

Application No.: A.25-12-XXX

Exhibit No.: SDG&E-06

Witness: Casey W. Butler

PREPARED DIRECT TESTIMONY OF
CASEY W. BUTLER
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY
CHAPTER 6
(FINANCE AND RATES)



BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

December 18, 2025

TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	Support to and From Other Witnesses	2
B.	Organization of Testimony	2
II.	CAPITAL AND OPERATIONS AND MAINTENANCE (“O&M”) COSTS	3
A.	Overhead Allocations.....	3
B.	AFUDC and Capitalized Property Tax	4
C.	Total Capital and O&M	4
III.	REVENUE REQUIREMENT	5
A.	O&M Expenses	5
B.	Working Cash	5
C.	Rate Base (Return of Capital)	5
D.	SDG&E’s Authorized Capital Structure and Rate of Return (ROR).....	6
E.	Income Tax, Property Tax, and FF&U	6
F.	Forecasted Revenue Requirement.....	7
IV.	RATE AND BILL IMPACTS	8
A.	Electric Rates	8
B.	Gas Rates	8
V.	COST RECOVERY AND REGULATORY ACCOUNTING TREATMENT	9
VI.	CONCLUSION.....	11
VII.	WITNESS QUALIFICATIONS	13

**PREPARED DIRECT TESTIMONY OF
CASEY W. BUTLER
CHAPTER 6
(FINANCE AND RATES)**

I. INTRODUCTION

The purpose of this prepared direct testimony is to present the cost recovery proposal related to San Diego Gas & Electric Company's (SDG&E) transition to Smart Meter (SM) 2.0, as further described in Chapters 2 through 5. SDG&E's overall Advanced Metering Infrastructure (AMI) Program encompasses two investment areas:

- SM 2.0: Replacement of SM 1.0 electric meters and gas modules, as well as implementation of supporting SM 2.0 systems and technology.
- SM 1.0: Maintenance of the existing SM 1.0 metering infrastructure and functionality until SM 2.0 has been fully implemented.

This prepared direct testimony will present the total costs for SM 2.0 of approximately \$825 million between 2024-2031, including escalated direct costs, contingency, overheads, and loaders. This application does not request recovery of the costs associated with maintaining operability of the SM 1.0 infrastructure during the period of transition to SM 2.0; this request for recovery of SM 1.0 costs will be presented in a separate application.¹

This prepared direct testimony will present SDG&E's proposed revenue requirement associated with the SM 2.0 investment.

¹ SDG&E previously received authorization from the California Public Utilities Commission (Commission or CPUC) to record the costs necessary for repairing and servicing the existing SM 1.0 system to the Smart Meter 2.0 Memo Account (SM2MA) with cost recovery subject to cost reasonableness review in a separate application. *See* Decision (D.) 24-12-074, Ordering Paragraph (OP) 51; SDG&E Advice Letter (AL) 4605-E/3401-G (approved May 6, 2025 and effective May 2, 2025).

1 Next, this prepared direct testimony will illustrate the impact of the proposed revenue
2 requirement on the electric and gas rate bills by customer class and for SDG&E's typical
3 residential customer. As illustrated in Table 6-4 below, the forecasted revenue requirement for
4 SM 2.0 implementation over the years 2024 through 2071 is expected to be approximately
5 \$1,325.5 million.

6 Finally, SDG&E will present its plan to track, record, and recover the costs associated
7 with SM 2.0 implementation. SDG&E will record historical and ongoing costs associated with
8 SM 1.0 to the 22-05.² SDG&E will seek cost reasonableness review and recovery of these
9 legacy costs (SM 1.0) in a future Application or General Rate Case (GRC) proceeding. SDG&E
10 is also requesting the establishment of a new two-way, interest-bearing Advanced Metering
11 Infrastructure Balancing Account (AMIBA). The AMIBA will allow SDG&E to track and
12 recover authorized revenues and reconcile incremental costs associated with SM 2.0
13 implementation.

14 **A. Support to and From Other Witnesses**

15 This prepared direct testimony also references the testimony and workpapers of other
16 witnesses, either in support of their testimony or as referential support. SM 2.0 program costs
17 are addressed in the prepared direct testimony of David Thai presented in Chapter 3; SM 2.0 IT
18 and Network components costs are addressed in the prepared direct testimony of Brad Baugh
19 also presented in Chapter 3.

20 **B. Organization of Testimony**

21 This prepared direct testimony is organized as follows:

- 22 • Section I introduces the purpose and scope of this testimony.

² See *supra*, n.1.

- Section II summarizes the escalated direct costs and fully loaded costs of SM 2.0.
- Section III presents the methodology used to derive the revenue requirement.
- Section IV provides illustrative electric and gas rates and bill impacts by customer class.
- Section V describes SDG&E's proposed cost recovery and regulatory accounting treatment.
- Section VI concludes my testimony

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

Table 6-1 below summarizes the direct costs including contingency described in the testimony of David Thai (Chapter 3) for SM 2.0. These costs do not yet reflect the impact of loaders, allowance for funds used during construction (AFUDC), or capitalized property tax.

Table 6-1³
Smart Meter 2.0 Escalated Direct Costs
(In Millions of Dollars)

SM 2.0	2024	2025	2026	2027	2028	2029	2030	2031	Total
Capital	\$13.1	\$3.9	\$37.5	\$119.3	\$143.3	\$213.5	\$164.3	\$7.9	\$702.8
O&M	0.0	3.9	0.7	2.0	10.5	18.6	16.7	6.8	59.2
Total Request	\$13.1	\$7.8	\$38.2	\$121.3	\$153.8	\$232.1	\$181.0	\$14.7	\$762.0

A. Overhead Allocations

Overhead allocations are directly associated with SM 2.0 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 program 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 SM 2.0 are for illustrative purposes and subject to change.

³ See Chapter 6, Workpaper 1, Tab - WP6.2.1 (Loaded Costs).

The overhead allocation methodology adheres to Federal Energy Regulatory Commission (FERC) guidelines and is consistent with the methodology approved in SDG&E's prior GRC decision.⁴ Only overhead allocations considered incremental to the program are applied in the determination of the revenue requirement.

B. AFUDC and Capitalized Property Tax

SDG&E is authorized to apply AFUDC rates on capital as it is spent and remains in Construction Work in Progress (CWIP). Similarly, capitalized property tax represents property tax incurred during the program development period prior to the program being placed in service. Both AFUDC and capitalized property tax are included in the table below as part of the total capital cost of the program.

C. Total Capital and O&M

Table 6-2 below summarizes the total amount of capital for SM 2.0, as well as the total loaded and O&M cost. The capital costs include overhead loaders, AFUDC, and capitalized property tax.

Table 6-2⁵
SM 2.0 Total Capital and O&M
(In Millions of Dollars, includes overheads, AFUDC, and capitalized property tax)

SM 2.0	2024	2025	2026	2027	2028	2029	2030	2031	Total
Capital	\$14.9	\$6.3	\$47.0	\$128.5	\$154.0	\$225.7	\$175.9	\$8.4	\$760.7
O&M	0.0	4.5	0.7	2.3	11.0	19.9	18.0	7.9	64.3
Total Request	\$14.9	\$10.8	\$47.7	\$130.8	\$165.0	\$245.6	\$193.9	\$16.3	\$825.0

⁴ See D.24-07-024.

⁵ See Chapter 6, Workpaper 1, Tabs – WP6.2.1 (Loaded Costs), WP6.2.2 (AFUDC).

III. REVENUE REQUIREMENT

The revenue requirement is based on the total O&M and capital related 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).⁶ The sections below cover these components in greater detail.

A. O&M Expenses

The fully loaded O&M expenses embedded in Table 6-2 are included as a component of the total revenue requirement.

B. Working Cash

Working cash represents the funds supplied by investors to meet day-to-day utility operational requirements and to cover the time lag between when expenditures are made and when revenues are collected for those services.⁷ 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."⁸ The annual revenue requirement amount associated with the return of capital is equal to the amount of capital that is depreciated each year. Consistent with the decision in SDG&E's 2024 GRC,

⁶ 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.

⁷ A.22-05-015/016, Revised Prepared Direct Testimony of Steven P. Dais (Rate Base), Exhibit SDG&E-35-R (August 2022) at SPD-10.

⁸ See D.24-12-074 at 803.

SDG&E will utilize the following useful lives for each asset category presented in Table 6-3 below.⁹ The useful lives are subject to revision in a future general rate case.

Table 6-3
Capital – FERC Useful Life

Asset Category (FERC Account)	Useful Life Years
E370.11 Meters - Electric	15
E370.21 - Meter Installations - Electric	15
G381.01 Modules - Gas	15
G382.01 Module Installations - Gas	15
C397.10 Common Plant – Communication Equip	13
C303.00 Common Plant – Computer Software	5

D. SDG&E’s Authorized Capital Structure and Rate of Return (ROR)

SDG&E’s authorized capital structure includes common equity, long-term debt, and preferred stock. The Cost of Capital proceeding is the regulatory forum that establishes SDG&E’s capital structure and its authorized costs of financing. SDG&E’s current rate of return based on its authorized weighted capital structure is 7.45 percent.¹⁰ SDG&E’s weighted average rate of return is multiplied by rate base to determine the amount of return included as a component of the revenue requirement.

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

The revenue requirement includes costs related to the payment of income taxes, property 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. Property tax expense is based on SDG&E’s current average system-wide rate of 1.569 percent. FF&U covers payments made to counties and incorporated cities

⁹ *Id.* at 807.

¹⁰ SDG&E’s current authorized cost of capital was set in D.22-12-031 (the “2023 CoC Phase 1 Decision”) and last modified in D.24-10-008 (the “2023 CoC Phase 2 Decision”).

pursuant to local ordinances granting right of way access, as well as uncollectible expenses incurred by SDG&E.¹¹

F. Forecasted Revenue Requirement

Table 6-4 below illustrates the forecasted revenue requirements for SM 2.0.

Table 6-4¹²
Forecasted Revenue Requirement Summary
(In Millions of Dollars)¹³

SM 2.0	2024	2025	2026	2027	2028	2029	2030	2031	2032- 2071	Total
CPUC - Gas	\$(1.6)	\$1.2	\$(2.7)	\$9.6	\$20.3	\$33.1	\$42.9	\$44.1	\$273.5	\$420.4
CPUC - Electric	(3.8)	2.9	(6.2)	21.1	43.9	69.5	88.1	90.0	561.1	866.6
FERC	(0.9)	0.7	(1.5)	3.9	6.5	7.9	8.4	8.3	5.2	38.5
Total	\$(6.3)	\$4.8	\$(10.4)	\$34.6	\$70.7	\$110.5	\$139.4	\$142.4	\$839.8	\$1,325.5

The above revenue requirement is illustrative and is based on the forecasted costs provided in this application. SDG&E will determine the actual capital and O&M costs of SM 2.0 as it is completed and will calculate the actual revenue requirements associated with those costs for recovery in rates. SDG&E proposes to recover the CPUC revenue requirement for the years 2024 through the current year in rates, beginning January 1 following a decision.¹⁴ SDG&E will continue to recover ongoing forecasted annual revenue requirements with its January 1 rate changes until it is included in a future GRC.

¹¹ FF&U multipliers used for these revenue requirements are consistent with those supported in D.19-09-051.

¹² See Chapter 6, Workpaper 1, Tabs – WP6.4.4 (Rev Req - CPUC Gas), WP6.4.3 (Rev Req - CPUC Elec), WP6.4.2 (Rev Req - FERC), WP6.4.1 (Rev Req - Total).

¹³ SDG&E will seek recovery of the FERC-jurisdictional portion of the associated revenue requirement from the FERC.

¹⁴ For example, if a decision is issued in 2027, SDG&E will recover \$84.8M, which reflects the 2024 through 2028 CPUC revenue requirements, beginning January 1, 2028.

IV. RATE AND BILL IMPACTS

A. Electric Rates

Table 6-5 below presents the illustrative electric rate impacts by customer class for the year 2031, which is the peak year with the highest annual revenue requirement. For a typical residential bundled¹⁵ customer using 400 kWh- per month, the average monthly electricity bill would increase by approximately \$2.53, or 1.6% per month in 2031 when compared to current rates. The actual impact will vary based on a number of factors, including usage and pricing plan.

Table 6-5¹⁶
Illustrative Electric Rate Impacts by Customer Class – 2031

Customer Class	Current Rates ¹⁷ (¢/kWh)	Proposed Rates (¢/kWh)	Rate Change (¢/kWh)	Percentage Rate Change (%)
Residential	37.260	37.897	0.637	1.70%
Small Commercial	37.106	37.717	0.611	1.64%
Medium and Large C&I	33.673	34.024	0.351	1.04%
Agricultural	26.194	26.555	0.361	1.37%
Lighting	35.527	36.246	0.719	2.01%
System Total	35.117	35.559	0.482	1.37%

B. Gas Rates

Table 6-6 below presents the illustrative gas rate impacts for the year 2031, which is the peak year with the highest annual revenue requirement. For a typical non-CARE residential customer using 24 therms per month, the average gas bill would increase by approximately

¹⁵ “Bundled” customers refer to customers receiving both delivery and commodity services from SDG&E.

¹⁶ See Chapter 6, Workpaper 1, Tab WP6.5.1 (Elec Rate & Bill).

¹⁷ Rates effective October 1, 2025, per SDG&E AL 4701-E.

\$3.18, or 4.9% per month in 2031 when compared to current rates. The actual impact will vary based on a number of factors, including usage and pricing plan.

Table 6-6¹⁸
Illustrative Gas Average Rate Impacts by Customer Class – 2031

Transportation	Current Rates (\$/th) 10/1/2025	Proposed Rates (\$/th) 2031	Increase (decrease)	% change
<u>SDG&E Summary</u>				
<u>Core Rates</u>				
Residential	\$2.111	\$2.244	\$0.133	6.3%
Core C&I	\$0.919	\$0.956	\$0.037	4.0%
NGV \$/therm	\$0.386	\$0.387	\$0.001	0.3%
<u>NonCore Distribution Level Service Rates</u>				
NonCore C&I Distribution	\$0.402	\$0.414	\$0.012	2.9%
Electric Generation Distribution Tier 1*	\$0.445	\$0.447	\$0.002	0.5%
Electric Generation Distribution Tier 2*	\$0.331	\$0.332	\$0.001	0.2%
EG-D Class average	\$0.304	\$0.305	\$0.001	0.4%
<u>NonCore Transmission Level Service Rates</u>				
TLS-C&I Class Average Rate^	\$0.248	\$0.248	\$0.000	0.0%
TLS-Electric Generation Class Average Rate*	\$0.248	\$0.248	\$0.000	0.0%
System Average Rate	\$0.972	\$1.025	\$0.052	5.4%

V. COST RECOVERY AND REGULATORY ACCOUNTING TREATMENT

The costs that SDG&E is seeking for recovery in this Application include capital-related costs (e.g., depreciation expense, authorized return on investment, and taxes) and O&M costs associated with SM 2.0. SDG&E requests to recover costs allocated to the CPUC jurisdiction through distribution rates.

¹⁸ See Chapter 6, Workpaper 1, Tab WP6.6.1 (Gas Rate & Bill).

1 As discussed in Chapter 1, the Commission approved SDG&E's AL 4605-E/3401-G
2 establishing the SM2MA pursuant to D.24-12-074.¹⁹ The Commission also directed SDG&E to
3 file an application for cost recovery of funds in the SM2MA subject to future cost-
4 reasonableness review.²⁰ Pursuant to the Commission's directive, the memorandum account
5 shall be effective January 1, 2024 through the filing of this Application.²¹ As discussed in the
6 concurrently filed *Motion of San Diego Gas & Electric Company to Continue Smart Meter 2.0*
7 *Memorandum Account*, SDG&E requests that the end date of the SM2MA be extended through
8 the end of the AMI Program.²² This request will allow SDG&E to separate SM 1.0 from SM 2.0
9 throughout the life of the AMI Program. Additionally, pursuant to OP 51 of D.24-12-074 and
10 the SM2MA preliminary statement, SDG&E will present a future application for recovery of the
11 costs in the SM2MA for SM 1.0 subject to review for cost reasonableness and prudence of
12 recorded expenditures. Therefore, there will be no authorized revenue in rates for the SM 1.0
13 portion of incremental costs captured in the SM2MA until the Commission approves the
14 recovery of the legacy smart meter activity costs in a separate application.

15 With the filing of this Application, SDG&E requests the AMIBA, a two-way balancing
16 account, to record historical and ongoing costs incurred for SM 2.0. SDG&E stresses the

¹⁹ SDG&E AL 4605-E/3401-G, Establishment of a Smart Meter 2.0 Memorandum Account Pursuant to General Rate Case Decision 24-12-074, approved May 6, 2025 and effective May 2, 2025.

²⁰ D.24-12-074, OP 51: "San Diego Gas & Electric Company (SDG&E) shall file an application for cost recovery of its Smart Meter 2.0 replacement project and Smart Meter system upgrade. SDG&E is authorized to maintain a Memorandum (Memo) Account as an interim means to record costs to deploy meter and module replacement or to service existing equipment from January 1, 2024, to the date of its Smart Meter 2.0 replacement project application. Costs in this Memo Account shall be reviewed for reasonableness in SDG&E's application for cost recovery. SDG&E shall file a Tier 2 Advice Letter to establish the Memo Account."

²¹ *See id.*

²² *See generally* Motion of San Diego Gas & Electric Company to Continue Smart Meter 2.0 Memorandum Account (December 18, 2025).

1 importance of the establishment of a two-way balancing account as this decision will allow for
2 timely cost tracking and recovery of urgent SM 2.0 expenditures. SDG&E requests upon final
3 approval of SM 2.0, all recorded SM 2.0 costs be transferred to an authorized balancing account.
4 In Table 6-4, SDG&E includes a forecast of SM 2.0 costs to cover the amounts that will go into
5 the AMIBA.

6 A two-way balancing account is reasonable because it allows the utility to track actual
7 costs to an amount authorized for recovery by the CPUC, thereby ensuring that customers are
8 charged for actual costs and refunded any overcollections. In turn, the utility does not make or
9 lose money due to uncertainties in the scope of work.

10 The annual over- or under-collection of the AMIBA balance will be addressed in
11 SDG&E's Tier 2 AL submission for its Annual Regulatory Account Balance Update. SDG&E
12 proposes to utilize the AMIBA until such time that the costs associated with the program
13 described in this application are incorporated into SDG&E's base business and addressed in its
14 GRC proceedings, at which time SDG&E will propose to close the AMIBA.

15 **VI. CONCLUSION**

16 The revenue requirement and forecasted costs included in this prepared direct testimony
17 have been carefully developed. The expense forecasts are grounded in diligent, comprehensive,
18 and transparent analyses of the factors influencing costs associated with the implementation of
19 the SM 2.0 component of the AMI program. The funding requested in this testimony is essential
20 for ensuring safe, reliable, and efficient service within SDG&E's service territory. SDG&E will
21 use the previously approved SM2MA to record historical and ongoing costs associated with
22 legacy smart meter activities (SM 1.0). SDG&E will seek a cost reasonableness review and
23 recovery of these legacy costs for SM 1.0 in a future application. The AMIBA will allow

1 SDG&E to track and recover authorized revenues and reconcile actual incremental costs
2 associated with SM 2.0 implementation.

3 This concludes my prepared direct testimony.

1 **VII. WITNESS QUALIFICATIONS**

2 My name is Casey W. Butler. My business address is 4949 Greencraig Lane, San Diego,
3 California 92123. I am employed by SDG&E as the Manager of Customer Field Operations. My
4 principal responsibilities include establishing and communicating strategic vision/direction and
5 oversight of safe, compliant and fiscally prudent operational work focused on Customer Service
6 Field (CSF), Electric Meter Operations (EMO), Smart Meter Operations (SMO), and Field
7 Operation Analytics for the department. I have held this position since December 2022. Prior to
8 this position, I was the Sourcing, Inventory & Logistics Strategy Manager as SDG&E. In that
9 position, I was responsible for developing and executing strategies to plan & forecast materials,
10 minimizing material disruptions & inventory challenges. I have been employed by SDG&E
11 and/or Sempra since January 2006. In addition to the positions that I have stated above, I have
12 served as Capital and Operating Planning Manager (SDG&E), Financial & Strategic Analysis
13 Manager (SDG&E), and Major Projects Controls & Analysis Manager (Sempra).

14 I received a Bachelor of Science Degree in Accounting from Bentley University in May
15 1998.

16 I have previously testified before the California Public Utilities Commission.