

Application: A.25-12-XXX

Exhibit No.: SDGE-03

Witness: Michael R. Woodruff

**PREPARED DIRECT TESTIMONY OF  
MICHAEL R. WOODRUFF  
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY  
CHAPTER 3 – REVENUE REQUIREMENT**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



**December 16, 2025**

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1      **I. PURPOSE AND SUMMARY**

2      The purpose of this prepared direct testimony on behalf of San Diego Gas & Electric  
3      Company (“SDG&E”) is to present the revenue requirement associated with the Palomar  
4      Decarbonization Demonstration Project (“Project”). The forecasted revenue requirement for the  
5      Project is \$31.1 million. Since this proposal includes costs above and beyond those authorized  
6      by the California Public Utilities Commission (“Commission” or “CPUC”) in SDG&E’s most  
7      recent General Rate Case (“GRC”), all costs associated with the Project are incremental, and  
8      therefore, are additive to any currently authorized levels of revenue requirement. The  
9      methodology to determine a revenue requirement involves several steps and considerations as  
10     outlined below.

11     **II. CAPITAL AND OPERATIONS AND MAINTENANCE COSTS**

12     **A. Direct Capital and O&M**

13     Table 1 below summarizes the total amount of direct capital and operations and  
14     maintenance (“O&M”) costs for the Project described in the direct testimony of P. Kabir,  
15     Chapter 2.<sup>1</sup>

16     **Table 1: Direct Capital and O&M**  
17     *(In Millions, includes escalation, overheads, AFUDC, and capitalized property tax)*

	2021	2022	2023	2024	2025-2036	Total
<b>Capital</b>	\$1.2	\$6.2	\$9.2	\$0.7	\$0.1	\$17.4
<b>O&amp;M</b>	\$0.0	\$0.0	\$0.0	\$0.2	\$2.4	\$2.6
<b>Total Request</b>	<b>\$1.2</b>	<b>\$6.2</b>	<b>\$9.2</b>	<b>\$0.9</b>	<b>\$2.5</b>	<b>\$20.0</b>

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1     Prepared Direct Testimony of Pooyan Kabir at Tables 3-4.

**B. Allocated Overhead Costs and Allowance for Funds Used During Construction (“AFUDC”)**

First, the incremental capital and O&M costs and benefits are adjusted to include overhead allocations consistent with their classification as company labor, contract labor, or purchased services and materials. Overhead allocations are those activities and services that are associated with direct costs, such as payroll taxes and pension and benefits, or costs that cannot be economically direct-charged, such as administrative and general overheads. The overhead allocations adhere to the methodology established by the Federal Energy Regulatory Commission (“FERC”)<sup>2</sup> and were derived using the same methodology prior General Rate Case (“GRC”) filings (*i.e.*, SDG&E’s 2024 GRC and prior filings). The CPUC determined that SDG&E’s proposed methodology for overhead allocations was reasonable in its 2019 and 2024 GRC Decisions,<sup>3</sup> therefore SDG&E’s overhead allocation process is consistent with a Commission-approved methodology.

Next, beginning in 2026, the fully loaded incremental O&M cost projections are escalated for inflation to reflect nominal values in future periods. For this application SDG&E applied the indices published in S&P Global Insight's 2nd Quarter 2025 Utility Cost Forecast. Capital and O&M from 2021 through 2025 are historical actual costs and are, therefore, already stated in nominal dollars for their respective years.

Table 2 below summarizes the total amount of fully loaded and escalated capital, including AFUDC and capitalized property tax, and O&M costs for the Project.

<sup>2</sup> FERC guidelines reference The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts (issued July 31, 1995), available at [https://files.fasab.gov/pdffiles/handbook\\_sffas\\_4.pdf](https://files.fasab.gov/pdffiles/handbook_sffas_4.pdf).

<sup>3</sup> Decision (“D.”) 24-12-074 at Conclusions of Law 275 at 1080; D.19-09-051 at 607.

**Table 2: Total Loaded Capital and O&M**  
*(In Millions, includes escalation, overheads, AFUDC, and capitalized property tax)*

	2021	2022	2023	2024	2025-2036	Total
<b>Capital</b>	\$1.2	\$6.9	\$10.4	\$0.7	<b>\$0.1</b>	<b>\$19.3</b>
<b>O&amp;M</b>	\$0.0	\$0.0	\$0.0	\$0.2	<b>\$2.6</b>	<b>\$2.8</b>
<b>Total Request</b>	<b>\$1.2</b>	<b>\$6.9</b>	<b>\$10.4</b>	<b>\$0.9</b>	<b>\$2.7</b>	<b>\$22.1</b>

### III. REVENUE REQUIREMENT

The revenue requirement is then calculated, which consists of the total O&M and capital-related costs derived from the costs described above, as well as SDG&E's return on investment, federal and state income taxes, property taxes, working cash, and franchise fees and uncollectibles ("FF&U"). The sections below cover these components in greater detail.

## A. O&M Expenses

The loaded and escalated O&M expenses shown in Table 2 above are included as a component of the total revenue requirement.

## B. Working Cash

Working cash is “a component of rate base that compensates investors for providing funds committed to operating expenses in advance of receiving associated revenues from the utility’s customers.”<sup>4</sup> It is included as a component of the total revenue requirement.

### C. Rate Base (Return of Capital)

Rate base is defined as “the net investment of property, plant, equipment, and other assets that SDG&E has acquired or constructed to provide utility services to its customers.”<sup>5</sup> The annual revenue requirement amount associated with the return of capital is equal to the amount

<sup>4</sup> D.24-12-074 at 827 (citation omitted).

<sup>5</sup> *Id.* at 803.

1 of capital that is depreciated each year. SDG&E will depreciate the assets over the remaining  
2 useful life of the Palomar Energy Center, which is set to fully depreciate by the end of 2036. The  
3 useful lives are subject to revision in a future general rate case.

4 **D. SDG&E's Authorized Capital Structure and Rate of Return ("ROR")**

5 SDG&E's authorized capital structure is comprised of common equity, long-term debt,  
6 and preferred stock. The Cost of Capital proceeding is the regulatory forum that establishes  
7 SDG&E's capital structure and its authorized costs of financing. SDG&E's current authorized  
8 rate of return based on its weighted capital structure is 7.45 percent.<sup>6</sup> As this project includes  
9 capital deployed in prior periods, the authorized rate of return in place for each period was used;  
10 2021-2022, 7.55 percent,<sup>7</sup> 2023, 7.18 percent,<sup>8</sup> 2024, 7.67 percent<sup>9</sup> and 2025 forward 7.45  
11 percent. SDG&E's weighted average rate of return is multiplied by rate base to determine the  
12 amount of funds required for the revenue requirement.

13 **E. Income Tax, Property Tax, and FF&U**

14 The revenue requirement includes costs related to the payment of income taxes, property  
15 taxes, and FF&U. Investment Tax Credits credited to the project are passed to rate payers as  
16 described in the direct testimony of Lauren Saket (SDGE\_05). Federal income tax expense is  
17 based on the current corporate federal income tax rate of 21.00 percent. State income tax  
18 expense is based on the current California Franchise Tax rate of 8.84 percent. Property tax  
19 expense is based on SDG&E's current average system-wide rate of 1.61 percent. FF&U covers

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<sup>6</sup> SDG&E's current authorized ROR is 7.45% pursuant to D.24-10-008.

<sup>7</sup> D.19-12-056.

<sup>8</sup> D.22-12-031.

<sup>9</sup> Resolution E-5306 (July 11, 2024).

1 payments made to counties and incorporated cities pursuant to local ordinances granting right of  
2 way access, as well as uncollectible expenses incurred by SDG&E.<sup>10</sup>

3 **F. Forecasted Revenue Requirement**

4 Table 3 below illustrates the final forecasted revenue requirement for the Project.

5 **Table 3: Forecasted Revenue Requirement Summary**  
6 *(In Millions)*

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032-2038	Total
<b>Revenue Requirement</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.1</b>	<b>\$2.6</b>	<b>\$2.8</b>	<b>\$3.4</b>	<b>\$3.2</b>	<b>\$3.1</b>	<b>\$2.9</b>	<b>\$2.7</b>	<b>\$2.5</b>	<b>\$7.8</b>	<b>\$31.1</b>

7 The above revenue requirement is based on the actual and forecasted costs provided in  
8 this application. SDG&E will determine the actual capital and O&M costs of the Project as it is  
9 completed and will calculate the actual revenue requirements associated with those costs for  
10 recovery in rates.

11 **IV. CONCLUSION**

12 This concludes my prepared direct testimony.

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<sup>10</sup> FF&U multipliers used for these revenue requirements are consistent with those supported in D.24-12-074.

1       **V. STATEMENT OF QUALIFICATIONS**

2       My name is Michael R. Woodruff. My business address is 8330 Century Park Court, San  
3       Diego, California 92123. I am employed by SDG&E as a Financial Analysis Project Manager. I  
4       am responsible for overseeing the financial analysis and development of revenue requirements  
5       for SDG&E projects. I joined SDG&E in 2011. Prior to SDG&E, I was employed by Wells  
6       Fargo & Co. for twelve years, six years as a Financial Analyst and six years as a Finance  
7       Manager. I received a Bachelor of Science degree in Liberal Arts and Sciences from Iowa State  
8       University in 1994. I received a Master of Business Administration degree with an emphasis in  
9       Finance from the University of Iowa in 1999.

10       I have previously testified before California Public Utilities Commission.