Application: A.25-12-XXX
Exhibit No.: SDGE-05
Witness: Lauren Saket

PREPARED DIRECT TESTIMONY OF

LAUREN SAKET

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

CHAPTER 5 – TAX

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

DECEMBER 16, 2025

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I. INTRODUCTION

The purpose of my direct testimony is to discuss the tax credits for which the Palomar Decarbonization Demonstration Project ("Project") located at the Palomar Energy Center ("PEC") qualified for in 2023. In 2022, the Inflation Reduction Act ("IRA") was enacted into law and included significant law changes in the energy space, with a focus on clean energy investments.[1] Discussed in more detail below, in 2023 the Project qualified for $3,876,319 in tax credits, which included a solar tax credit in the amount of $487,709, an energy storage tax credit in the amount of $1,248,318, and a hydrogen tax credit in the amount of $2,140,292.

II. FEDERAL TAX CREDITS APPLIED

A. Solar Investment Tax Credit

Under Internal Revenue Code ("IRC") Section (§) 48, which was amended by the IRA, a solar investment tax credit ("ITC") is available for certain solar energy property.[2] Solar energy property is defined as equipment which uses solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight, or electrochromic glass which uses electricity to change its light transmittance properties in order to heat or cool a structure.[3] The credit is calculated as the "energy percentage" of the basis of energy property placed in service during the taxable year.[4] The energy percentage is generally 6% for solar energy property provided that construction begins before January 1, 2025.[5]

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1 Inflation Reduction Act of 2022, Pub. L. No. 117-169, 136 Stat. 1818 (August 16, 2022).

2 IRC§ 48(a)(3).

3 IRC § 48(a)(3)(A)(i).

4 IRC § 48(a)(2)(A).

5 *Id.* at 48(a)(3)(A)(i).

The IRA also enacted provisions which, if satisfied, can increase an ITC depending on the facts of the project.[6] As relevant here, and for example, if a project has a maximum net output of less than 1 megawatt ("MW") of electrical energy, or construction began before January 29, 2023, the amount of the credit will be multiplied by five.[7]

The Project met the ITC requirements, has a maximum net output of less than 1 MW, and construction began before January 29, 2023. This resulted in a 30% solar ITC amount of $487,709, which was taken in 2023, the year the Project was placed in service.

B. Energy Storage Investment Tax Credit

The IRA also created an energy storage ITC.[8] To qualify for an energy storage ITC, the energy property must receive, store, and deliver energy for conversion to electricity (or, in the case of hydrogen, which stores energy), and has a nameplate capacity of not less than 5 kilowatt hours.[9] The energy storage ITC is also calculated based on an energy percentage of the basis of energy property placed in service during the taxable year, and the energy percentage is also 6%.[10] The provision of the IRA which allows an increase to an ITC if construction begins before January 29, 2023, mentioned above, also applies to the energy storage ITC.[11]

The Project met the ITC requirements and began construction before January 29, 2023. This resulted in a 30% energy storage ITC amount of $1,248,318, which was taken in 2023, the year the Project was placed in service.

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6 IRC § 48(a)(9).

7 *Id*.

8 IRC § 48(a)(2)(A)(i)(VI).

9 IRC § 48(c)(6).

10 IRC § 48(a)(2)(A).

11 IRC § 48(a)(9).

C. Hydrogen Production Facility Investment Tax Credit

The IRA also created a new hydrogen production ITC election.[12] Under IRC § 48(a)(15), a taxpayer can elect to treat a specified clean hydrogen production facility, as defined under IRC § 45(V)(c)(3), as energy property and take an ITC instead of a clean hydrogen production tax credit ("PTC") as defined in IRC § 45. If this election is made, the hydrogen production ITC is also calculated by utilizing an energy percentage.[13]

If a taxpayer elects to take a hydrogen ITC, the taxpayer cannot take an IRC § 45V, clean hydrogen PTC, or IRC § 45Q, carbon oxide sequestration credit, with respect to any specified clean hydrogen production facility or any carbon capture equipment included at such facility for any taxable year.[14] For purposes of the hydrogen ITC, a specified clean hydrogen production facility means any qualified clean hydrogen facility, as defined in IRC § 45V(c)(3),[15] which is placed in service after December 31, 2022, for which no IRC §§45V or 45Q credits have been taken, for which the taxpayer makes an irrevocable election to take a hydrogen production ITC, and for which the taxpayer obtains a third party verification report that states the facility produces hydrogen through a process which results in lifecycle greenhouse gas emissions which are consistent with the hydrogen that such facility was designed and expected to produce.[16]

The provision of the IRA which allows an increase to an ITC if construction begins before January 29, 2023, mentioned above, also applies to the hydrogen production ITC.[17]

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[12] IRC § 48(a)(15).

[13] IRC § 48(a)(15)(A)(ii).

[14] IRC § 48(a)(15)(B).

[15] The phrase "qualified clean hydrogen production facility" means a facility owned by the taxpayer, which produces clean hydrogen, and construction begins before January 1, 2033.

[16] IRC § 48(a)(15)(C).

[17] IRC § 48(a)(9).

The Project met the ITC requirements outlined above and began construction before January 29, 2023. This resulted in a 30% hydrogen production ITC amount of $2,140,292 which was taken in 2023, the year the Project was placed in service.

1. Hydrogen Production ITC Third-Party Verification

As stated above, in the case of a taxpayer that makes an election to treat a specified clean hydrogen production facility as energy property and take an ITC instead of a clean hydrogen PTC, the taxpayer must obtain an annual verification report for the taxable year in which the election is made for the facility and for each taxable year thereafter for the next five years.[18] The taxpayer must also submit the annual verification report as an attachment to Form 3468 for the taxable year in which the election is made.[19] The annual verification must be signed under penalty of perjury by a qualified verifier[20] and attest that the lifecycle greenhouse gas ("GHG") emissions rate of the hydrogen produced by the facility is consistent with the rate the facility was designed and expected to produce.[21] The verification report must be obtained by the deadline (including extensions) for filing the taxpayer's Federal income tax return for the relevant taxable year.[22]

San Diego Gas & Electric ("SDG&E") contracted with an accredited third-party verifier for the Project and has received a "Positive" statement each year it has been verified, confirming that the statutory and regulatory requirements for third-party verification have been satisfied. See Workpaper 1 (WP-2) (SDGE-02, Att. A) for costs associated with the verification.

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[18] 26 Code of Federal Regulations ("CFR") § 1.48-15(e)(1).

[19] *Id.*

[20] As defined 26 CFR § 1.45V-5(b).

[21] 26 CFR § 1.48-15(e)(2).

[22] *Id.*

III. NORMALIZATION

A. General Rule

Normalization refers to the ratemaking treatment of income tax effects arising from timing differences between book and tax accounting. It ensures that utilities recover tax costs over time in a way that aligns with regulatory principles and avoids rate volatility.

For example, if SDG&E qualifies for an ITC in the amount of $3 million, the normalization rules require the utility to amortize the $3 million ITC over the life of the asset, as opposed to reducing its tax expense immediately by the full amount of the ITC.

B. Normalization Violation

If a utility fails to apply normalization properly (e.g., does not defer taxes as required), it may be disallowed from recovering certain tax benefits through rates. This includes accelerated depreciation benefits, income tax deductions, and tax credits.

C. Palomar Facility Normalization

The Project's solar ITC and hydrogen production ITC are required to, and did, follow the general normalization rules.

However, the IRA created an election for regulated utilities to opt out of the normalization requirements with respect to energy storage ITCs.[23] This election was made for the Palomar Facility's energy storage ITC on Sempra's 2023 Federal Tax Return.

IV. CONCLUSION AND SUMMARY

In conclusion, the Project qualified for three ITCs in 2023 – solar, energy storage, and hydrogen production. The three ITCs totaled approximately $3.9 million, which was included on Sempra's 2023 Federal tax return.

[23] IRC § 50(d)2.

This concludes my prepared direct testimony.

V. WITNESS QUALIFICATIONS

My name is Lauren Saket, and my business address is 488 8th Ave., San Diego, CA 92101. I am a Tax Counsel for Sempra, SDG&E's parent company. I have been employed by Sempra for over three years. I manage tax controversy at Sempra and its family of companies, including SDG&E. I also assist in advising on the implications of Federal and state tax law, including tax compliance issues, tax audit issues and strategies, and regulatory tax issues.

Prior to joining Sempra in 2022, I worked as a tax attorney for nearly five years at KPMG, in the San Diego office, where I specialized in accounting methods and credit services.

I received a Bachelor of Science in Management Science from the University of California, San Diego, and Juris Doctorate and a Master of Law in Taxation from the University of San Diego School of Law. I am licensed to practice law in California.

I have previously testified before the Commission.