

Application: A.25-04-XXX

Exhibit No.: SDGE-2

Witness: Eric Dalton

**PREPARED DIRECT TESTIMONY OF**

**ERIC DALTON**

**ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

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



**APRIL 25, 2025**

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**PREPARED DIRECT TESTIMONY  
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**I. INTRODUCTION**

The purpose of my direct testimony is to present and support San Diego Gas & Electric Company's ("SDG&E") request for California Public Utilities Commission ("CPUC" or "Commission") authorization of a ratemaking mechanism to recover costs pursuant to California Public Utilities Code ("Pub. Util. Code") Section 937(b). Specifically, my testimony presents the regulatory account description, the accounting that will be used for SDG&E's proposed ratemaking mechanism, a description of the annual rate adjustment that SDG&E intends to utilize to recover the incremental energization costs tracked in the new regulatory account, SDG&E's proposed cap on annual rate adjustments pursuant to Pub. Util. Code Section 937(b)(2), and the requirement to solicit an independent third-party auditor pursuant to Pub. Util. Code Section 938.

**II. REGULATORY ACCOUNT DESCRIPTION**

SDG&E proposes the establishment of a new memorandum account – the Electric Energization Memorandum Account ("EEMA") – to enable it to record revenue requirements incremental to those authorized in the Commission's decision on SDG&E's Test Year ("TY") 2024 General Rate Case ("GRC") application that are associated with electric distribution capacity additions and other work performed by SDG&E to energize new loads. The EEMA will also track the revenue requirements necessary to comply with Senate Bill ("SB") 410 and related CPUC directives.<sup>1</sup> To the extent those revenue requirements exceed the amounts authorized by

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<sup>1</sup> Decision ("D.") 24-09-020 at p. 6 ("...SB 410 requires the Commission to ensure each large electric IOU has a mechanism to recover costs necessary to comply with the bill's findings, requirements, and policies, including the energization targets and timelines adopted in this decision."); *id.* at Findings of

1 the CPUC in D.24-12-074 (the final decision in SDG&E’s TY 2024 GRC), SDG&E will  
2 annually transfer those incremental amounts to the Electric Distribution Fixed Cost Account  
3 (“EDFCA”) for recovery from customers.

4 The proposed memorandum account is SDG&E’s response to the directives from SB 410,  
5 which aims to ensure that electric distribution providers can recover costs for energizing new  
6 customer loads in a timely and sufficient manner. Energization projects include those necessary  
7 to connect customers to the grid, establish adequate distribution capacity, or upgrade capacity to  
8 serve electric load added by new or existing customers. The proposed memorandum account is  
9 also requested at the direction of the Commission, who made clear in D.24-04-020 that Investor-  
10 Owned Utilities (“IOUs”) may track and seek recovery of costs associated with implementing  
11 SB 410.<sup>2</sup>

12 As described in the direct testimony of Matt Belden and Nathan Bruner, energization  
13 costs include those associated with increasing distribution circuit capacity, distribution substation  
14 capacity, and accommodating new electric loads, as well as implementation costs associated with  
15 Information Technology system enhancements. SDG&E estimates \$238,556,000 in incremental  
16 capital expenditures for the 2024 – 2026 period (in Nominal \$).<sup>3</sup>

### 17 **III. ACCOUNTING TREATMENT OF ENERGIZATION COSTS**

18 The direct energization costs described in the direct testimony of Matt Belden and Nathan  
19 Bruner will be tracked and compared to those direct costs that were approved in the GRC. Once

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Fact (“FOF”) 32 at p. 88 (“Pub. Util. Code § 937 authorizes the large electric IOUs to file applications with the Commission seeking approval of a ratemaking mechanism to track and seek recovery of costs associated with implementing SB 410.”)

<sup>2</sup> *Id.*

<sup>3</sup> Direct Testimony of Matt Belden and Nathan Bruner, at Table 11.

1 the actual direct energization costs exceed the authorized direct costs as approved in the GRC,  
2 the revenue requirement on the actual fully loaded costs will be compared to the authorized  
3 revenue requirement approved in the GRC. To the extent the actual revenue requirement  
4 exceeds the authorized revenue requirement, an entry will be made in the EEMA for purpose of  
5 cost recovery pursuant to SB 410.

6 Consistent with direction from the Federal Energy Regulatory Commission (“FERC”)  
7 and past practice – except for transformers, meters, and land – energization costs will be  
8 included in the calculation of the revenue requirement when the associated projects are placed in  
9 service. Energization costs for transformers, meters, and land will be included in the calculation  
10 of the actual revenue requirement upon purchase. The dates projects are placed in service – and,  
11 for transformers, meters and land, the dates of purchase – will determine the year in which the  
12 incremental revenue requirements are recorded in the EEMA. These dates will also determine  
13 the year in which the annual cap on direct energization costs (discussed further below) is applied.

14 FERC’s guidance for including transformers, meters, and land in plant upon purchase is  
15 clearly enunciated in the Code of Federal Regulations at Title 18, Chapter I, Subchapter C, Part  
16 101 – *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the*  
17 *Provisions of the Federal Power Act.*<sup>4</sup> The FERC Uniform System of Accounts (“USOA”) set  
18 forth in Part 101 not only provides a listing of the nearly 450 defined accounts to be used by  
19 public utilities, but also includes detailed descriptions of the various financial activities that are  
20 to be recorded under each account. In addition, it outlines instructions and definitions for use in  
21 applying the system of accounts by electric utilities. Adherence to the FERC USOA allows for  
22 consistent accounting treatment of events and expenditures to ensure proper capitalization, cost

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<sup>4</sup> 18 C.F.R. pt. 101 (1960).

1 recovery, and uniformity in internal and external reporting. It is SDG&E’s standard practice to  
2 adhere to the FERC USOA.

3 With respect to the accounting treatment of transformers, FERC USOA Account 368  
4 Line Transformers states: “This account shall include the cost installed of overhead and  
5 underground distribution line transformers and pole type and underground voltage regulators  
6 owned by the utility, for use in transforming electricity to the voltage at which it is to be used by  
7 the customer, *whether actually in service or held in reserve.*”<sup>5</sup> Similarly, with respect to meters,  
8 FERC USOA Account 370 Meters states, “This account shall include the cost installed of meters  
9 or devices and appurtenances thereto, for use in measuring the electricity delivered to its users,  
10 *whether actually in service or held in reserve.*”<sup>6</sup>

11 Land is also considered to be available for use upon acquisition pursuant to Title 18 Part  
12 101 – in particular Electric Plant Instructions No. 7 *Land and Land Rights* and Electric Plant  
13 Instructions No. 8 *Structures and Improvements.*<sup>7</sup> These instructions indicate that only the cost  
14 to acquire the land is included in the land accounts, with all subsequent expenditures (*e.g.*, for  
15 grading, landscaping) to be recorded to the structures and improvement accounts. This  
16 separation of the acquisition costs from the improvement costs provides for the immediate  
17 recording of land into FERC USOA Account 101 Plant in Service whereas the improvements are  
18 recorded to FERC USOA Account 107, Construction Work in Progress – Electric.

19 Accordingly, SDG&E’s accounting treatment of energization costs included in the  
20 calculation of the actual revenue requirement to be recorded in the EEMA for purposes of costs

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<sup>5</sup> *Id.* at account 368 Line Transformers (emphasis added).

<sup>6</sup> *Id.* at account 370 Meters.

<sup>7</sup> *Id.* at Electric Plant Instructions.

1 recovery pursuant to SB 410, is consistent with the FERC USOA and SDG&E's standard  
2 practice.

#### 3 **IV. ANNUAL RATE ADJUSTMENT PROCESS**

4 Consistent with Pub. Util. Code Section 937(b)(3), SDG&E proposes that the CPUC  
5 authorize the recovery of incremental energization costs associated with energization projects, as  
6 well as the costs incurred to comply with SB 410 and related CPUC directives, through annual  
7 rate adjustments. This provision will continue until the CPUC can assess these costs in  
8 SDG&E's subsequent GRC to determine if the costs were just and reasonable. Pursuant to Pub.  
9 Util. Section 937(b)(3), the utility must demonstrate in its next GRC that the costs incurred were  
10 reasonable, with the potential for refunds to be issued for any expenditure deemed unreasonable.  
11 Pub. Util. Section 937(b)(5) prevents recovery of any costs through the mechanism in any year  
12 until the revenue requirement associated with the utility's recorded spending for energization  
13 projects exceeds the utility's annualized revenue requirements for energization projects as  
14 established in the most recently adopted GRC.

15 Pub. Util. Code Section 937(b)(5) therefore allows SDG&E to recover costs through the  
16 ratemaking mechanism to the extent the direct spending for energization projects in a given year  
17 (converted to an annual revenue requirement) exceeds the amount of direct costs authorized for  
18 energization projects as established in the utility's most recently adopted GRC for the  
19 corresponding year (converted to an annual revenue requirement). Therefore, once the actual  
20 direct energization costs exceed the direct costs as approved in the GRC, the revenue  
21 requirement associated with the actual fully loaded costs will be compared to the authorized  
22 revenue requirement approved in the GRC. To the extent the actual revenue requirement  
23 exceeds the authorized revenue requirement, an entry will be made in the EEMA for purposes of

1 costs recovery pursuant to SB 410. Note that cost recovery is subject to an annual cap.  
2 SDG&E’s proposal for an annual cap is set forth below.

3 While SB 410 requires the utility to track its energization-related expenditures, it does not  
4 condition cost recovery on a line-item comparison between SDG&E’s actual energization-related  
5 costs and the corresponding energization-related costs adopted by the Commission in its final  
6 decision on SDG&E’s 2024 GRC application. In other words, actual energization-related costs  
7 for some cost categories could be more or less than what the Commission adopts for those cost  
8 categories; but for SB 410 cost recovery purposes, it is the comparison of total actual  
9 energization-related costs to total Commission-adopted energization costs that determines the  
10 amount to be collected from ratepayers.

11 SDG&E proposes to transfer the incremental revenue requirements recorded in the  
12 EEMA into the EDFCA for recovery through distribution rates, on an annual basis. The amount  
13 transferred will be addressed in the annual Regulatory Account Update Filing, which will then be  
14 consolidated with the Annual Electric True Up advice letter for rates effective January 1.

15 **V. PROPOSED CAP ON ANNUAL RATE ADJUSTMENTS**

16 SB 410 requires that the ratemaking mechanism includes an annual cap on the amount  
17 that may be recovered through the mechanism.<sup>8</sup> SDG&E recommends that each year’s annual  
18 cap be applied as a limit on annual incremental direct energization costs. SDG&E recommends  
19 that the Commission adopt a different cap for each year (*i.e.*, 2024, 2025, and 2026) informed by  
20 the incremental direct energization costs set forth in Table 1 below, while also providing enough  
21 flexibility or headroom in 2025 and 2026 to allow SDG&E to meet any additional increase in  
22 customer energization demands beyond its current estimates.

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<sup>8</sup> Pub. Util. Code § 937(b)(2).



1 **Table 1– Incremental Direct Energization Costs<sup>9</sup>**

Nominal \$000s			
Categories of Management	Actual 2024	Estimated 2025	Estimated 2026
A. CAPACITY/EXPANSION	\$1,899	\$28,749	\$70,660
E. MATERIALS	\$6,653	\$8,583	\$10,796
F. NEW BUSINESS	\$10,837	\$19,093	\$28,603
IT ENHANCEMENTS	\$1,475	\$16,636	\$34,572
<b>Total CAPITAL</b>	<b>\$20,864</b>	<b>\$73,061</b>	<b>\$144,631</b>

2  
3 As Table 1 reflects, SDG&E’s actual spend for 2024 was approximately \$21M beyond  
4 what was authorized in the GRC. SDG&E’s incremental energization costs for 2025 are  
5 currently estimated at \$73,061,000, and the maximum estimated annual incremental direct  
6 energization costs would be \$144,631,000 in 2026. Under SDG&E’s proposal, the cap for 2024  
7 would be equal to the actual incremental spend beyond what was authorized in SDG&E’s GRC  
8 (*i.e.*, ~\$21M). For 2025 and 2026, SDG&E recommends the cap for each year be set equal to the  
9 highest forecasted year (2026), with the condition that any unused cap in 2025 be added to  
10 2026’s cap. In other words, the cap for 2025 would be set at \$144,631,000 and the cap for 2026  
11 would be \$144,631,000 *plus* any unused portion of the 2025 cap. Staggering the cap in this  
12 manner helps ensure that SDG&E is able to meet any increase in customer energization costs as  
13 well as SB 410 compliance costs beyond what is currently forecasted.

14 As previously indicated, the incremental direct energization costs SDG&E provides are  
15 estimated and only reflect information SDG&E is aware of at the time of this application. SDG&E  
16 asks that the Commission recognize that there is significant forecast uncertainty in these annual  
17 incremental direct energization cost estimates and, accordingly, adopt SDG&E’s cap proposal to

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<sup>9</sup> Presented and discussed in the Direct Testimony of Matt Belden and Nathan Bruner and summarized in Table 11.

1 provide headroom in the event the costs to energize customer loads during the 2024-2026 period  
2 exceed SDG&E’s current estimates.

3 **VI. INDEPENDENT THIRD-PARTY AUDITOR REQUIREMENTS**

4 Pub. Util. Code Section 938 requires that any electric utility requesting the use of the SB  
5 410 ratemaking mechanism must comply with specific auditing requirements set forth in Section  
6 938(a). Specifically, the electric utility must retain an independent third-party auditor, selected  
7 by the CPUC based on nonbinding recommendations from the electric utility.<sup>10</sup> The auditor is  
8 tasked with reviewing the utility’s business practices and procedures for energizing new  
9 customers and how the utility planning for demand growth.<sup>11</sup> This includes a detailed  
10 assessment of customer energization requests, projections of customer demand, utility staffing  
11 levels, funding efficacy, and compliance with established energization time periods.<sup>12</sup> Audit  
12 results are to be reported biannually to the CPUC and posted on the Commission’s website and  
13 reported to the appropriate policy committees of the Legislature.<sup>13</sup> The electric utility shall not  
14 recover the costs of the third-party auditor from ratepayers.<sup>14</sup>

15 SDG&E has identified several potential independent auditors who possess the expertise to  
16 comply with Pub. Util. Code Section 938 and is in the process of vetting these candidates to ensure  
17 the selected auditor has the knowledge and experience to review utility programs. SDG&E’s  
18 selection process will be focused on making sure that the third-party auditor can objectively review  
19 the relevant aspects of SDG&E’s business practices related to energizing new customers. Once

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<sup>10</sup> Pub. Util. Code § 938(a)(1).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at § 938(a)(3) and (a)(4).

<sup>13</sup> *Id.* at. § 938(a)(5).

<sup>14</sup> *Id.* at § 938(a)(2).

1 | SDG&E has completed its due diligence, it will submit its nonbinding recommendation for a third-  
2 | party auditor to the CPUC for final approval.

3 | **VII. CONCLUSION**

4 | This concludes Mr. Dalton's prepared direct testimony.

1 **VIII. WITNESS QUALIFICATIONS**

2 My name is Eric Dalton. I am employed by SDG&E as the Regulatory Reporting and  
3 Accounts Manager in the Controller’s Division. My business address is 8330 Century Park  
4 Court, San Diego, California 92123. My current responsibilities include managing the process  
5 for the development, implementation, analysis and accounting for regulatory balancing and  
6 memorandum accounts. I assumed my current position in August 2014 as the Regulatory  
7 Reporting Manager and assumed the Regulatory Accounts Manager position in July 2019. I  
8 received a Bachelor of Science in Accounting in 1999 from the University of Kansas. I am a  
9 Certified Public Accountant (“CPA”) licensed in the State of California since 2003. I have been  
10 employed with SDG&E since 2006. In addition to my current position in Regulatory Reporting  
11 & Accounts, I have held various other positions increasing in responsibility since September  
12 2006. I served as the Billable Project Supervisor in Plant Accounting (January 2013 – August  
13 2014), Bank Reconciliation Supervisor (July 2011 – December 2012), and Financial Accounting  
14 Senior and Principal Accountant (September 2006 - June 2011).

15 I have previously testified before this Commission.