Company:	San Diego Gas & Electric Company (U 902 M)
Proceeding:	2024 General Rate Case – Track 2
Application:	A.22-05-016
Exhibit:	SDG&E-T2-04

CHAPTER 4

PREPARED DIRECT TESTIMONY OF

VALERIE BILLE

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

(TRACK 2 – AFFORDABILITY PROPOSALS)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SDGE™

October 2023

TABLE OF CONTENTS

PREPARED DIRECT TESTIMONY OF VALERIE BILLE
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

I. INTRODUCTION

My testimony discusses San Diego Gas & Electric Company's (SDG&E) proposals for how to structure the recovery of 2019-2022 Wildfire Mitigation Program Memorandum Account (WMPMA) incremental costs, undercollected balances associated with those costs, and associated revenue requirements—namely interim relief and securitization—to encourage rate stability and customer affordability. Specifically, SDG&E proposes interim relief to recover 50% of SDG&E's undercollected electric WMPMA recorded balance of $376.5 million as of December 31, 2022, commencing January 1, 2024, on an annual basis until authorization of a final cost recovery mechanism, combined with a ten-year securitization of the remaining sought-after recovery for 2026-2035. Interim relief will save customers millions. And securitization will reduce costs for residential customers—particularly CARE and FERA customers—while avoiding rate shock.

As discussed in the testimony accompanying its Track 2 submission, since 2007, SDG&E has established itself as an industry leader in wildfire mitigation. In response to the catastrophic fires in California in 2017 and 2018, the California Legislature required all electric utilities to increase wildfire mitigation activities pursuant to approved Wildfire Mitigation Plans and updates. Since 2019, SDG&E has made significant investments in wildfire mitigation work to harden its system to protect against ignitions, increase situational awareness, enhance emergency operations, and mitigate the impacts of Public Safety Power Shutoffs (PSPS). These investments are in support of SDG&E's widely recognized wildfire mitigation efforts[1] and are meant to reduce the risk of catastrophic wildfire in SDG&E's communities and protect public safety.

SDG&E acknowledges that the incremental costs it requests to recover for the critical investments in public safety in this proceeding are significant, reflecting four years of investments unanticipated in SDG&E's Test Year (TY) 2019 General Rate Case (GRC) during a time when external conditions, including a global pandemic, changed significantly. SDG&E had to consider a myriad of pressures when considering wildfire mitigation investments—both a warming climate and wildfire risks, as well as the rising costs of living and customer affordability. SDG&E cannot afford to focus solely on single issues (such as affordability or climate change) in an isolated fashion, or solely the needs of individual stakeholders. Instead, consistent with Commission precedent, the Commission and SDG&E are tasked with balancing several potentially competing needs such as safety, reliability, and affordability.

SDG&E has worked to balance the interests of safety and affordability throughout the course of its WMP implementation. Yet, as noted, SDG&E understands that the incremental costs it requests to recover in this proceeding are significant, reflecting the five-year interim between SDG&E's 2019 and 2024 GRC and the fact that many of the State's mitigation requirements were enacted after SDG&E's 2019 GRC cycle. The costs thus could cause rate

[1] "Wildfires and Climate Change: California's Energy Future" Governor Newsom's Strike Force Report ("Strike Force Report") (April 12, 2019) at 11 ("SDG&E engaged in a robust fire mitigation and safety program after experiencing devastating fires in its service territory in 2007 and has become a recognized leader in wildfire safety."); *see* "Final Report of the Commission on Catastrophic Wildfire Cost and Recovery" (June 17, 2019) at 7 ("[SDG&E] is widely recognized as a global leader on utility wildfire practices."); *see also* S&P Global Ratings, "How are California's Wildfire Risks Affecting Utilities' Credit Quality" (Jun. 3, 2021) at 10 (referring to SDG&E as a "global leader" in wildfire mitigation).

shock for customers under traditional ratemaking or a three-year amortization.[2] For example, a typical bundled non-CARE residential customer would see a monthly bill increase of $13.28/month in 2025 under a three-year amortization. SDG&E further recognizes that its 2024 GRC Track 1 Decision could also be implemented into rates in 2025.

SDG&E thus proposes two independent steps to support affordability and rate stability. First, SDG&E is filing a motion for interim relief concurrent with this application. SDG&E proposes to recover half of its incremental electric WMPMA balance of $376.5 million in 2024 and half of the remaining electric balance in subsequent years until a final decision is reached in this proceeding.[3] This would place approximately $193.8 million including interest into rates in 2024, subject to refund. Interim relief smooths out customer bills by recovering a portion of SDG&E's WMPMA electric balance as of December 31, 2022 in rates in 2024 before SDG&E's GRC Decisions are likely implemented in 2025, subject to refund. And it *saves* customers $15.6 million by reducing the under-collected WMPMA balance that continues to accumulate interest at the current high interest rates of over 5%.

Authorizing interim relief also supports rate stability for customers. Although SDG&E has numerous requests pending before the Commission, including SDG&E's 2024 GRC Track 1 submission, such requests, when approved, will not be implemented January 1, 2024. SDG&E expects a decrease in rates January 1, 2024, followed by SDG&E's GRC decisions being implemented in 2025. Implement interim relief beginning January 1, 2024 would avoid rate volatility and potential rate shock.

---

2 *See* D.22-05-001 at 18 (indicating that a three-year amortization period for SDG&E's WMPMA costs would be sufficient); *see also* D.21-10-025 at 23 (citing TURN proposing a 36-month amortization period for Southern California Edison Company's (SCE) wildfire-mitigation O&M costs).

3 Costs recovered as part of this interim relief would remain subject to refund and determinations made by the Commission in the 2024 GRC Track 2 final decision.

Second, SDG&E proposes, upon receiving a final and non-appealable Commission determination in this proceeding that the costs are just and reasonable, to apply for a financing order to securitize the remaining WMPMA electric incremental costs, undercollected balances associated with those costs, and associated revenue requirements over ten years from 2026-2035. California Public Utilities Code[4] Section 850.1 allows SDG&E to finance the just and reasonable wildfire mitigation costs and expenses at issue in this application through a financing order to mitigate rate and bill impacts through longer financing terms. In passing Assembly Bill (AB) 1054, the Legislature intended that securitization be used to reduce bill shock. Securitization meets that goal and serves the public interest here by:

- Reducing rates on a present value basis compared to a three-year amortization;
- Permitting gradual repayment of these costs over a longer term—reducing the typical average residential CARE bill increase to $0.49/month compared to $8.33/month and non-CARE monthly bill increase to $3.02/month compared to $12.93/month;[5]
- Locking in fixed financing terms that provide interest rate certainty in today's volatile interest rate environment; and
- *Reducing* the overall costs for a typical residential customer compared to a three-year amortization—including saving the typical CARE customer over $200 total.

SDG&E proposes to model its securitization[6] application on the recent AB 1054 financing orders adopted by this Commission. In this testimony, I provide a summary of the statutory authority to securitize these prudently incurred costs, an overview of the transaction structure that SDG&E will propose in a future securitization application, and an estimate of the

[4] All statutory citations are to the California Public Utilities Code, unless otherwise noted.

[5] Based upon the average rate impacts over the entire repayment period.

[6] SDG&E uses the term securitize and securitization broadly, to discuss the type of securities, or financings, that include the Recovery Bonds, or issuance of Recovery Bonds, as defined in Article 5.8 of the California Public Utilities Code.

near-term rate and bill reduction benefits and net present value savings to customers through securitization compared to a three-year amortization.

II. SDG&E's PROPOSED INTERIM RELIEF SAVES CUSTOMERS MONEY

Concurrent with this application, SDG&E is filing a motion for interim recovery of its electric wildfire mitigation incremental undercollected balance recorded in SDG&E's WMPMA as of December 31, 2022. Specifically, pending reasonableness review, SDG&E proposes recovering 50 percent of the undercollected electric wildfire mitigation expenditure balance of $376.5[7] million that are incremental to those authorized for recovery in SDG&E's 2019 GRC in 2024, and 50 percent of the remaining balance in each subsequent year until a final cost recovery mechanism is approved in rates.[8] For example, if SDG&E's interim relief and securitization proposals (discussed below) are adopted, interim relief would function as follows:

Table 1: Interim Relief with Securitization

Year	2022 Electric WMPMA Recorded Balance (in millions)	Interim Rate Relief Percentage	Interim Rate Relief Revenue Requirement[9]
2024	$376.5	50%	$193.8
2025	$193.8	50%	$96.1

7 Excluding franchise fees and uncollectibles (FF&U) and interest.

8 SDG&E anticipates approval of a final cost recovery mechanism no later than the end of 2025, assuming a final decision on the reasonableness of costs by the end of 2024, and approval of a financing order by the end of 2025 with implementation of the fixed charge in rates likely starting in 2026.

9 Electric amounts only, excluding FF&U. SDG&E is not requesting interim relief for the amounts accrued in its gas-specific accounts. Interim rate relief revenue requirement includes forecasted interest.

Should a final decision approving SDG&E recovering its WMPMA costs approve a lower amount than SDG&E is authorized to recover on an interim basis, SDG&E will refund the overcollection to customers with interest. The Commission has the authority to grant rate increases prior to a final Commission determination of reasonableness.[10] In so doing, the Commission considers fairness to both the utility and public, reducing the potential for rate shock, minimizing costs to customers, ensuring rate stability, and smoothing rate impacts on customers.[11] Any of those factors may be sufficient to grant interim relief.[12]

In D.23-06-004, the Commission granted PG&E $1.104 billion in interim rate relief for recorded costs in its Wildfire Mitigation Balancing and related accounts. The Commission found that granting the relief would save customers up to $30 million,[13] and that these "direct and indirect cost savings to customers and in turn to the utility" justified interim rate relief.[14] The Commission further concluded that granting interim relief was "consistent with the statutory direction to promptly fund reasonably incurred costs to mitigate wildfires."[15] Similarly in D.20-10-026, the Commission found interim recovery "'warranted to promote fairness, minimize costs to customers, and promote rate stability.'"[16]

---

[10] D.23-06-004 at 28, Conclusion of Law (CoL) 2 ("In *TURN v. PUC*, the California Supreme Court held that the Commission could set interim rates as long as the rate is subject to refund and sufficiently justified.") (citing *TURN v. PUC*, 44 Cal.3d 870 (1988)).

[11] D.20-10-026 at 25-26 (citations omitted); *accord* D.23-06-004 at 10 (citations omitted).

[12] D.20-10-026 at 26.

[13] D.23-06-004 at 27, Finding of Fact (FoF) 4; *see id.* at 2.

[14] *Id.* at 28, CoL 5.

[15] *Id.* at 24.

[16] D.20-10-026 at 26 (quoting D.19-04-039 at 6).

So too here, interim relief results in a lower revenue requirement and reduces rate shock compared to a traditional three-year amortization.[17] Interim relief, compared to a three-year amortization, results in a lower amount in each year and saves customers money overall.

Table 2: Electric Revenue Requirement (in thousands) [18]

Scenario	2024	2025	2026	2027	Total
3-Year Amortization	$0	$423,700	$412,369	$401,096	$1,237,166
Interim Relief plus 3-Year Amortization	$193,807	$353,513	$342,742	$331,476	$1,221,538

Interim relief here saves customers $15.6 million compared to the amount customers would pay by waiting to amortize the full amount of the costs for three years beginning in 2025 after a final decision is issued.[19] That is, the WMPMA accrues interest at the 90-day commercial paper rate, which is currently over five percent. Because that account continues to accumulate interest at these high rates, SDG&E's interim relief proposal reduces overall costs by reducing the under-collected WMPMA balance.

Interim relief also reduces rate shock and helps "smooth customer rates," helping "avoid the significant increases and subsequent decreases that are associated with the approval of costs tracked in accounts like these."[20] It puts a portion of SDG&E 2022 WMPMA recorded balance into rates in 2024—before SDG&E's GRC Track 2 Decision would (presumably) go into rates

---

17 Under a three-year amortization, SDG&E's capital-related costs and expenditures as of the date of the Decision would be amortized over three years. The revenue requirement for those capital-related costs would then be placed into rates for each relevant year. Table 17 shows the combination of the amortization amount plus the revenue requirement for the year at issue.

18 Excludes FF&U; includes forecasted interest.

19 *See* D.23-06-003 at 23 ("The deciding factor in this instant decision, cost savings, would not materialize if the Commission were to reduce the amount and/or extend the time period over which the costs are collected.").

20 D.20-10-026 at 26.

beginning in 2025 *and* before SDG&E's GRC Track 1 Decision will likely also go into rates that same year. As shown in Table 4 below, interim relief would reduce that 2025 bill impact compared to a three-year amortization commencing in 2025 by over two dollars for a typical non-CARE residential customer, reducing the 2025 bill increase to $11.12, and over a dollar for a typical CARE residential customer, reducing the impact to $7.23.

Moreover, SDG&E is currently forecasting decreasing revenue requirements for January 1, 2024 rates in key proceedings that make up 57% of SDG&E's current system revenue requirements. SDG&E's GRC revenue requirements make up 43% of SDG&E's current system revenue requirements and are not changing in 2024 based on the current procedural schedule.

Table 3 – Preliminary January 1, 2024 Forecasts of Key Proceedings

		System Avg Rate Change on 1/1/24	
Description	**Proceeding**	**Delivery Rates**	**Total Bundled Rates**
2024 ERRA and Sales Forecast[21]	A.23-05-013	-2.8%	-4.7%
2024 PPP	AL 4291-E	-6.2%	-3.1%
2024 TO5 Cycle 6	July Informational Posting[22]	-4.7%	-2.3%
TY2024 GRC	A.22-05-016	N/A - Delayed	

If SDG&E's Interim Relief Recovery proposal is adopted and implemented on January 1, 2024, SDG&E still forecasts an overall decrease to its system average delivery and total bundled rates for its customers on January 1, 2024. SDG&E's interim relief proposal thus smooths out rates to minimize rate and bill volatility for customers. It would offer more stability to customers

---

21 Delivery rate impacts include average PCIA impacts.

22 *See* Pending TO5 Cycle 6 Informational Posting on SDG&E's website: https://www.sdge.com/rates-and-regulations/tariff-information/ferc-tariffs. System average rate impacts based on revenue requirement change in posting and current authorized sales.

to see one rate change with a minimal overall change than to see potentially back-to-back rate changes with dramatic swings (*i.e.*, a decrease followed by an increase).

SDG&E's interim relief motion, combined with SDG&E's securitization proposal, would even further smooth out rate impacts. Assuming the Commission adopts SDG&E's securitization proposal, interim relief would put a portion in rates in 2024 and an even smaller portion in 2025 before the Track 1 Decision is placed in rates in 2025, and the non-bypassable charge is placed in rates in 2026.

//

//

//

Table 4: Typical Non-CARE Residential Electric Monthly Bill Impact ($/Month)

Scenario	2024	2025	2026	2027
Traditional 3-Year Amortization	$0	$13.28	$12.93	$12.58
3-Year Amortization with Interim Relief	$6.10	$11.12	$10.78	$10.42
10-Year Securitization with Interim Relief in 2024-2025[23]	$6.10	$3.02	$2.71	$2.71

Table 5: Typical CARE Residential Electric Monthly Bill Impact ($/Month)

Scenario	2024	2025	2026	2027
Traditional 3-Year Amortization	$0	$8.56	$8.33	$8.10
3-Year Amortization with Interim Relief	$3.96	$7.23	$7.01	$6.77
10-Year Securitization with Interim Relief in 2024-2025[24]	$3.96	$1.97	$0	$0

And interim relief promotes the intergenerational-equity ratemaking principle of allocating costs to those customers that most benefited from the services underlying those costs. As the Commission found in D.20-10-026, "as the bulk of the costs at issue were incurred in

[23] The rate impact shown in year 2027 would continue through 2035.

[24] Under securitization, CARE customers would be exempt from paying the non-bypassable charge.

2018 and 2019 and some of the proceedings to consider them will take another 12-18 months to resolve, there is a level of interim relief that will improve intergenerational equity."[25] The fact that the SDG&E's WMPMA undercollection as of December 31, 2022 is significantly comprised of O&M costs underscores the benefit of placing a portion of these expenses into rates in 2024. Such a decision would also be consistent with the Commission's findings in D.23-06-004 that the statutory directive to expedite wildfire mitigation expeditiously augured in favor of granting interim relief.[26] As the Commission concluded there "[d]elaying or denying interim cost recovery is not a reasonable solution to assist disadvantage customers."[27] Instead, as noted, interim relief here will save *all* customers money.

The present situation is thus unlike D.22-05-001, where the Commission found that SDG&E's request for interim relief did not sufficiently support rate stability and avoid rate shock given SDG&E's upcoming GRC proceeding.[28] Although granting that request would have saved customers $7.3 million in interest payments, SDG&E sought to recover 50% of its uncollected balance going forward until the Commission finished its reasonableness review, which was an unknowable amount. Here, by contrast, SDG&E is seeking a precise amount be subject to interim relief. Interim relief will save customers money and avoid rate shock by placing some of the under-collection in rates in 2024 before SDG&E receives GRC Track 1 and Track 2 decisions.

And SDG&E is only seeking to implement 50 percent of that known amount in rates in 2024, avoiding implementing a large percentage of the under-collection in rates prior to the

---

[25] D.20-10-026 at 26.

[26] D.23-06-004 at 22-23.

[27] *Id.* at 22.

[28] D.22-05-001 at 21, FoF 10.

Commission's reasonableness review. It does not impose an overcollection risk upon customers. If the Commission ultimately decides that some portion of these costs were not reasonable, those amounts will be returned to customers with interest.

III. SDG&E'S PROPOSED SECURITIZATION, COMBINED WITH INTERIM RELIEF, WILL SMOOTH RATE INCREASES AND SAVE RESIDENTIAL CUSTOMERS MONEY

To further support affordability, SDG&E proposes combining its interim relief request with a securitization financing order authorizing financing with a scheduled final payment date of approximately 10 years to recover the costs at issue. SDG&E will apply to securitize the remaining electric WMPMA 2019-2022 electric incremental costs, undercollected balances associated with those costs, and associated revenue requirements beginning in 2026, after a just and reasonable determination is made in this proceeding regarding the critical wildfire mitigation costs that SDG&E has incurred. SDG&E recognizes that the interest rate environment may change when issuing the Recovery Bond, but SDG&E will structure the terms of the bond to achieve an optimal benefit for the customers on a present value basis.

A. SDG&E's Planned Securitization Will Reduce Residential Customer Bill Impacts and Rates, Especially for CARE and FERA Customers

Section 850(a)(1) requires two primary findings for the Commission to authorize securitization:

- Respecting wildfire-related costs and expenses, an electrical corporation applies to the Commission, under 850(a)(1), for recovery of costs and expenses related to catastrophic wildfires, and the Commission finds that some or all of the costs and expenses to be reasonable pursuant to Section 451; and

- The Recovery Bonds and the imposition and collection of Fixed Recovery Charge (FRCs): (i) are just and reasonable; (ii) are consistent with the public interest; and (iii) the recovery of recovery costs through the designation of FRCs, and the issuance of Recovery Bonds will reduce, to the optimal extent, the rates on a

> present value basis that consumers will pay as compared to the use of traditional utility financing mechanisms.[29]

That is, under Section 850(a)(1), the Commission may issue a financing order authorizing recovery of catastrophic wildfire-related costs and expenses if the Commission finds that some or all of the costs and expenses to be reasonable pursuant to Section 451. SDG&E is seeking the just and reasonable recovery of its critical wildfire-related mitigation costs and expenses with this application.

Once this Application is approved and the decision authorizing cost recovery becomes final and non-appealable, SDG&E will file a new application asking the Commission to approve a financing order within 120 days of filing its application, consistent with the statutory timeframe, to authorize a securitization transaction pursuant to Sections 451.2 and 850 *et seq*.[30] That securitization application will include a formal financing order and testimony from a financial advisor regarding the proposed transaction structure, key financing order and transaction document elements, as well as the transaction rating and marketing process.[31]

Under SDG&E's securitization proposal, the electric rate design will follow the requirements set forth in Section 850.1(i). That Section allocates costs on an equal cents/kWh basis and exempts CARE and FERA customers from paying the fixed recovery charge associated with a financing order. This, as discussed below, reduces the costs from securitization for residential customers compared to a three-year amortization recovery approach. This allocation methodology is based on volumetric kWh sales and thus will adjust whenever a new sales

---

29 Pub. Util. Code Section 850.1(a).

30 *See* Pub. Util. Code § 850.1(g) (providing for approval or disapproval of financing order applications within 120 days); *see also id.* § 850.1(a)(1)(B) (providing that "an electrical corporation may request the determination specified in subparagraph (A) [for issuance of a financing order] by the commission in a separate proceeding or in an existing proceeding or both").

31 SDG&E has not yet retained a financial advisor for this securitization transaction.

forecast is adopted and implemented as nonbypassable charges to maintain an equal cents/kWh rate.

1. Section 850 Permits SDG&E to Securitize its Wildfire Capital-Related Costs and Expenses

As the Commission has found, Section 850(a) authorizes the Commission to permit SDG&E recovery, including through the issuance of recovery bonds, of SDG&E's wildfire-related capital expenditures and operations and maintenance costs that the Commission finds just and reasonable in this proceeding. Specifically, Section 850(a)(2) allows SDG&E to finance the "recovery of costs and expenses related to catastrophic wildfires, including fire risk mitigation capital expenditures" through a financing order pursuant to Section 850.1 if the Commission finds that the costs are just and reasonable.[32] In D.21-10-025, the Commission found that Section 850(a)(2)'s phrase "related to" has broad applicability to wildfire-related costs and expenses, including wildfire mitigation capital expenditures and O&M expenses.[33]

The Commission rejected the argument that § 850(a)(2) "prohibits the Commission from considering wildfire mitigation expenses."[34] Instead, the Commission adopted SCE's contention (supported by Cal Advocates), that § 850(a)(2) permits "securitization of both fire mitigation

---

[32] Section 850(a)(2); *see* D.21-10-025 at 5 ("§ 850(a)(2) allows these utilities to request authorization to finance . . . wildfire-related costs and expenses, through a financing order brought pursuant to § 850(1)" (citation omitted)).

[33] *See* D.21-10-025 at 13-15; *id.* at 13 (citing SCE's argument that "'related to' has broad applicability and that the statute identifies fire risk mitigation expenditures as one example of other costs that can be financed, rather than limiting the types of wildfire-related costs that can be securitized") (citing SCE Opening Brief at 24-25); *accord* D.21-10-025 at 7, n.12 ("SCE argues that because § 850(a)(2) reads in part that there can be recovery of 'cost and expenses related to catastrophic wildfires, *including* fire risk mitigation capital expenditures identified in subdivision(e) of section 8386.3' (emphasis added), therefore 'cost and expenses related to catastrophic wildfires' may be interpreted to include wildfire-related O&M").

[34] *Id.* at 15.

capital expenditures and any additional costs and expenses that are related to catastrophic wildfires."[35]

The Commission thus found that SCE's wildfire mitigation 2021 O&M expenses were eligible for securitization because they help prevent catastrophic wildfires.[36] So too here, SDG&E seeks to securitize its WMPMA wildfire-mitigation related electric incremental costs, undercollected balances associated with those costs, and associated revenue requirements that are "related to catastrophic wildfires." As noted, these wildfire mitigation costs and expenses reflect critical efforts to prevent future wildfire ignitions, consistent with SDG&E's approved wildfire mitigation plan and updates.

2. SDG&E's Securitization Proposal is in the Public Interest

SDG&E thus has the authority under Section 850 to securitize the costs at issue. As noted, Section 850(a)(1) provides that, following such an application by an electrical corporation, the Commission shall issue a financing order if it finds that issuance of the requested recovery bonds satisfies the following conditions; namely that:

- They are just and reasonable;
- They are consistent with the public interest, and
- "The recovery of recovery costs through the designation of the [FRCs] . . . and the issuance of recovery bonds in connection with the [FRCs], would reduce, to the maximum extent possible, the rates on a present value basis that consumers would pay as compared to the use of traditional utility financing mechanisms, which shall be calculated using the electrical corporation's corporate debt and equity in the ratio approved by the commission at the time of the financing order."

SDG&E's securitization proposal will satisfy each condition, as discussed below.

---

35 *Id.* at 13; *see id.* at 15 ("Cal Advocates supports SCE's interpretation of § 850(a)(2) and argues that the statute broadly defines the costs and expenses that are eligible for securitization.").

36 *See id.* at 15.

a. Issuance of Recovery Bonds is Just and Reasonable

The issuance of Recovery Bonds is just and reasonable because the material terms and conditions of the Recovery Bonds, including without limitation, interest rates, rating, rating agency treatment, maturity, and the imposition and collection of Fixed Recovery Charges described in forthcoming testimony, will be designed in conformance with industry standards to achieve an optimal outcome, targeting the utility securitization market. In addition, after issuance of a Financing Order, the Commission's Finance Team will review the complete terms and conditions of the Recovery Bonds prior to issuance.

b. Issuance of Recovery Bonds is in the Public Interest

In determining whether a proposed transaction is in the public interest, the Commission considers whether the proposal '"provide short-term and long-term economic benefits to customers."'[37] The Legislature authorized wildfire-related securitization to reduce rate shocks and reduce rates on a present value basis compared to traditional utility financing. For example, as the legislative history of AB 913 notes, the value from securitization arises from the ability to buffer potential immediate rate spikes, even though the mechanism would not reduce rates "overall."[38]

In D.21-10-025, the Commission found that SCE's proposal to securitize its 2021 wildfire mitigation O&M expenses at approximately 2.35 percent for 25 years—although legally permitted—was not in the public interest because the "time-value-of money benefits associated with securitizing the O&M . . . over a 25-year bond term is substantially outweighed by associated financing costs and higher utility rates for future customers."[39] The Commission

---

[37] D.21-10-025 at 27 n.69 (citing D.21-06-030 at 43).

[38] Senate Committee on Energy, Utilities, and Communications (hearing August 28, 2020) at 3.

[39] D.21-10-025 at 27-28.

indicated that “rate shock only occurs when the rate increase is so substantial that it would be an appreciable burden to most customers.”[40] And the Commission determined the $134 million more in costs for such a long financing period was not worth the short-term bill reductions when comparing the rate increase with the interest accumulation and additional upfront financing costs.[41]

Here, by contrast, SDG&E’s proposed 10-year securitization will mitigate the potential of a “substantial” rate shock. As cited in Table 3 above, under a traditional, three-year securitization, a typical non-CARE residential electric customer will see a $13.28/month bill increase in 2025 and $12.93/month in 2026. Even with interim relief—which reduces the total costs to customers and smooths rates out by putting a portion of the costs into rates in 2024, subject to refund—non-CARE residential customers would face monthly bill increases of $11.12, $10.78, and $10.42 in 2025-2027.

With a three-year amortization, CARE residential electric customers would see an $8.56, $8.33, and $8.10 increase in 2025-2027. That would still be around seven dollars during that period with interim relief and a three-year amortization. And that is without even accounting for SDG&E’s GRC Track 1 Decision that will likely be implemented in rates in 2025.

With securitization, by contrast, a typical non-CARE residential electric customer will only see a $2.71/month bill increase from securitization from 2026-2035.[42] And because CARE and FERA customers are exempted from paying the fixed recovery charge, those customers will see *zero* bill impacts from 2026-2035 from these costs.

---

40 *Id.* at 28.

41 *Id.* (“. . . a rate increase does not necessarily cause rate shock, but rather rate shock only occurs when the rate increase is so substantial that it would be an appreciable burden to most ratepayers.” (citation omitted)).

42 The Bill increases shown in 2024 and 2025 are from interim relief.

Although a ten-year securitization would increase the overall revenue requirement collected, SDG&E's proposed financing mechanism provides a more affordable option for SDG&E's customers and reduces costs for the typical residential customers. Importantly, SDG&E does not receive any of these securitization nonbypassable charges, which are paid to the SPE that issues the securitization bonds. The securitization revenue requirement is based upon a fixed, knowable, low-cost interest rate, providing certainty and predictability rather than being repeatedly subject to the current volatile interest rate environment, under traditional recovery approaches. And the modeled financing scheduled final payment date of approximately 10 years reduces the overall financing costs compared to a longer-term securitization.[43]

Yet by spreading the costs over ten years, securitization significantly reduces the monthly bill increase compared to traditional ratemaking. As noted, the highest monthly bill increase for a typical non-CARE and FERA residential electric customer is $6.10 in 2024. And that is from interim relief. The non-bypassable charge itself is $2.71/month for the approximate ten-year financing term—compared to the double-digit bill increases that a typical non-CARE residential customer would receive under a traditional three-year amortization.[44] Moreover, as noted, CARE and FERA customers will not see *any* bill increase from securitization.

And securitization *lowers* the overall costs for most residential customers. That is, even though the overall cost is higher, because section 850 provides that securitization costs are

---

[43] SDG&E's suggested financing scheduled final payment could change depending on financial conditions in a way that would maximize net-present value and customer benefits. Due to rating agency considerations, the rated legal final maturity may be longer than the scheduled final payment date.

[44] The proposed rate and bill impacts are illustrative. Final FRCs by rate class will not be calculated until after the final terms of an issuance of Recovery Bonds have been established. Barring significant changes in the projected terms of an issuance of Recovery Bonds, the results presented herein, including the illustrative FRC, should closely approximate the final figures.

allocated on an equal cent per kilowatt hour basis it reduces the costs for residential rate payers. A typical non-CARE residential electric customer will pay approximately $434.70 in total payment with securitization compared with $465.46 with a traditional three-year amortization.

Because Section 850 exempts CARE and FERA customers from the non-bypassble charge, the savings for CARE and FERA customers are even greater. The typical residential CARE electric customer saves *over $200* with securitization. The only payments that a CARE and FERA customer would make would be for interim relief in 2024 and 2025.

Table 6 – Overall Residential Bill Impact Comparison - Non-CARE[45]

Scenario	Yrs	Total Pmt	Max $/mo	Min $/mo	Avg $/mo
Securitization	12[46]	$ 434.70	$ 6.10	$ 2.71	$ 3.02
Amortization	3	$ 465.46	$ 13.28	$ 12.58	$ 12.93

Table 7 – Overall Residential Bill Impact Comparison - CARE[47]

Scenario	Yrs	Total Pmt	Max $/mo	Min $/mo	Avg $/mo
Securitization	12	$ 71.11	$ 3.96	$ -	$ 0.49
Amortization	3	$ 299.80	$ 8.56	$ 8.10	$ 8.33

Moreover, given the approximate ten-year scheduled final payment date, SDG&E's securitization proposal improves the affordability metrics of the proposal over time, given the embedded inflation assumptions within Energy Division's Affordability Ratio Calculator. As shown below, SDG&E's securitization proposal has less of an impact on the average affordability ratio metric compared to a three-year amortization. In fact, by 2027, SDG&E's average affordability metrics are reduced compared to the current baseline. By contrast, under a

45 Both tables include SDG&E's interim relief proposals.

46 This includes two years of interim relief and 10 years of securitization.

47 This includes two years of interim relief and 10 years of securitization.

three-year amortization, SDG&E's average affordability metrics *increase* compared to current for households at the lowest 20th percentile of income.[48]

Table 8 – SDG&E's Average Affordability Ratio Metrics[49]

	Current - 2023	2024		2025		2026		2027		Total Change in AR
	AR	AR	Inc. Change	AR	Inc. Change	AR	Inc. Change	AR	Inc. Change	
AR50 Non-CARE										
Interim + Securitization	2.12%	2.15%	0.03	2.07%	-0.09	2.00%	-0.07	1.94%	-0.06	-0.18
Traditional	2.12%	n/a	n/a	2.19%	0.07	2.12%	-0.07	2.05%	-0.07	-0.07
AR20 Non-CARE										
Interim + Securitization	9.14%	9.42%	0.29	9.21%	-0.21	8.97%	-0.24	8.76%	-0.21	-0.38
Traditional	9.14%	n/a	n/a	9.76%	0.62	9.51%	-0.25	9.26%	-0.24	0.13
AR20 CARE										
Interim + Securitization	5.87%	6.05%	0.18	5.91%	-0.14	5.67%	-0.24	5.54%	-0.14	-0.33
Traditional	5.87%	n/a	n/a	6.27%	0.40	6.10%	-0.16	5.95%	-0.16	0.08

Securitization is also consistent with the long-term benefits that customers receive from SDG&E's critical wildfire mitigation efforts. Many of the wildfire mitigation efforts at issue reflect one-time, up-front investments that will benefit customers in safety and reliability for years—supporting spreading these costs over time.

SDG&E faced unique circumstances in incurring these WMP-approved wildfire mitigation costs during the lengthy interim between SDG&E's 2019 and 2024 GRC application cycles. That cycle concurred with significant changes in California law, increased wildfire mitigation requirements, and wildfire mitigation needs, reflected in SDG&E's approved WMPs

48 Further details and expansion of the Affordability Metrics are discussed in the direct testimony of Evelyn Luna.

49 Energy Division's Affordability Ratio Calculator only goes out through 2027. Detailed affordability metrics by climate zone presented in the direct testimony of Evelyn Luna.

and updates. The catastrophic wildfires that occurred in 2017 and 2018, the resulting wildfire-related legislation, the increase in wildfire mitigation activities, and the time between GRC cycles all contributed to SDG&E accumulating undercollected wildfire-related balances. Given this, securitization here helps avoid rate shocks, benefits residential (particularly CARE and FERA) customers, and ensures that the long-term benefits from wildfire mitigation are fairly borne by customers over time.

c. Securitization will Reduce Rates on a Net Present Value Basis

Finally, Public Utilities Code Section 850.1(a)(1)(A)(ii)(III) requires the Commission to find that the issuance of recovery bonds, including all material terms and conditions of the bonds, "would reduce, to the maximum extent possible, the rates on a present value basis that consumers within [SDG&E's] service territory would pay as compared to the use of traditional utility financing mechanisms."[50] Securitization here accomplishes this goal.

SDG&E calculates a net present value from securitization with interim relief as $973 million, compared to the NPV from a three-year amortization of $1,008 million—resulting in a NPV savings of $34 million. Table 9 below compares the customer revenue requirements and rate impacts to recover the claims amount under traditional utility financing mechanisms compared to recovery of those costs through securitization.

[50] Pub. Util. Code Section 850.1(a)(1)(A)(ii)(III).

Table 9 – Revenue Requirement $ in thousands:

	2024	2025	2026	2027	2028-2035	Total
Three Year Amortization:						
Revenue Requirement	-	(423,700)	(412,369)	(401,096)	-	(1,237,166)
NPV of Revenue Requirement	-	(368,850)	(334,945)	(303,970)	-	(1,007,766)
10-Yr Securitization with Interim Relief:						
Revenue Requirement	(193,807)	(96,112)	(116,887)	(116,887)	(935,092)	(1,458,785)
NPV of Revenue Requirement	(180,828)	(83,670)	(94,941)	(88,582)	(525,329)	(973,350)

SDG&E calculates the estimated annual revenue requirements for recovering the under-collections through 2022 and the revenue requirement for capital related costs 2023-2027 using the following assumptions for traditional cost recovery of just and reasonable costs:

- SDG&E started with the recorded undercollection as of December 2022, with the estimated costs including the ongoing 2023 through 2027 capital related costs, on the 2022 ending rate base;
- Assumes that SDG&E will continue to accrue interest on the undercollection balances using the forecasted 3-month CP rate; and
- Amortizes the undercollection of the Track 2 costs over a three-year period starting in 2025.

Based on those assumptions, SDG&E estimates the annual revenue requirements under securitization by guidelines and assumptions for this calculation as follows:

- The Wildfire Mitigation Plan costs for track 2 at issue in this proceeding, other than those included in interim relief, are securitized, using a mortgage-style,[51] level annual debt service bond structure combined beginning in 2026 and a 10-year maturity;

[51] Mortgage-style financing includes a constant annual payment amount consisting of combined principal amortization and interest payments. Over time, the interest due decreases as the principal balance is paid off. This decrease in interest payments is offset by an increase in the amount paid to principal to maintain a constant annual payment amount over the life of the loan. SDG&E uses this assumption for purposes of determining the revenue requirement for illustrative purposes. Under this level annual debt service approach, the customer charges will tend to decline as there is expected load growth over the life of securitization. Final approaches for tranching and structure of fixed recovery charge(s) will be assessed in coordination with SDG&E's financial advisor and the CPUC's Finance Team.

- The weighted average interest rate on the securitization bonds is estimated to be 4.60%; and
- Upfront issuance and ongoing debt financing costs are estimated.

The precise degree of customer savings depends on factors that cannot be known at the time of issuance of the Commission's financing order, including the market for securitizations, the term and interest rate on the securitized bonds, and financing costs.[52] To address this inherent uncertainty, the Commission has established a finance team "to ensure that that statutory requirement for Consumer rate mitigation 'to the maximum extent possible' is met."[53]

The features of securitized bonds allow them to achieve AAA ratings, which is the highest possible rating assigned by credit rating agencies. Securitized bonds can be the lowest cost form of cost recovery available to a utility and its customers, regardless of the particular interest rate prevailing at the time of issuance. SDG&E's securitization proposal thus provides the benefit of predictable net present value rate reduction to customers, reduces rate shock, and lowers the total costs for typical residential customers—particularly CARE and FERA customers.

B. Financing Order Features and Transaction Structure

SDG&E's securitization application will request a Commission financing order providing authorization to issue approximately $925 million of Recovery Bonds. As discussed, Sections

---

[52] *See, e.g.*, D.20-11-007 at 2, 45-46; D.21-06-030 at 1, 46.

[53] D.21-06-030 at 46 ("the creation of a Finance Team to review the totality of the Recovery Bond processes, including costs associated with the Recovery Bond's creation and optimization, etc., as well as Recovery Bond terms, rates, and marketing, etc., is the best bulwark available to the Commission in this Financing Order to ensure that that statutory requirement for Consumer rate mitigation 'to the maximum extent possible' is met."); *accord* D.20-11-007 at 49 ("Through the use of a Finance Team, the Commission can put in place a process to address the issues that can only be reconsidered with facts that will be developed later.").

850 – 850.8 (Article 5.8)[54] authorize the issuance of such bonds. The highest possible credit rating for the Recovery Bonds is attained by including certain provisions in the Financing Order.[55]

The Commission can authorize the imposition of nonbypassable FRCs on consumers to pay the principal, interest, and other Financing Costs (as defined in Section 850(b)(4)). The FRC will be nonbypassable to all existing and future electric consumers in SDG&E's service territory as it exists as of the date of the financing order, except for CARE and FERA customers, who are exempt. Below describes some of the features of securitization.

1. Irrevocable Charges and State Pledge

Section 850.1(e) provides that the Commission's financing order authorizing Recovery Bonds and the FRCs are irrevocable by future Commissions, except with respect to the true-up adjustments described in Section 4 below. Section 850.1(e)imposes a statutory non-impairment obligation upon the Commission,

> [t]he commission shall not, either by rescinding, altering, or amending the financing order or otherwise, revalue or revise for ratemaking purposes the recovery costs or the costs of recovering, financing, or refinancing the recovery costs, in any way reduce or impair the value of recovery property or of the right to receive any associated fixed recovery tax amounts either directly or indirectly by taking fixed recovery charges or any associated fixed recovery tax amounts into account when setting other rates for the electrical corporation or when setting charges for the Department of Water Resources.

Further, pursuant to section 850.1(e), the State of California through the financing order pledges and agrees with SDG&E, owners of Recovery Property, the Special Purpose Entity ("SPE"), and holders of the Recovery Bonds, that the State will not limit or alter the Fixed Recovery Charges, the Recovery Property, this Financing Order, or any other rights—

[54] Division 1, Part 1, Chapter 4, Article 5.8 of the California Public Utilities Code.

[55] These features are described in D.23-02-023 at 19-20.

except with respect the True-Up Mechanism—until the Recovery Bonds, together with the interest thereon and associated Financing Costs, are fully paid. Nothing precludes the limitation or alteration of this pledge, however, if SDG&E and the owners and holders of the Recovery Bonds are adequately protected. The SPE is authorized to include this pledge and undertaking from the State in such Recovery Bonds.

2. Periodic True-Up Adjustments

Article 5.8 requires the Commission to adjust the FRCs at least annually, and more often if necessary, so that the FRC revenues are sufficient to pay, on a timely basis, the Recovery Bonds, and all other ongoing financing costs. SDG&E will propose the statutorily authorized "true-up" mechanism, which is common to all utility securitizations, including those in California. Specifically, to satisfy this statutory requirement for a periodic true-up adjustment of the FRCs, SDG&E proposes that the FRCs be adjusted: (i) at least annually to correct any overcollection or under-collection of FRC revenues; and (ii) more frequently, if necessary.

a. Recovery Property

Article 5.8 creates a separate and current property right to bill, charge, collect and adjust the nonbypassable FRCs, including all rights to obtain adjustments to the FRCs, and to all revenues, collections, claims, payments, moneys, or proceeds of or arising from the FRCs. The Recovery Property must be transferred to an entity that is bankruptcy-remote from SDG&E, i.e., a Special Purpose Entity (SPE) that is legally separate from SDG&E. SDG&E will form an SPE, wholly owned and organized by SDG&E, will issue one or more series of Recovery Bonds to investors in the form of notes or bonds which will be administered by a "Bond Trustee." The Recovery Bonds will be secured by the Recovery Property and the other limited assets of the applicable SPE.

b. Fixed Recovery Charge

The Financing Order would also authorize SDG&E to recover the costs of the securitization through a securitized fixed recovery charge or FRC. SDG&E will use a Cash Flow Model to calculate the FRC revenue requirement that will be assessed on its customers to finance bond payments. The FRC revenue requirement includes the annual debt service costs and other fees and costs. Customers will pay principal, interest, and other costs associated with the Recovery Bonds through the FRC.

C. Securitization Rate Design

As noted, under SDG&E's securitization proposal, the securitization charge will follow the requirements set forth in Section 850.1(i). This Section allocates costs on an equal cents/kWh basis and exempts CARE and FERA customers from paying the FRC associated with a financing order. This allocation methodology is based on volumetric kWh sales and thus will adjust whenever a new sales forecast is adopted and implemented in SDG&E's electric rates to maintain an equal cents/kWh rate. Table 9 below illustrates the resulting electric class allocation factors, based on the current effective sales forecast.[56]

Table 10 – Electric Class Allocation Factors – Securitization Proposal

Customer Class	Allocation %
Residential	33.0%
Small Commercial	11.8%
Medium/Large Commercial & Industrial	52.7%
Agriculture	2.0%
Lighting	0.5%
System	100.0%

[56] Rates effective January 1, 2023 per advice letter 4129-E, approved by Energy Division on January 30, 2023.

If securitization was not granted, SDG&E proposes to recover the costs through its distribution rate component under the rate design structure adopted in SDG&E's GRC Phase 2 proceedings, which recovers costs from all customers.[57]

Due to the lower amounts recorded to SDG&E's gas memorandum accounts, as discussed in the testimony of SDG&E witness Craig Gentes at Exhibit 6, SDG&E proposes to use traditional ratemaking (*i.e.* 2019-2025 gas balances totaling $12 million for 2025 rate impact, 2026 gas balances of $3.2 million for 2026 rate impact, 2027 gas balances of $1.7 million for 2027 rate impact).

D. Securitization Rate Impacts

Tables 11 and 12 below present illustrative electric rate impacts associated with the revenue requirements presented in Table 2 above for SDG&E's securitization proposal and for a three-year amortization, respectively.

Table 11 – Illustrative Electric Class Average Rate Impacts - Bundled[58] (cents/kWh) Interim + Securitization Proposal 2024-2036[59]

	Effective Rates 1/1/2023	Proposed 2024 (¢/kWh)	(¢/kWh) Change	YOY % Change	Proposed 2025 (¢/kWh)	(¢/kWh) Change	YOY % Change
Customer Class							
Residential	40.375	41.897	1.522	3.8%	41.130	-0.767	-1.8%
Small Comm.	40.224	41.682	1.458	3.6%	40.947	-0.735	-1.8%
Med & Lg C&I	37.553	38.391	0.838	2.2%	37.968	-0.423	-1.1%
Agriculture	28.614	29.477	0.863	3.0%	29.042	-0.435	-1.5%
Lighting	34.644	36.359	1.715	5.0%	35.495	-0.864	-2.4%
System Total	38.471	39.622	1.151	3.0%	39.042	-0.580	-1.5%

57 Current rate design pursuant to SDG&E's TY 2019 GRC P2 D.21-07-010. SDG&E's TY 2024 GRC phase two is currently an open proceeding before the Commission.

58 Bundled includes electric delivery and electric generation rates.

59 Rates are illustrative and subject to a final financing order.

	Proposed 2025	Proposed 2026 (¢/kWh)	(¢/kWh) Change	YOY % Change	Proposed 2027-2035 (¢/kWh)	(¢/kWh) Change	YOY % Change
Customer Class							
Residential	41.130	40.931	-0.199	-0.5%	40.931	0.000	0.0%
Small Comm.	40.947	40.934	-0.013	0.0%	40.934	0.000	0.0%
Med & Lg C&I	37.968	38.262	0.294	0.8%	38.262	0.000	0.0%
Agriculture	29.042	29.325	0.283	1.0%	29.325	0.000	0.0%
Lighting	35.495	35.355	-0.140	-0.4%	35.355	0.000	0.0%
System Total	39.042	39.121	0.079	0.2%	39.121	0.000	0.0%

//

//

//

Table 12 – Illustrative Electric Class Average Rate Impacts - Delivery (cents/kWh) Interim + Securitization Proposal 2024-2036

	Effective Rates 1/1/2023	Proposed 2024 (¢/kWh)	(¢/kWh) Change	YOY % Change	Proposed 2025 (¢/kWh)	(¢/kWh) Change	YOY % Change
Customer Class							
Residential	20.710	22.232	1.522	7.3%	21.465	-0.767	-3.4%
Small Comm.	22.807	24.265	1.458	6.4%	23.530	-0.735	-3.0%
Med & Lg C&I	17.165	18.003	0.838	4.9%	17.580	-0.423	-2.3%
Agriculture	14.064	14.927	0.863	6.1%	14.492	-0.435	-2.9%
Lighting	21.784	23.499	1.715	7.9%	22.635	-0.864	-3.7%
System Total	18.999	20.150	1.151	6.1%	19.570	-0.580	-2.9%

	Proposed 2025	Proposed 2026 (¢/kWh)	(¢/kWh) Change	YOY % Change	Proposed 2027-2035 (¢/kWh)	(¢/kWh) Change	YOY % Change
Customer Class							
Residential	21.465	21.266	-0.199	-0.9%	21.266	0.000	0.0%
Small Comm.	23.530	23.517	-0.013	-0.1%	23.517	0.000	0.0%
Med & Lg C&I	17.580	17.874	0.294	1.7%	17.874	0.000	0.0%
Agriculture	14.492	14.775	0.283	2.0%	14.775	0.000	0.0%
Lighting	22.635	22.495	-0.140	-0.6%	22.495	0.000	0.0%
System Total	19.570	19.649	0.079	0.4%	19.649	0.000	0.0%

Table 13 – Illustrative Electric Class Average Rate Impacts - Bundled (cents/kWh) Traditional 3-Year Amortization 2025-2027

	Effective Rates 1/1/2023	Proposed 2025 (¢/kWh)	(¢/kWh) Change	YOY % Change	Proposed 2026 (¢/kWh)	(¢/kWh) Change	YOY % Change
Customer Class							
Residential	40.375	43.701	3.326	8.2%	43.612	-0.089	-0.2%
Small Comm.	40.224	43.410	3.186	7.9%	43.325	-0.085	-0.2%
Med & Lg C&I	37.553	39.385	1.832	4.9%	39.336	-0.049	-0.1%
Agriculture	28.614	30.501	1.887	6.6%	30.451	-0.050	-0.2%
Lighting	34.644	38.394	3.750	10.8%	38.294	-0.100	-0.3%
System Total	38.471	40.988	2.517	6.5%	40.921	-0.067	-0.2%

	Proposed 2026	Proposed 2027 (¢/kWh)	(¢/kWh) Change	YOY % Change
Customer Class				
Residential	43.612	43.524	-0.088	-0.2%
Small Comm.	43.325	43.240	-0.085	-0.2%
Med & Lg C&I	39.336	39.287	-0.049	-0.1%
Agriculture	30.451	30.400	-0.051	-0.2%
Lighting	38.294	38.194	-0.100	-0.3%
System Total	40.921	40.854	-0.067	-0.2%

Table 14 – Illustrative Electric Class Average Rate Impacts - Delivery (cents/kWh) Traditional 3-Year Amortization 2025-2027

	Effective Rates 1/1/2023	Proposed 2025 (¢/kWh)	(¢/kWh) Change	YOY % Change	Proposed 2026 (¢/kWh)	(¢/kWh) Change	YOY % Change
Customer Class							
Residential	20.710	24.036	3.326	16.1%	23.947	-0.089	-0.4%
Small Comm.	22.807	25.993	3.186	14.0%	25.908	-0.085	-0.3%
Med & Lg C&I	17.165	18.997	1.832	10.7%	18.948	-0.049	-0.3%
Agriculture	14.064	15.951	1.887	13.4%	15.901	-0.050	-0.3%
Lighting	21.784	25.534	3.750	17.2%	25.434	-0.100	-0.4%
System Total	18.999	21.516	2.517	13.2%	21.449	-0.067	-0.3%

	Proposed 2026	Proposed 2027 (¢/kWh)	(¢/kWh) Change	YOY % Change
Customer Class				
Residential	23.947	23.859	-0.088	-0.4%
Small Comm.	25.908	25.823	-0.085	-0.3%
Med & Lg C&I	18.948	18.899	-0.049	-0.3%
Agriculture	15.901	15.850	-0.051	-0.3%
Lighting	25.434	25.334	-0.100	-0.4%
System Total	21.449	21.382	-0.067	-0.3%

Table 15 below presents illustrative gas transportation rate impacts associated with the revenue requirement presented in Exhibit 6 to the direct testimony of SDG&E witness Craig Gentes.

Table 15 – Illustrative Gas Class Average Rate Impacts 2025-2027 ($/therm)

	Aug-23	2025 Proposed	$/th Change	YOY % Change	2026 Proposed	$/th Change	YOY % Change
SDGE:							
Res	$1.651	$1.683	$0.032	2.0%	$1.659	($0.024)	-1.4%
CCI CA	$0.680	$0.689	$0.009	1.3%	$0.683	($0.006)	-0.9%
NGV Uncompressed post-SW	$0.303	$0.303	$0.000	0.1%	$0.303	($0.000)	-0.1%
Core Class Average	$1.236	$1.258	$0.022	1.8%	$1.242	($0.016)	-1.3%
NCCI-D	$0.290	$0.293	$0.003	0.9%	$0.291	($0.002)	-0.7%
EG-D Tier 1 post-SW	$0.314	$0.315	$0.001	0.2%	$0.314	($0.000)	-0.2%
EG-D Tier 2 post-SW	$0.222	$0.222	$0.000	0.1%	$0.222	($0.000)	-0.1%
TLS-CI CA Rate (w/ CSITMA & CARB adders)[1]	$0.144	$0.144	$0.000	0.0%	$0.144	($0.000)	0.0%
TLS-EG CA Rate (w/CARB adder)	$0.144	$0.144	$0.000	0.0%	$0.144	($0.000)	0.0%
System Average Rate	$0.634	$0.645	$0.011	1.7%	$0.637	($0.008)	-1.2%

	2026 Proposed	2027 Proposed	$/th Change	YOY % Change
SDGE:				
Res	$1.659	$1.656	($0.004)	-0.2%
CCI CA	$0.683	$0.682	($0.001)	-0.2%
NGV Uncompressed post-SW	$0.303	$0.303	($0.000)	0.0%
Core Class Average	$1.242	$1.239	($0.003)	-0.2%
NCCI-D	$0.291	$0.290	($0.000)	-0.1%
EG-D Tier 1 post-SW	$0.314	$0.314	($0.000)	0.0%
EG-D Tier 2 post-SW	$0.222	$0.222	($0.000)	0.0%
TLS-CI CA Rate (w/ CSITMA & CARB adders)[1]	$0.144	$0.144	($0.000)	0.0%
TLS-EG CA Rate (w/CARB adder)	$0.144	$0.144	($0.000)	0.0%
System Average Rate	$0.637	$0.636	($0.001)	-0.2%

1 CSITMA is the California Solar Initiative Program Adder
CARB adder is for CARB administrative fees.
GHG Adder is for GHG End Users fee.

E. Bill Impacts

Although my testimony above provides a discussion of the bill impacts from SDG&E's proposals, further details are below. Tables 16 and 17 below present illustrative electric rate and bill impacts for a typical residential customer under SDG&E's proposed securitization compared to a three-year amortization.

Table 16 – Illustrative Residential Electric Bill Impacts ($/month)[60]
Securitization & Interim Relief Proposal

		Current 1/1/2023	2024	2025	2026-2035	Total
Non-CARE						
Incremental Change	$/month		$ 6	$ 3	$ 3	$ 435
Year-over-Year (YOY) Change	$/month		$ 6	$ (3)	$ (0)	
YOY Unbundled (2021V) Impact	%	$ 101	6%	-3%	0%	
YOY Bundled Impact	%	$ 173	4%	-2%	0%	
CARE						
Incremental Change	$/month		$ 4	$ 2	$ -	$ 71
YOY Change	$/month		$ 4	$ (2)	$ (2)	
YOY Unbundled (2021V) Impact	%	$ 60	7%	-3%	-3%	
YOY Bundled Impact	%	$ 109	4%	-2%	-2%	

Table 17 – Illustrative Residential Electric Bill Impacts ($/month)
Traditional Ratemaking

		Current 1/1/2023	2025	2026	2027	Total
Non-CARE						
Incremental Change	$/month		$ 13	$ 13	$ 13	$ 465
YOY Change	$/month		$ 13	$ (0)	$ (0)	

60 An unbundled customer receives only their electric delivery from SDG&E and receives their electric generation from an Energy Service Provider (ESP) that is not SDG&E, such as a Community Choice Aggregator (CCA). A bundled customer receives both electric delivery and electric generation from SDG&E. Typical bill impacts based on 400 kWh inland/coastal average.

YOY Unbundled (2021V) Impact	%	$ 101	13%	0%	0%	
YOY Bundled Impact	%	$ 173	8%	0%	0%	
CARE						
Incremental Change	$/month		$ 9	$ 8	$ 8	$ 300
YOY Change	$/month		$ 9	$ 0	$ 0	
YOY Unbundled (2021V) Impact	%	$ 60	14%	0%	0%	
YOY Bundled Impact	%	$ 109	8%	0%	0%	

Table 17 below presents illustrative gas residential bill impacts.

Table 17 – Illustrative Residential Gas Bill Impacts ($/month)[61]

	Present Aug-23	Proposed 2025	YOY Change $	YOY Change %	Proposed 2026	YOY Change $	YOY Change %
Average Bill non-CARE Gas Bills	$58.07	$58.84	$0.77	1.3%	$58.27	($0.57)	-1.0%

	Proposed 2026	Proposed 2027	YOY Change $	YOY Change %
Average Bill non-CARE Gas Bills	$58.27	$58.18	($0.09)	-0.2%

	Present Aug-23	Proposed 2025	YOY Change $	YOY Change %	Proposed 2026	YOY Change $	YOY Change %
Average Bill CARE Gas Bills	$37.23	$37.73	$0.50	1.3%	$37.36	($0.37)	-1.0%

	Proposed 2026	Proposed 2027	YOY Change $	YOY Change %
Average Bill CARE Gas Bills	$37.36	$37.30	($0.06)	-0.2%

[61] Typical Non-CARE bill impacts based on 24 therms/month, CARE bill impacts based on 20 therms/month.

Notably, on June 30, 2022, AB 205 was enacted. Among other things, AB 205 amended Public Utilities Code Section 739.1(c) with respect to determining the average effective CARE discount. AB 205 does not directly impact SDG&E's securitization proposal because customers enrolled in the CARE program are exempt from the securitization costs.

The Commission is in the process, however, of addressing the broader issue of how the average effective CARE discount is impacted by AB 205, in relation to other charges, including the FRC, in the Demand Flexibility OIR proceeding.[62] For the securitization application, SDG&E anticipates being able to account for the impact of AB 205 on the average effective CARE discount once a determination is made in the Demand Flex OIR. These changes are expected to eliminate the bill increases to CARE customers with securitization altogether.

IV. CONCLUSION

Following SDG&E's 2019 GRC, SDG&E made critical investments in wildfire mitigation, consistent with state requirements and as provided for in SDG&E's approved Wildfire Mitigation Plans. Those investments were essential for public safety and should be authorized for recovery. SDG&E recognizes, however, that implementing those just and reasonable incremental costs, the undercollected balances associated with those costs, and the associated revenue requirement through a three-year amortization could cause rate shock. SDG&E thus proposes: (1) interim relief to implement recovery subject to refund in rates in 2024 before SDG&E's GRC Track 1 and 2 Decisions are implemented, which will lower costs

[62] Several parties have proposed that the Commission address issued related to the implementation of AB 205 in Rulemaking (R.) 22-07-005, Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates. *See, e.g.*, R.22-07-005, Opening Comments of the Public Advocates Office on Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates (Aug. 15, 2022), at 4-6 (proposing that review of CARE discount implementation be included in scope of initial phase of proceeding); R.22-07-005, Comments of the Natural Resources Defense Council on the Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates (Aug. 15, 2022) at 2-3 (proposing that AB 205 requirements should be addressed in first phase of proceeding).

for customers; and (2) a ten-year securitization to limit bill increases and to lower costs for residential customers, particularly for CARE and FERA enrollees.

This concludes my prepared direct testimony.

V. WITNESS QUALIFICATIONS

My name is Valerie Bille. I am Vice President, Chief Accounting Officer, Controller, and Treasurer for SDG&E. My business address is 8330 Century Park Court, San Diego, California 92123.

In my current position, I am responsible for overseeing the financial planning and budgeting, financial reporting, treasury management, and accounting for SDG&E. I assumed my current position in August 2020. Prior to this, I have served in roles of increasing responsibility at Sempra Energy and SDG&E since November 2014.

I received a Bachelor of Science in Business Administration from California State University, San Marcos in 2000. I am a Certified Public Accountant. I began my career with Deloitte & Touche.

I have previously testified before the Commission.