 (2025). The four orders on appeal are referred to collectively as the “CAISO Adder Orders.” In the CAISO Adder Orders, the Commission refers to the CAISO Adder as the “RTO Adder.” Since the term “CAISO Adder” is used in the Settlement, this Explanatory Statement will refer to the CAISO Adder.

<sup>3</sup> *Order of Chief Judge Designating Settlement Judge*, Docket ER24-96-000, issued January 7, 2025.

Judge deJesus and the parties conducted the first settlement conference. Subsequent settlement conferences were held on: April 2, May 22, July 30-31, September 30-October 1, October 17, November 12, 2025, and January 28, 2026. Judge deJesus issued status reports regarding settlement on February 6, April 7, June 6, August 6, October 6, December 5, 2025, and February 3, 2026. In the December 5, 2025 status report, Judge deJesus announced that during the settlement conference on November 12, 2025, the parties reached an agreement in principle. In the February 3, 2026 status report, Judge deJesus reiterated that the parties reached an agreement in principle in the November 12, 2025 settlement conference, and that the parties were continuing to reduce their agreement in principle to a formal settlement filing.

## **II. SUMMARY OF SETTLEMENT TERMS**

The following is a summary of the terms of the Settlement. This description is provided for the convenience of the Commission in reviewing the Settlement and is not intended to alter the terms of the Settlement in any way. The Settlement also includes Attachments A-M

### **A. Article I – Effective Date**

Article I provides that the Effective Date for the Settlement will be the date upon which an order of the Commission or a court of competent jurisdiction approving the Settlement becomes final and non-appealable. If the Commission and/or a court directs modifications to the Settlement, the Effective Date occurs after the Settling Parties have agreed to modifications to the Settlement.<sup>4</sup> Once the Settlement becomes effective, BTRRs resulting from the Settlement shall be effective as of June 1, 2025, the date the TO6 Formula rate went into effect.<sup>5</sup>

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<sup>4</sup> Settlement, § 1.1.

<sup>5</sup> Settlement, § 1.2.

**B. Article II - Scope**

Article II describes the scope of the Settlement, which includes: (1) resolution of all issues set for hearing and settlement judge procedures in the TO6 Rate Case; (2) resolution of all issues identified in SDG&E's TO6 Cycle 1 annual update; and (3) resolution of all issues identified regarding SDG&E's TO5 Cycle 6 annual update.

**C. Article III – Protocols**

Article III describes revisions to the Protocols filed in the TO6 Rate Case.<sup>6</sup> These revisions, which are reflected Protocols included as Attachment C to the Settlement, include: (1) a revised timeline for the annual update process;<sup>7</sup> (2) specified workpapers that SDG&E will provide with each draft annual update;<sup>8</sup> (3) the right for Parties, upon request, to conduct a limited sample audit of SDG&E's cost of removal and salvage accounting practices;<sup>9</sup> and (4) that SDG&E will make a good faith effort to respond to information requests in writing within 10 business days for any information request submitted before November 8.<sup>10</sup>

In addition, Article III provides that: (5) SDG&E will provide an updated forecasted transmission-related capital additions forecast within 60-days of SDG&E's annual cycle filing update;<sup>11</sup> (6) SDG&E may make single-issue filings for wildfire self-insurance and/or for a change in retail rates under specified conditions;<sup>12</sup> (7) a re-definition of FERC-jurisdictional revenue requirement that SDG&E bills directly to

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<sup>6</sup> Settlement, § 3.1. Several additional TO6 Protocol revisions are described in Articles IV and V.

<sup>7</sup> Settlement, § 3.3.1.

<sup>8</sup> Settlement, § 3.3.2.

<sup>9</sup> Settlement, § 3.3.3.

<sup>10</sup> Settlement, § 3.3.4.

<sup>11</sup> Settlement, § 3.3.5

<sup>12</sup> Settlement, § 3.4.

customers (a/k/a BTRR<sub>EU</sub>) (as opposed to the CAISO Transmission Access Charge a/k/a BTRR<sub>CAISO</sub>) from “retail transmission revenue” to “Non-CAISO Transmission Revenue;”<sup>13</sup> and (8) a provision for how SDG&E will calculate a final true-up adjustment upon termination of the TO6 Formula.<sup>14</sup>

Finally, Article III addresses the term of the TO6 Formula. Beginning in 2027, SDG&E or Interested Parties can provide written notice by March 31st of that year requesting that SDG&E terminate the TO6 Formula and file a successor rate pursuant to Section 205 of the Federal Power Act by October 31st of that same year. The filing would request an effective date of January 1st of the upcoming year. The earliest possible effective date for a successor rate is January 1, 2028, unless all Parties agree in writing to an earlier effective date.<sup>15</sup>

#### **D. Article IV – Formula Rate Spreadsheet**

Article IV describes revisions to the Formula Rate Spreadsheet filed in the TO6 Rate Case (“As-Filed Spreadsheet”).<sup>16</sup> These revisions, which are reflected in the Formula Rate Spreadsheet included as Attachment E to the Settlement, provide that SDG&E will: (1) apply a Base Return on Equity (“ROE”) of 10.28%;<sup>17</sup> (2) apply a fixed capital structure of 54.0% common equity and 46.0% long-term debt;<sup>18</sup> (3) calculate its unfunded reserves on a five-quarter average basis;<sup>19</sup> (4) continue to use the Common

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<sup>13</sup> Settlement, § 3.5.

<sup>14</sup> Settlement, § 3.6.

<sup>15</sup> Settlement, §§ 3.2.1-3.2.2.

<sup>16</sup> Settlement, § 4.1.

<sup>17</sup> Settlement, § 4.2.1.

<sup>18</sup> Settlement, § 4.3.

<sup>19</sup> Settlement, § 4.4.1.

Allocation factor first to determine the electric versus gas split;<sup>20</sup> (5) allocate prepayments to rate base with the “Transmission Wages and Salaries Allocation Factor;”<sup>21</sup> and (6) apply the same allocator to allocate a rate base-related item that SDG&E applies to the associated expense unless another factor was agreed upon.<sup>22</sup>

Article IV further provides that SDG&E will: (7) apply a three-year rolling average utilization factor as the basis to allocate materials and supplies;<sup>23</sup> (8) allocate cash working capital to rate base at zero percent;<sup>24</sup> (8) exclude credit facilities fees from transmission rates;<sup>25</sup> (9) use 40% of the percentage of O&M and A&G in the Annual Fixed Charge Rate to approximate the O&M and A&G expenses associated with projected capital additions during the Rate Year;<sup>26</sup> (10) for each cycle, remove three million dollars (\$3 million) from  $BTRR_{EU}$  (which, by operation of the Formula Rate Spreadsheet, will also reduce  $BTRR_{CAISO}$  by \$3 million);<sup>27</sup> (11) apply revised depreciation rates and a composite depreciation rate of 2.877%;<sup>28</sup> and (12) add rows containing the depreciation rates for new Order No. 898 Accounts, with SDG&E adjusting the December 2024 amounts in the pre-existing accounts by reducing those accounts and moving the dollars to the new accounts for December 2024 balances for the first year those accounts are in effect.<sup>29</sup>

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<sup>20</sup> Settlement, § 4.4.2.

<sup>21</sup> Settlement, § 4.5.1.

<sup>22</sup> Settlement, § 4.6.

<sup>23</sup> Settlement, § 4.7.

<sup>24</sup> Settlement, § 4.8.

<sup>25</sup> Settlement, § 4.9.

<sup>26</sup> Settlement, § 4.10.

<sup>27</sup> Settlement, § 4.11.

<sup>28</sup> Settlement, § 4.12.1.

<sup>29</sup> Settlement, §§ 4.12.2-4.12.3.

Moreover, SDG&E will: (13) remove certain lines from Statement AH;<sup>30</sup> (14) remove costs related to SDG&E’s incentive compensation plans for employees who are not Securities and Exchange Commission (“SEC”) Rule 3b-7 officers, and exclude all officer compensation and benefits for SEC Rule 3b-7 officers;<sup>31</sup> (15) use an 80/20 Transmission Wages and Salaries Allocation Factor/Transmission Plant Allocation Factor ratio to allocate Injuries and Damages and incorporate a Transmission Expense Allocator to exclude from recovery the costs associated with transmission facilities reclassified to non-transmission functions;<sup>32</sup> (16) use a monthly average of both the cost of service and revenues for the true-up process;<sup>33</sup> (17) add placeholders for Accounts 187 and 256 on Statement Misc. to be added or subtracted to rate base for Plant Held for Future Use;<sup>34</sup> and (17) remove all gas-only expenses allocated to SDG&E from Southern California Gas Company or Sempra.<sup>35</sup>

Finally, Article IV provides that SDG&E will set the CAISO Adder input in the Formula Rate Spreadsheet at zero. The Offer of Settlement does not purport to modify or address the CAISO Adder Orders, nor moot SDG&E’s pending CAISO Adder Appeals. Instead, all Settling Parties reserve their rights as to SDG&E’s CAISO Adder Appeals and any judicial or FERC proceedings thereafter.<sup>36</sup>

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<sup>30</sup> Settlement, § 4.13.

<sup>31</sup> Settlement, §§ 4.14.1-4.14.2.

<sup>32</sup> Settlement, §§ 4.15.1-4.15.2.

<sup>33</sup> Settlement, § 4.16.

<sup>34</sup> Settlement, § 4.17.

<sup>35</sup> Settlement, § 4.18.

<sup>36</sup> Settlement, §§ 4.2.3. *S.D. Gas & Elec. Co.*, 189 FERC ¶ 61,248 (2024), *reh’g denied*, 192 FERC ¶ 61,015 (2025); *Cal. Pub. Util. Comm’n v. S.D. Gas & Elec. Co.*, 189 FERC ¶ 61,173 (2024), *reh’g denied*, 192 FERC ¶ 61,010 (2025), *appeals filed in S.D. Gas & Elec. Co. v. FERC*, No. 25-1980 (9th Cir. filed Mar. 26, 2025); *S.D. Gas & Elec. Co. v. FERC*, No. 25-5064 (9th Cir. filed Aug. 11, 2025).

**E. Article V – TO6 Cycle 1 Annual Update**

Article V resolves issues identified in SDG&E’s TO6 Cycle 1 Annual Update. Specifically, SDG&E will: (1) exclude the expenses associated with reclassified Generator Step-Up and Interconnection Facilities in TO6 Cycle 1;<sup>37</sup> (2) remove gas-only costs from SDG&E’s TO6 Cycle 1 Formula Rate Spreadsheet;<sup>38</sup> and (3) make a revenue credit correction of approximately \$50,000 from Statement AU.<sup>39</sup>

**F. Article VI – TO5 Cycle 6 Annual Update**

Article VI resolves issues identified in SDG&E’s TO5 Cycle 6 Annual Update. Specifically, SDG&E will: (1) remove gas-only costs from SDG&E’s TO5 Cycle 6 Formula Rate Spreadsheet;<sup>40</sup> and (2) remove \$1,538,798.25 from transmission O&M costs and instead include that amount as a cost adjustment in the “Other BTRR<sub>EU</sub> Adjustments” line on Statement BK-1 with interest, in accordance with the TO5 Protocols.<sup>41</sup>

**G. Article VII – General Settlement Terms**

Article VII provides general settlement terms including that: (1) the Settlement shall not be deemed in any respect to constitute an admission by any Settling Party that any allegation or contention made by any Settling Party is true or valid;<sup>42</sup> (2) the Settlement is not precedential;<sup>43</sup> (3) the applicable standard of review;<sup>44</sup> (4) the

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<sup>37</sup> Settlement, § 5.1.

<sup>38</sup> Settlement, § 5.2.

<sup>39</sup> Settlement, § 5.3.

<sup>40</sup> Settlement, § 6.1.

<sup>41</sup> Settlement, § 6.2.

<sup>42</sup> Settlement, § 7.1.

<sup>43</sup> Settlement, § 7.2.

<sup>44</sup> Settlement, § 7.3.

applicability of settlement rules;<sup>45</sup> (5) nullification if the Settlement is rejected by the Commission or a court;<sup>46</sup> and (6) the procedure for addressing modifications proposed by the Commission or a court.<sup>47</sup>

### **III. THE TERMS OF THE SETTLEMENT ARE FAIR, REASONABLE, AND IN THE PUBLIC INTEREST**

The Commission will approve an uncontested settlement when the settlement “appears to be fair and reasonable and in the public interest.”<sup>48</sup> The Settlement proposed here readily satisfies the Commission’s standard. The Settlement is the result of extensive negotiations between the parties and resolves all issues set for hearing in the TO6 Rate Case. By resolving all of the issues set for hearing in the TO6 Rate Case, the Settling Parties and the Commission will avoid lengthy, protracted, and costly litigation. The Settling Parties were also able to resolve all contested issues regarding SDG&E’s TO6 Cycle 1 and SDG&E’s TO5 Cycle 6 annual updates. And the Settlement will benefit customers and the public interest by establishing processes for SDG&E to provide additional information regarding capital and expense costs included in the TO6 Formula, reducing rates as compared to the as-filed TO6 Formula, and other benefits.

### **IV. INFORMATION TO BE PROVIDED WITH SETTLEMENT AGREEMENT**

Pursuant to the *Amended Notice to the Public on Information to be provided with Settlement Agreements and Guidance on the Role of Settlement Judges* issued December 15, 2016, below are the answers to the four questions required to be answered in the Explanatory Statement accompanying a settlement agreement.

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<sup>45</sup> Settlement, § 7.4.

<sup>46</sup> Settlement, § 7.5.

<sup>47</sup> Settlement, § 7.6.

<sup>48</sup> 18 CFR § 385.602(g)(3) (2025).

**Does the settlement affect other pending cases?**

Other than certain elements of the TO6 Cycle 1 and TO5 Cycle 6 Annual Updates described above and the TO6 Rate Case, the Settlement does not affect any other pending case. As noted, the Settlement does not affect or resolve the pending CAISO Adder Appeals.

**Does the settlement involve issues of first impression?**

The Settlement does not involve issues of first impression.

**Does the settlement depart from Commission precedent [if so, identify by case name(s) and docket number(s)]?**

The Settlement does not depart from Commission precedent.

**Does the settlement seek to impose a standard of review other than the ordinary just and reasonable standard with respect to any changes to the settlement that might be sought by either a third party or the Commission acting *sua sponte*?**

The Settling Parties request that the standard of review for any modifications to the Settlement proposed by any non-party to the Settlement, after it is approved by the Commission, and/or modifications resulting from the Commission acting *sua sponte*, will be the just and reasonable standard.<sup>49</sup>

**V. CONCLUSION**

For the foregoing reasons, the Settling Parties respectfully request that the Commission approve the Settlement without modification.

Respectfully submitted,

SAN DIEGO GAS & ELECTRIC COMPANY

By: /s/ Ross R. Fulton

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<sup>49</sup> Settlement, § 7.3.

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