

Application: A.26-02-XXX
Exhibit No.: SDG&E-09
Witness: DJ Scott

PREPARED DIRECT TESTIMONY OF
DJ SCOTT
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY
CHAPTER 9 – REVENUE REQUIREMENT

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



FEBRUARY 2, 2026

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**PREPARED DIRECT TESTIMONY OF
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CHAPTER 9 – REVENUE REQUIREMENT**

I. PURPOSE AND SUMMARY

The purpose of this prepared direct testimony on behalf of San Diego Gas & Electric Company (SDG&E) is to present the revenue requirement associated with the proposed Demand Flexibility (DF) rates. The forecasted revenue requirement for this project is \$11.5 million over the years 2027 through 2036. Since this proposal includes costs above and beyond those authorized by the California Public Utilities Commission (Commission or CPUC) in SDG&E's most recent General Rate Case (GRC), all costs associated with this project are incremental, and thus are additive to any currently authorized levels of revenue requirement.

II. CAPITAL AND OPERATIONS AND MAINTENANCE (O&M) COSTS

A. Overhead Allocations

Overhead allocations are directly associated with project costs and are used to account for costs that cannot be economically direct-charged, such as payroll taxes and administrative and general costs. Overhead allocations are added to project costs, consistent with those costs' classification as company labor, contract labor, or purchased services and materials. Overhead loaders used to develop the revenue requirement for the project are for illustrative purposes and subject to change. The overhead allocations in this application adhere to the methodology established by the Federal Energy Regulatory Commission (FERC)¹ and were derived using the same methodology used in SDG&E's 2024 GRC filing. Only overhead allocations considered incremental to the project are applied in the determination of the revenue requirement.

¹ FERC guidelines reference the Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts, Version 24 (September 2025), *available at*: https://files.fasab.gov/pdf/files/handbook_sffas_4.pdf.

B. Escalation

Escalation is applied to direct costs to properly account for inflation.

C. Allowance for Funds Used During Construction (AFUDC)

SDG&E is authorized to apply AFUDC rates on capital as it is spent and remains in Construction Work in Progress (CWIP). Accordingly, AFUDC is included as part of the total capital cost of the project.

D. Total Capital and O&M

Table DS-1 below summarizes the total amount of capital for the Proposed DF Rates, as well as the total loaded and escalated operations and maintenance (O&M) costs. The capital costs include escalation, overhead loaders, and AFUDC.

Table DS-1: Total Capital and O&M
(In Millions, includes escalation, overheads, and AFUDC)

	2027	2028	2029	2030	Total
Capital	\$5.4	\$0.0	\$0.0	\$0.0	\$5.4
O&M	\$0.7	\$1.0	\$1.7	\$0.7	\$4.1
Total Request	\$6.1	\$1.0	\$1.7	\$0.7	\$9.5

III. REVENUE REQUIREMENT

The revenue requirement consists of the total O&M and capital costs stated above, as well as SDG&E's return on investment, federal and state income taxes, working cash, and franchise fees and uncollectibles (FF&U).² The sections below cover these components in greater detail.

² The revenue requirement components and the rate base calculations are computed based on the same standard, Commission-approved methodology used in the 2024 GRC and other incremental applications.

1 **A. O&M Expenses**

2 The loaded and escalated O&M expenses shown in Table DS-1 above are included as a
3 component of the total revenue requirement.

4 **B. Working Cash**

5 Working cash is the funding supplied by investors to meet day-to-day utility operational
6 requirements, and to cover the time that expenditures are made for services until the time
7 revenues are collected for those services.³ It is included as a component of the total revenue
8 requirement.

9 **C. Rate Base (Return of Capital)**

10 Rate base is defined as the net investment of property, plant, equipment, and other assets
11 that SDG&E has acquired or constructed to provide utility services to its customers.⁴ The annual
12 revenue requirement amount associated with the return of capital is equal to the amount of
13 capital that is depreciated each year.⁵ Consistent with the decision in SDG&E's 2024 General
14 Rate Case, SDG&E will utilize the following useful lives for each asset category presented in
15 Table DS-2 below. The useful lives are subject to revision in a future general rate case.

16 **Table DS-2: Capital – FERC Useful Life**

Asset Category (FERC Account)	Useful Life Years
E-303 – Computer Software	5

17
18 **D. SDG&E's Authorized Capital Structure and Rate of Return (ROR)**

19 SDG&E's authorized capital structure is comprised of common equity, long-term debt,
20 and preferred stock. The Cost of Capital proceeding is the regulatory forum that establishes

³ See D.24-12-074 at 827-828.

⁴ *Id.* at 803.

⁵ *Id.* at 807.

SDG&E's capital structure and its authorized costs of financing. SDG&E's current authorized rate of return based on its weighted capital structure is 7.41 percent.⁶ SDG&E's weighted average rate of return is multiplied by rate base to determine the amount of funds required for the revenue requirement.

E. Income Tax and FF&U

The revenue requirement includes costs related to the payment of income taxes and FF&U. Federal income tax expense is based on the current corporate federal income tax rate of 21.00 percent. State income tax expense is based on the current California Franchise Tax rate of 8.84 percent. FF&U covers payments made to counties and incorporated cities pursuant to local ordinances granting right of way access, as well as uncollectible expenses incurred by SDG&E.⁷

F. Forecasted Revenue Requirement

Table DS-3 below illustrates the forecasted revenue requirement for the Proposed DF Rates.

Table DS-3: Forecasted Revenue Requirement Summary^{8,9}
(In Millions)

	2027	2028	2029	2030	2031	2032-2036	Total
CPUC	(\$0.7)	\$2.9	\$3.4	\$2.3	\$1.5	\$0.9	\$10.3
FERC	(0.3)	0.3	0.3	0.3	0.2	0.2	1.0
Revenue Requirement	(\$1.0)	\$3.2	\$3.7	\$2.6	\$1.7	\$1.1	\$11.3

The above revenue requirement is based on the forecasted costs provided in this application. SDG&E will determine the actual capital and any applicable O&M costs of the

⁶ See D.25-12-043 at Ordering Paragraph (OP) 4.

⁷ FF&U multipliers used for these revenue requirements are consistent with those supported in D.24-12-074.

⁸ Total project costs are included in this testimony and are allocated based on the approved GRC methodology for allocating common accounts. SDG&E is seeking approval of the CPUC portion of the costs and associated revenue requirements that are CPUC-jurisdictional. SDG&E will seek recovery of any FERC-jurisdictional portion of the costs and associated revenue requirements from the FERC.

⁹ Totals may include rounding differences.

1 Proposed DF Rates as it is completed and will calculate the actual revenue requirements
2 associated with those costs for recovery in rates. Details on cost recovery of the actual revenue
3 requirement are discussed in SDG&E's cost recovery testimony at Chapter 8. Details of the rate
4 impacts of the revenue requirement are discussed in the implementation testimony at Chapter 5.

5 This concludes my prepared direct testimony.

1 **IV. STATEMENT OF QUALIFICATIONS**

2 My name is DJ Scott. My business address is 8315 Century Park Court, San Diego,
3 California 92123. I am employed by SDG&E as a Manager in Financial & Strategic Analysis. I
4 am responsible for overseeing the financial analysis and development of revenue requirements for
5 SDG&E projects. I joined SDG&E in 2017 and have held positions of increasing responsibility
6 in the Accounting Research and Business Controls department, most recently as the Manager,
7 prior to joining the Financial and Strategic Analysis department. Prior to SDG&E, I was
8 employed by PricewaterhouseCoopers for 6 years, 2 years as an Audit Manager and 4 years as an
9 Audit Associate. I received a Bachelor of Accounting from University of Pittsburgh in 2011.

10
11 I have not previously testified before the California Public Utilities Commission.