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

Application of San Diego Gas & Electric Company (U 902 M) for Establishment of an Interim Rate Relief Mechanism for its Wildfire Mitigation Plan Costs	Application 21-07-017 (Filed July 30, 2021)

JOINT MOTION OF SAN DIEGO GAS & ELECTRIC COMPANY AND THE UTILITY REFORM NETWORK TO ACCEPT RECORDS INTO EVIDENCE

Laura Fulton
8330 Century Park Court
San Diego, CA 92123
Telephone: (858) 654-1759
Facsimile: (619) 699-5027
Email: lfulton@sdge.com

Counsel for
SAN DIEGO GAS & ELECTRIC COMPANY

Robert Finkelstein
785 Market Street, Suite 1400
San Francisco, CA 94103
Telephone: (415) 929-8876
Facsimile: (415) 929-1132
Email: bfinkelstein@turn.org

General Counsel for
THE UTILITY REFORM NETWORK

January 10, 2022

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Pursuant to Rules 11.1 and 13.8(c) of the California Public Utilities Commission's ("Commission" or "CPUC") Rules of Practice and Procedure, San Diego Gas & Electric Company (SDG&E) and The Utility Reform Network (TURN) (jointly "Parties") respectfully file this Joint Motion to Accept Records into Evidence ("Motion").

The Parties hereby move the Commission to receive the following records into evidence in this proceeding:

Exhibit 01 - SDG&E Prepared Direct Testimony of Jonathan T. Woldemariam in support of Application, dated July 30, 2021;

Exhibit 02 - SDG&E Prepared Direct Testimony of Eric Dalton in support of Application, dated July 30, 2021;

Exhibit 03 – SDG&E Prepared Direct Testimony of Casey Butler in support of Application, dated July 30, 2021;

Exhibit 04 – "Credit Opinion: San Diego Gas & Electric Company," Moody's Investors Service (May 10, 2021).

Exhibit 04 is attached to this Joint Motion to Accept Records into Evidence. The Testimony exhibits described above (Exhibits 01 – 03) have been served prior to the filing of this Motion on the Administrative Law Judge and the parties to the service lists.

Prior to filing the instant Motion, the Parties conferred with the named parties to the service list for this proceeding via email. No party objected to the Motion.

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Respectfully submitted,

/s/ Laura M. Fulton

Laura M. Fulton
Senior Counsel
San Diego Gas & Electric Company
8330 Century Park Court, CP32D
San Diego, CA 92123-1530
Telephone: (858) 654-1759
Facsimile: (619) 699-5027
Email: lfulton@sdge.com

January 10, 2022

THE UTILITY REFORM NETWORK

By: */s/ Robert Finklestien*

Robert Finkelstein
785 Market Street, Suite 1400
San Francisco, CA 94103
Telephone: (415) 929-8876
Facsimile: (415) 929-1132
Email: bfinkelstein@turn.org

Attachment – Exhibit 4

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
10 May 2021

Update

Rate this Research

RATINGS

San Diego Gas & Electric Company

Domicile	San Diego, California, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Natividad Martel, CFA — +1.212.553.4561
VP-Senior Analyst
natividad.martel@moodys.com

Nikita Nanwani — +1.212.553.0300
Associate Analyst
nikita.nanwani@moodys.com

Michael G. Haggarty — +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

Jim Hempstead — +1.212.553.4318
MD - Global Infrastructure & Cyber Risk
james.hempstead@moodys.com

San Diego Gas & Electric Company

Update to credit analysis following upgrade to A3

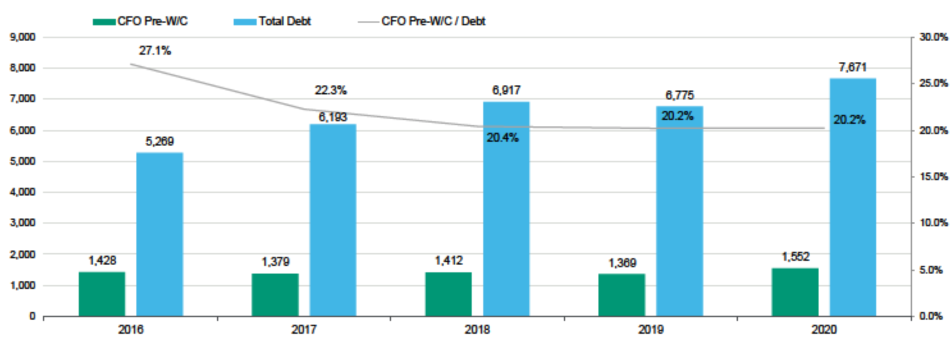
Summary

San Diego Gas & Electric Company's (SDG&E) credit profile reflects the utility's regulated operations that consist largely of low risk transmission and distribution (T&D) assets and the supportiveness of its regulatory jurisdictions, both in California and under the Federal Energy Regulatory Commission's (FERC) purview. It also considers the utility's constructive relationship with the California Public Utilities Commission (CPUC) as evidenced by the outcome of its 2019 general rate case (GRC) and a public safety power shutoff (PSPS) program that has faced less scrutiny and criticism compared to peers. SDG&E also benefits from a broad suite of cost recovery mechanisms and strong regulatory financial parameters that underpin our expectation that the utility will be able to generate a ratio of CFO before changes in working capital (CFO pre-WC) to debt of at least 20%, on a sustained basis.

SDG&E's credit also factors in our view that political risk, in terms of media attention and the demand on utilities to implement the state's clean energy policy goals, is higher in California compared to most other jurisdictions in the US. Exposure to wildfire risk also tempers the credit although we acknowledge SDG&E's track record of effective wildfire risk mitigation practices and the credit support provided by wildfire legislation enacted by the state of California in July 2019.

Exhibit 1

Historical CFO pre-WC, Total Debt and CFO pre-WC to Debt ($ MM) [1]



[1] See Exhibit 5 for Moody's analyst adjusted credit metrics
Source: Moody's Financial Metrics

Recent developments

Franchise Agreements with the City of San Diego – At the end of December 2020, the San Diego City Council approved an agreement between SDG&E and the City for a 5-month extension, until June 1, 2021, of the utility's electric and natural gas franchise agreements with the City. The previous agreements had expired in January 2021. Despite the initial interest expressed in obtaining the franchises from two unrelated parties, we understand that SDG&E was the only participant in a competitive bidding process which was subsequently canceled. The purpose of the 5-month extension is to provide the City's newly elected officials time to seek public input and additional information. On April 16, 2021, the City announced SDG&E was again the only participant in the competitive bid process with the City announcing plans to start a new competitive process. We expect the utility and the City to come to terms on an additional extension of the franchise agreement over the next month. If not, the current agreement provides that the utility will be compensated for the value of the assets it would have to provide to the City or to a new provider of electric and gas service.

Covid-19 The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices, and asset price volatility have created a severe and extensive credit shock across many sectors, regions, and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial public health and safety implications. We expect SDG&E to be relatively resilient to recessionary pressures related to the coronavirus because of its fully rate regulated operations and mostly residential customer base. However, we are monitoring customer usage declines, utility bill payment delinquency, and the regulatory response to counter any negative impacts on earnings and cash flow. While the effects of the pandemic could pressure SDG&E's financial metrics, we view coronavirus specific impacts as not reflective of the company's core, ongoing operations or credit quality.

Credit strengths

» Stable, regulated largely T&D utility operations with a rate base of around $11 billion

» Robust credit metrics are expected to continue amid supportive rate case outcome and good cost recovery mechanisms

» Effective wildfire mitigation and prevention programs in place in relatively small service territory

» Wildfire legislation enhances liquidity and significantly limits exposure to wildfire related costs

Credit challenges

» Elevated political risk and public scrutiny in California amid demanding public policy goals

» Execution risk in the CPUC's implementation of the new prudency standards included in the wildfire legislation

» Ongoing wildfire risk in the state

» Material capital investment program to require incremental debt

Rating outlook

The stable outlook reflects our view that SDG&E's underlying wildfire risk exposure has been reduced and that access to the state's wildfire fund and new prudency standard under Assembly Bill 1054 will support credit quality going forward. It also assumes that its key credit metrics will remain strong despite incremental debt being incurred to fund its material capital investments and as it also remains a key source of cash dividends for parent company Sempra over the near to medium-term. Specifically, the stable outlook assumes that SDG&E will generate CFO pre-W/C to debt of at least 20% on a sustained basis. The stable outlook also assumes that the relationship of the utility with the CPUC and other stakeholders in the state will remain constructive, including with regard to the utility's implementation of its wildfire mitigation and power shut-off programs.

Factors that could lead to an upgrade

- Positive momentum on SDG&E's ratings is possible if it is able to report run-rate CFO pre-W/C to debt in excess of 24%, on a sustained basis, if its relationship with regulators and other stakeholders remains constructive, and if the utility's equipment does not cause the ignition of any catastrophic wildfires.

Factors that could lead to a downgrade

- A downgrade of SDG&E's ratings is possible upon a deterioration in its credit metrics such that its ratio of CFO pre-WC to debt falls below 20% for a sustained period of time. We could also take negative rating action (i) following a deterioration in regulatory support or an increase in regulatory contentiousness or (ii) if SDG&E's underlying wildfire risk worsens, including by its equipment's involvement in major wildfires or by an unsupportive application of the new prudency standard implemented under the wildfire fund legislation, or (iii) if the wildfire fund is exhausted.

Key indicators

Exhibit 2
San Diego Gas & Electric Company [1] [2]

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
CFO Pre-W/C + Interest / Interest	7.4x	6.8x	6.5x	4.2x	4.5x
CFO Pre-W/C / Debt	27.1%	22.3%	20.4%	20.2%	20.2%
CFO Pre-W/C – Dividends / Debt	23.8%	15.0%	16.8%	20.2%	17.6%
Debt / Capitalization	38.4%	46.6%	47.4%	43.2%	44.1%

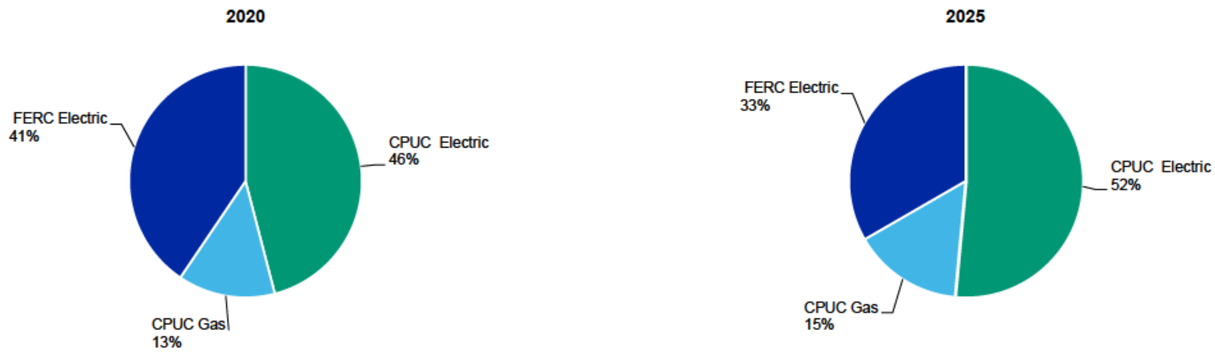
1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] See Exhibit 5 for Moody's analyst adjusted credit metrics
Source: Moody's Financial Metrics

Profile

SDG&E is a regulated utility that provides electric services in San Diego County and part of Orange County (nearly 1.5 million electric customers). The utility also renders natural gas distribution services in San Diego County (around 0.9 million customers). Its service territory covers around 4,100 square miles with a population of around 3.4 million.

SDG&E is predominantly a transmission and distribution (T&D) company subject to the oversight of the California Public Utility Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Following the retirement of the San Onofre Nuclear Generating Station (SONGS: 20% interest), the utility's owned electric generation assets approximate 1,200 MW (less than 10% of its rate base). Given SDG&E's material investments to grow its T&D operations, management anticipates that SDG&E's total rate base will grow to $17.1 billion by year-end 2025.

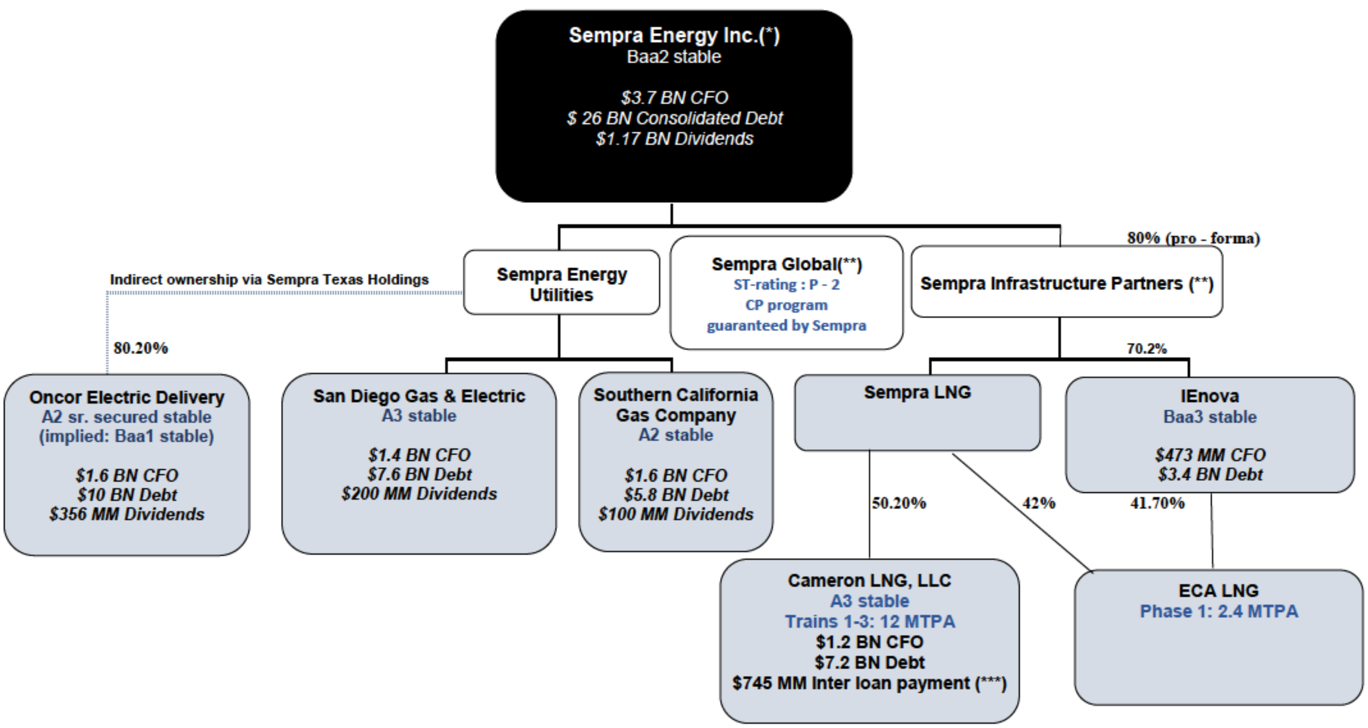
Exhibit 3
SDG&E's operations are subject to the oversight of the CPUC and FERC (transmission)



Source: Company Filings

SDG&E ranks as the largest subsidiary of Sempra Energy (Sempra; Baa2 stable). We calculate that SDG&E's rate base and funds from operations (FFO) accounted for around 30% of the consolidated rate base and FFO, at year-end 2020. Both consolidated numbers include the proportional consolidation of Sempra's 80.25% ownership in Oncor and 50.2% in Cameron.

Exhibit 4
Simplified Sempra Organizational Chart (adjusted figures as of 31 December 2020)



(*) Sempra's consolidated numbers reflect Moody's Standard adjustments but do not reflect the proportional consolidation of Oncor and Cameron.
(**) Sempra is conducting an internal reorganization to consolidate the assets of its liquefied natural gas (LNG) business and its ownership in Infraestructura Energética Nova, S.A.B. de C.V. ("IEnova") under Sempra Global, which will be renamed Sempra Infrastructure Partners ("SIP"). Sempra expects to close the sale of a 20% interest in SIP to KKR by mid-2021.
(***) Cameron LNG has an intercompany loan with Cameron LNG Holdings LLC (2020: $713.2 MM; 2019: $1,459.5 MM) for working capital or project capital (due: 2040). In July 2020, Cameron's affiliate Cameron LNG Finco, LLC (CFIN) entered into a $1.5 BN financing arrangement with Cameron's sponsors (due: 2039). Sempra guarantees its proportionate share of CFIN's loans ($753 MM).
Source: Company filings, Moody's Investors Service

Detailed credit considerations

Regulated T&D utility with high political risk and public scrutiny in both San Diego and the state of California

SDG&E's credit profile incorporates our view that utilities in California tend to receive a higher level of scrutiny and attention from both the media and the public, such that issues can quickly become contentious. Our analysis considers the significant demands that are placed on the California utilities, including many ambitious public policy initiatives, particularly related to renewables, that are implemented through utility operations.

Compounding this state wide risk is the uncertainty around SDG&E's ability to continue to serve the City of San Diego (around 45% of its current load) after the June 1 expiration of a temporary 5-month extension of its natural gas and electric franchise agreement it has with the City. Losing the City as a customer would be credit negative, although we understand that a payment to the utility to reflect the fair market value of its assets serving the City would become due should the franchise agreement be permanently terminated. The specific amount is yet to be defined but we believe that it will be sufficient to compensate SDG&E's debtholders for the loss of these assets. As of end of 2020, the utility's debt obligations aggregated around $6.2 billion (excluding nearly $1.3 billion in capital leases related to Power Purchase Agreements (PPA)).

We consider SDG&E to be largely a T&D utility because its generation assets (four natural gas generation plants) are relatively modest in terms of its total rate base (less than 10%). The utility's capital investment focuses on growing its T&D footprint which will further dilute the generation assets' relative importance to the utility's rate base going forward. According to Assembly Bill 57, SDG&E provides bundled electric services to certain end-users (so called "bundled customers") that have not chosen an alternative electricity supplier, such as community choice aggregators (CCAs) and direct access providers.

At year-end 2020 and 2019, SDG&E's natural gas facilities (net capacity: 1,204 MW) accounted for 23% of its total available generation resources to meet those obligations compared to around 20% at year-end 2018. The expiration of some of SDG&E's contractual arrangements largely explains this 3% difference. SDG&E's total contracted load approximated 4 GW at year-end 2020 (2018: around 4.7 GW). These contractual arrangements include tolling agreements (2020: 1,292 MW or 25% of SDG&E's available resources; 2018: 31% of the total) with third party combined cycle units and peaking plants. The system requires these facilities to maintain reliability as evidenced by the rolling blackouts that affected California during the August 2020 heatwave.

SDG&E reports these tolling arrangements under capitalized leases related to PPAs, including, starting in 2019, the amended resource adequacy capacity agreement (due in August 2024) with Calpine Corporation's (Ba3 stable) Otay Mesa Energy Center (OMEC). SDG&E and OMEC's contractual arrangement rescinded a put option that had previously existed on this plant. SDG&E deconsolidated OMEC upon execution of the resource adequacy capacity agreement. Prior to deconsolidation, OMEC repaid its $211 million outstanding loan. For the analytical implications of the accounting of this type of arrangements, please refer to the credit metrics (Exhibit 5) section below.

We understand that SDG&E hedges 60-70% of its electricity purchases based on sales forecasts before the delivery year and that its 5-year hedging procurement strategy is subject to the CPUC's approval. The utility's financial hedging strategy also uses swap derivatives to reduce specific locational basis risk, another credit positive.

Legislation and effective mitigation and prevention programs have reduced wildfire risk exposure

Catastrophic wildfires have become a significant risk to California utilities over the past few years. The effects of climate change and growing housing developments in fire-prone areas, along with the California courts' application of the inverse condemnation legal doctrine, heighten the utilities' risk exposure to property damage. According to this doctrine, utilities are strictly liable for damages from fires ignited by their equipment, regardless of fault or how reasonably the utilities acted.

However, SDG&E, like the other investor owned utilities in California, has benefited from the credit support provided by wildfire legislation, particularly Assembly Bill 1054 (AB 1054), enacted in July 2019. It also has a smaller service territory compared to its California utility peers and more effective wildfire risk prevention and mitigation practices. These practices have helped SDG&E to avoid any catastrophic wildfires over the last thirteen years, including last year when challenging weather and climatic conditions affected California.

AB1054 is credit positive because it established a $21 billion wildfire fund that enhances the utilities' liquidity and is available to them as long as they have a wildfire safety certification. SDG&E's current certification is dated September 2020 and is subject to annual renewals. The fund remains untapped. The utility has immediate access to funds to cover any potential future damages caused by a catastrophic wildfire ignited by its equipment, when the damages exceed the greater of $1 billion on an annual basis or the utility's insurance coverage (utilities are expected to maintain $1 billion of wildfire insurance). The utility can use the fund to pay claims to wildfire victims (or the subrogation claims from the insurers of the wildfire victims) first and reimburse the fund later if there are any disallowances should the utility be deemed imprudent. In this case, AB 1054 also caps the utility's liability at 20% of the equity portion of its T&D rate base over a trailing three calendar year period. For SDG&E, this cap (subject to annual updates) currently approximates $950 million based on its 52% authorized equity layer. The IOUs' total contribution to the fund aggregates $10.5 billion. SDG&E's share of $452 million equals around 4.3% of the total. In 2019 and 2020, it paid in around $335 million with the balance due in annual installments until 2028.

Importantly, AB 1054 also revised the prudency standard in favor of utilities to enhance their ability to recover wildfire costs from ratepayers. From a credit perspective, this is relevant because, if the insurance fund's claims paying capability is exhausted, the majority of the credit supportive elements, including the liability cap, will terminate. However, the more favorable prudency standard will remain in place. As long as SDG&E maintains a valid safety certification, the new CPUC standard would presume that it acted reasonably during a wildfire-linked event. The wildfire legislation also requires the CPUC to consider factors that were beyond the utility's control (e.g. humidity, temperature and winds) when deciding the total or partial allocation of costs. The most important change is that the burden of proof has shifted from the utility to the intervenors, who are required to raise serious doubt as to the reasonableness of the utility's conduct. We understand that this revised prudency standard is in line with the recovery standards applied by the FERC. This is important because, in the case of SDG&E's 2007 wildfires, while the CPUC denied recovery, the FERC ruled that SDG&E acted prudently and allowed the recovery of the wildfire costs. That said, the application of the new standard remains untested but we assume that, if needed, it will be applied in a credit constructive manner.

SDG&E's investments and practices have helped the utility to prevent and mitigate wildfires since the last catastrophic events in 2007. SDG&E's prevention and mitigation practices include an aggressive vegetation management program, year-round access to a firefighting helicopter, material investments to harden its T&D systems and undergrounding work on its distribution network. The initiatives, particularly in high wind areas, also include replacing wood poles with steel poles, increasing situational awareness with an extensive network of high-tech alert cameras (including 100% coverage in the high fire-threat districts (HFTD)) and weather stations (currently total: 220; nearly 90% in the HFTD) to monitor wildfire risk. Another key tool is the Santa Ana Wildfire Threat Index (developed with several parties including the University of California at Los Angeles and the U.S. Forest Service) because it helps forecast fire risk at least six days in advance, allowing SDG&E to proactively deploy equipment and resources to high risk areas in anticipation of wildfires. The index forecast along with the utility's long experience with the de-energization of power lines (since CPUC's authorization in 2009) and changes to the network have allowed SDG&E to minimize the impact of these shutoffs on customers. The latter is a significant credit positive, particularly in the wake of the significant regulatory and political backlash faced by its peers with these programs.

Load loss from rooftop solar and community choice is overall credit neutral

In line with the aforementioned reduction in SDG&E's contracted load since 2018, the utility's power delivered to its "bundled" customers dropped in 2020 and 2019 compared to the volumes reported at year-end 2018 (a reduction of nearly 5%). Last year's electricity sales of around 14,398 GWh remained relatively flat compared to 2019. The reduction in the power supplied to commercial and industrial (C&I) customers amid the pandemic was offset by the increased demand of residential customers and the effect of the aforementioned heatwave. As a point of reference, the California Independent System Operator (CAISO) reported that power demand contracted by 2% during 2020 after reporting a 4% contraction during the first half of the year. In addition to the pandemic, other more long-term factors contributing to SDG&E's declining load include the impact of energy efficiency programs, as well as the growing penetration of distributed generation, including rooftop solar and batteries, as well as alternative electricity suppliers in the utility's service territory.

According to Sempra, the rooftop capacity in SDG&E's service territory continued to grow to 1,423 MW in 2020 (+190 MW or 15.4% compared to year-end 2019; 2018: total installed 1,023 MW). Cost shifting concerns have driven the current discussion around changes to the Net Electric Metering (NEM) 2.0. The 2016 ruling adjusted the previous NEM tariffs, which included transferring to Time of Use rates (TOU) by 2019, and implementing non-bypassable fixed charges. The purpose of the changes was to more closely align what new customers (with distributed generation) pay for T&D infrastructure with the costs incurred by the utilities to serve them otherwise borne by non-NEM customers. The 2016 ruling considered future additional reviews that are currently ongoing. Several stakeholders, including the utilities, the CPUC's public advocates office as well as ratepayer advocacy groups are seeking additional changes to the program that are opposed by an industrial group of the rooftop-solar installers. For example, the utilities' proposals include an increase in the fixed charges for new NEM-customers (the monthly minimum bill) to better align rates with the utility's cost structure in order reduce the cost shifting from solar to non-solar customers.

Several municipalities in California, including the City of San Diego, have disclosed plans to implement a Community Choice Aggregation (CCA) program which, according to Sempra, could half SDG&E's bundled customer load as early as year-end 2021. From a credit perspective, the impact of the departed load on the utility's cash flow will be neutral because of exit fees, known as the Power Charge Indifference Adjustment (PCIA), that are payable by the alternative electricity providers. The modified PCIA, effective in January 2019, compensates SDG&E for the cost of excess purchased power and legacy generation capacity that cannot be recovered through market sales because of their above-market costs after the bundled load migrates to an alternative provider. We anticipate that the outcome of the second phase of the proceedings (expected during 2Q 2021) will also be credit neutral for SDG&E, assuming that any changes will be incorporated into the utility's revenue requirements collected through rates. The purpose of this proceeding is to assess additional IOUs' portfolio optimization and energy cost reduction initiatives as well as to implement exit fees prepayment options to the departing load.

Credit supportive recovery mechanisms also mitigate the still uncertain impact of the pandemic but cost shifting risk remains

The California utilities benefit from a decoupling mechanism that insulates their cash flow from demand contraction including from permanently lost C&I customers in the wake of the economic disruptions caused by the pandemic. The rates are subject to annual adjustments (under-/overcollections) that limit SDG&E's cash recovery (or credits to customers) to a one-year lag which compares well to the majority of its peers in other jurisdictions in the US.

California has a track record of legislative and regulatory initiatives, implemented before and during the pandemic, that strive to protect the more vulnerable natural gas and electric customers. We assume that the implementation of these initiatives will be largely neutral to utility cash flow given our expectation that they will be able to recover the majority of any uncollectible expenses, or any relief that results from these regulatory proceedings, through their revenue requirements. However, these initiatives can potentially exacerbate the risk of cost shifting across customer classes in the state which may indirectly expose the utilities to some risk of public backlash amid increasing monthly bills. Examples of pre-pandemic initiatives include the CPUC's rates affordability and reduction in disconnection regulatory initiatives in response to Senate Bill 598 (enacted in 2017). In June 2020, a CPUC order capped the utilities' electric and natural gas disconnection rates by January 1, 2024, for SDG&E at 3% of its total customers (its 2017 level), and eliminated deposit requirements and reconnection fees.

In February 2021, the CPUC extended the suspension on service disconnections due to nonpayment for residential and small businesses customers through June 2021 (initially scheduled to expire in April 2021), which is one of the longest moratorium periods in the US. Similar to utilities in other jurisdictions, the California IOUs were allowed to record the revenue shortfalls (for example, from waived late payment charges) as well as the increased operational costs related to the disconnections and uncollectible amounts. SDG&E's uncollectible rate allowed in its 2019 General Rate Case (GRC) is 0.17% of the utility's 2020 authorized revenues (2019 GRC), based on a 10-year rolling average, which we estimate approximates $10 million. This percentage compares well with SDG&E's uncollectible rate of around of 0.2% reported during the 2008/2009 financial crisis and at year-end 2020.

That said, SDG&E's reported balance of allowances for expected credit losses grew to $69 million (2019: $14 million) at year-end 2020. SDG&E's growing balance of receivables with residential customers in arrears over 60 days indicates a deterioration in the utility's collection rates. According to its regulatory filings, the balance almost doubled during the twelve month period ended in December 2020 which is material compared to its 8% revenue growth during the same period, a credit negative. This deterioration affected all of its residential customers regardless of whether or not they benefited from the state's electric and natural gas discount programs. As a point of reference, the increased balance of allowance for expected credit losses (which could be subject to write-offs after the expiration of the moratorium) equates to around 1.3% of SDG&E's revenues in 2020 (2019: 0.3%) and 4% of its FFO in 2020 (2019:

0.8%). This increase was largely driven by SDG&E's initial estimates of the impact of the implementation of the arrearage management program that became effective in February 2021. According to the program, certain low-income customers received forgiveness of a portion of their past-due bills in exchange for remaining current on monthly billing going forward, while the CPUC also required, in June 2020, the utilities to offer 12-month payment plans.

On a positive note, in December 2020, the CPUC authorized the utilities to record the costs associated with the uncollected and forgiven arrearages (balancing accounts) and to recover the balance through the Public Purpose Program (PPP) charges during an annual true-up process. However, we note that SDG&E's receivables in arrears over 60 days continued to grow in March 2021 while the number of customers under ongoing payment plans dropped to 7,717 at the end of March 2021 from the peak of 22,263 customers reported end of April 2020 (year-end 2020: 15,352). This raises some questions about the effectiveness of the arrearage management program in place since February.

Subsequently, in February 2021, the CPUC initiated another regulatory proceeding (final order expected before the end of June 2021) to consider the need for another special relief mechanism tied to the Covid-19 period and identify potential funding sources in light of the still growing balance of arrearages. Importantly, the proceeding will also consider the impact of this new relief on paying customers. To that end, the proceeding is also considering, as requested by the utilities, to leverage the $2.6 billion in federal funds allocated to California under the $25 billion federal stimulus bill passed end of December 2020. Following the enactment of California Senate Bill 91 (at the end of January), the funds became available for eligible California renters and to assist with 100% of energy, water and communications utility arrearages. Using these funds would reduce the utility's indirect exposure to cost shifts across customer classes.

Credit supportive general rate case outcome and financial parameters with some regulatory lag

The utility has earmarked a material portion of its significant $9.6 billion investment program during the 2021-2025 period (2016-2020: nearly $8 billion) to grow its distribution rate base to approximate $11.4 billion or nearly 67% of its total rate base by year-end 2025 (2020: $6.6 billion). The utility plans to also make investments in its transmission rate base but these will be less significant.

Our analysis assumes that SDG&E's exposure to the FERC's oversight will continue to exceed 30% in 2025 (currently: around 40%), despite the heavy distribution spending. In March 2020, the FERC approved a multi-party settlement agreement (reached in October 2019) that allows a 10.60% RoE (consisting of a base RoE of 10.10% plus an additional 50 bps for its participation in the California ISO) with the formulaic rates providing further indication of the credit supportiveness of the FERC regulatory framework. The authorized capital structure is set annually based on SDG&E's actual ratio at year-end.

Our view of the credit supportiveness of the regulatory environment in California considers the high level of scrutiny faced by the utilities. However, the outcome of the recent regulatory proceedings, including the 2019 general rate case and the cost of capital (CoC) proceeding, underpin our opinion that the utility's relationship with the CPUC is constructive. The utilities also benefit from certain riders for the recovery of expenditures outside of rate cases. That said, they are subject to credits/refunds after the CPUC completes a reasonableness review process which has faced delays.

In December 2019, the CPUC kept all the California utility CoC financial parameters unchanged while it extended the cost of capital adjustment mechanism (CCM) through 2022, when the utility's RoE could be re-assessed. That said, the RoE is subject to annual adjustment if the difference between the Moody's average monthly utility bond index (12 month period) and a baseline yield (for SDG&E: 4.5%) exceeds 100 bps. The RoE would then be adjusted to reflect one half of the difference, and the updated value of the index would become the new benchmark value. The utility's authorized cost of debt and preferred equity (2%) are also subject to adjustments to reflect their actual weighted-average costs. SDG&E's regulatory parameters have remained in place for the last several years (last extended in July 2017). SDG&E was authorized a 10.2% return on equity (RoE) and a 52% equity layer. These parameters were in line with its previous authorized levels. SDG&E had requested an increase in the RoE to 12.38% before the enactment of the aforementioned wildfire related legislation. An increase in the utility's allowed equity layer to 56% (as requested) would have been more credit supportive because it would have contributed to stronger credit metrics but the allowed 52% equity ratio compares well to other US distribution utility authorized parameters, including its sister company Oncor, particularly considering that SDG&E also benefits from decoupling.

The outcomes of SDG&E and SoCalGas' 2019 general rate cases (GRC) were credit supportive. For SDG&E, the CPUC allowed an increase in the authorized revenue requirement by $107 million to nearly $1.990 billion (for the electric operations: 80% of the total). We estimate that the authorized increase was equal to around 70% of SDG&E's requested step-up in base rates. The delay in the CPUC's decision (which was not made until September 2019) was partially offset by rates that became effective retroactively to January 2019 (the beginning of the test year). However, instead of a making one-time adjustment to customer bills immediately after the September 2019 Order, SDG&E and SoCalGas are recovering the authorized increase in their 2019 base rates over a 24-month period (recording regulatory assets). For SD&GE, this amounts to $56 million in 2020 and $56 million in 2021. The deferred rate adjustment exposes the utilities' cash flow to some regulatory lag but the gradual adjustment makes the base rate increases (for SDG&E: nearly 6%) more palatable. In addition to this step-up in 2019 rates , the CPUC also allowed an increase in rates for SDG&E by 6.7% (2020) and 4.8% (2021) which included revenues for both operations and maintenance as well as capital cost attrition.

In January 2020, the CPUC implemented a four-year GRC cycle for California utilities. On May 6, 2021, the CPUC authorized the implementation of the administrative law judge's proposed decision (March 2021) to increase SDG&E's revenue requirement by $87 million (+3.9%) in 2022 and $85.6 million in 2023 (+3.70%) which are in line with the utility's requested annual increases that ranged between 4% (2022) and 4.5% (2023), a credit positive.

We view multi-year rate plans (2019-2023) to be credit positive because they enhance the visibility of the utility's cash flow as well as providing incentives for the utility to implement cost saving initiatives which will be eventually shared with end-users in the next GRC proceeding. Except for 2017 (impacted by the write-off of the disallowed 2007 wildfire amounts), we believe that these cost saving initiatives have contributed to the ability of SDG&E to record actual RoEs in excess of its authorized RoE (GAAP-RoE consistently above 10.5% in recent years). A large part of the utility's revenue requirement increases represent costs for incremental safety-related programs and activities. This GRC was the first rate case in the state that incorporated a risk-based decision-making (RAMP) framework as directed by the CPUC in 2014. The purpose of this new framework is to transparently demonstrate how the utilities' key safety risks were prioritized and how funding requests correspond to the utilities' key safety-related activities (such as those related to wildfires).

Expectation that credit metrics will remain robust

We expect SDG&E's credit metrics to remain strong and stable despite the economic disruptions caused by the pandemic and its material investment program. We calculate that the utility's ratio of capex to depreciation will continue to exceed 2.0x in 2021 and 2022, and could moderate to below 2x in subsequent years, pending any new investment opportunities during the 2023-2025 period. We assume that its cash flow will be aided by a credit supportive final decision regarding its 2022 and 2023 rates (part of the aforementioned 2019 GRC) and subsequent GRC outcomes and further benefit from other recovery mechanisms between rate cases in California and from the FERC's formula rates.

We assume that SDG&E will continue to report a run-rate ratio of CFO pre-W/C to debt of at least 20%, including analytical adjustments related to PPA capital leases. As explained earlier, SDG&E's reported debt includes around $1.237 billion in capitalized leases associated with its tolling PPAs. However, in our analysis, we consider that SDG&E has the ability to fully pass through these contractual obligations to its end-users, through the Energy Resource Recovery Account (ERRA) and does not generate any return on these assets. Thus, as long as there is not a deterioration in the regulatory support that leads to a decrease in the utility's ability to recover these costs, we will regard these PPA obligations as operating costs with no long-term debt-like attributes. The chart below depicts SDG&E's CFO pre-WC to debt ratios excluding the utility's capital leases related to PPA-obligations, as well as the related depreciation amount (following the accounting changes to leases effective in 2019). The Exhibit 5 also depicts its 2019 ratio excluding the one-time impact on its net income and its operating cash flows from the $322 million contribution to the wildfire fund (90% of the total contribution).

Exhibit 5

Moody's analyst adjustment to SDG&E's debt and key metrics

	2013	2014	2015	2016	2017	2018	2019	2020
Moody's adjusted CFO pre-W/C	$1,143	$1,498	$1,258	$1,428	$1,379	$1,412	$1,369	$1,552
(Depreciation portion of capital leases - PPA obligations)							($18)	($15)
SDG&E's initial shareholder contribution to the Wildfire Fund in September 2019							$323	
Moody's adjusted CFO pre-W/C	**$1,143**	**$1,498**	**$1,258**	**$1,428**	**$1,379**	**$1,412**	**$1,674**	**$1,537**
Moody's Adjusted Debt	$4,902	$5,277	$5,078	$5,269	$6,193	$6,917	$6,775	$7,671
(capital lease obligation re. PPA)	($176)	($233)	($243)	($239)	($731)	($1,270)	($1,255)	($1,237)
Moody's Adjusted Debt excl. obligation	**$4,726**	**$5,044**	**$4,835**	**$5,030**	**$5,450**	**$5,647**	**$5,520**	**$6,434**
Moody's adjusted CFO pre-W/C to Debt excl. PPA obligation	**24.2%**	**29.7%**	**26.0%**	**28.4%**	**25.3%**	**25.0%**	**30.3%**	**23.9%**

Following the adoption of the lease standards, in 2019, the finance lease costs for PPAs are classified under depreciation and amortization and interest expenses (before 2019: all classified under cost of electric fuel and purchased power).
Source: Moody's Financial Metrics

ESG considerations

Environmental considerations incorporated into our analysis of SDG&E are primarily related to its exposure to wildfire risks as well as to carbon dioxide regulations and methane emissions. SDG&E is strongly positioned with regard to carbon transition risk within the regulated utility sector as its less carbon intensive T&D operations along with its purchased renewables mitigate its fossil fuel exposure that arises from its peaking natural gas fired generation capacity. The high penetration of renewable energy in California explains the low utilization ratio of its plants. However, last year's recent rolling blackouts in the California power market highlighted the value of these facilities from a system reliability perspective. We also consider that the state's ambitious energy policy goals on clean energy, efficiency and pipeline safety place a high level of demand on the utilities that affect not only SDG&E's electric operations but also natural gas operations. In January 2020, the CPUC issued an Order instituting rulemaking that will establish policies, processes, and rules to ensure safe and reliable gas systems in California and perform long-term gas system planning. In the third phase, the CPUC will focus on figuring out the solutions and planning strategy required to ensure that, as the demand for natural gas declines, gas utilities maintain safe and reliable gas systems at just and reasonable rates, and with minimal or no stranded costs. As per the timetable of the proceeding, this Order will become due before year-end 2022. Given the wide range of possible outcomes, the uncertainty until the completion of this proceeding is credit negative for SDG&E, SoCalGas and Sempra. However, we believe that the CPUC's deliberate and measured approach becomes even more important for the credit quality of companies that operate in an early mover region such as California and allow the utilities to be better positioned to manage their carbon transition risk.

Social risks are primarily related to demographic and societal trends, health and safety, and customer and regulatory relations. Our view considers the elevated political risk and public scrutiny in California along with affordability issues and the significant demands that are placed on the California utilities amid many ambitious public policy initiatives.

Corporate governance considerations include financial policy and we note that a strong financial position is an important characteristic for managing environmental and social risks.

Liquidity analysis

Our view that SDG&E's liquidity is adequate considers its $1.5 billion 5-year bank credit facility that is scheduled to expire in 2024. At the end of March 2021, SDG&E had $1.370 billion (year-end 2020: fully available). The facility provides for the issuance of letters of credit for up to $100 million (which can be increased to $250 million). The facility is not subject to any conditionality, such as rating triggers or material adverse clause (MAC) representations, for borrowing. The facility contains one financial covenant requiring SDG&E to maintain a debt to total capitalization ratio of no more than 65%. We anticipate that SDG&E will continue to comfortably comply with this covenant.

SDG&E's credit facility is separate from the 5-year credit facilities of Sempra Energy ($1.25 billion) and Sempra Global ($3.185 billion), the intermediate holding company for subsidiaries other than SDG&E and SoCalGas. Both facilities were also fully available at year-end 2020. In addition, the group's foreign operations have their own general purpose credit facilities including IEnova's $1.5 billion 5-year revolving credit facility that is scheduled to expire in February 2024 (available amount at year-end 2020: $1.1 billion) and two-year $280 million revolving bank credit agreement that is scheduled to expire in September 2021 (no availability at year-end 2020.

In March 2020, Sempra and SDG&E entered into separate 364-day term loans that aggregated $1.8 billion to mitigate wider spreads and reduced liquidity in the commercial paper market. Sempra repaid its term loan in September 2020 while SDG&E repaid its term loan in March 2021. The utility's next debt maturity consists of a $350 million first mortgage bond due in August 2021 and $36 million outstanding first mortgage bonds due in February 2022. During 2021, we anticipate that SDG&E will continue funding its capital requirements including capital expenditures (2020: around $2 billion) and dividends (2020: $200 million) largely with internally generated cash flow (2020: nearly $1.4 billion), along with incremental long and short-term borrowings.

Rating methodology and scorecard factors

Moody's evaluates SDG&E's financial performance relative to the Regulated Electric and Gas Utilities rating methodology published in June 2017. As depicted in the grid below, the company's scorecard indicated outcome under this methodology based on historical and projected average key credit metrics is A3. Our analysis considers SDG&E largely as a T&D. However, we use the standard grid to assess SDG&E's financial performance to capture the high political risk and public scrutiny in California.

Exhibit 6
Rating Factors
San Diego Gas & Electric Company

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current FY 12/31/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.9x	A	5x - 7x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	20.3%	Baa	22% - 25%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	18.2%	A	15% - 19%	A
d) Debt / Capitalization (3 Year Avg)	44.8%	A	40% - 45%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching				
a) Scorecard-Indicated Outcome		A3		A3
b) Actual Rating Assigned		(P)A3		(P)A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2020
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 7

Peer Comparison [1]

(In US millions)	San Diego Gas & Electric Company (P)A3 (Stable)			Southern California Gas Company A2 (Stable)			Southern California Edison Company Baa2 (Stable)		
	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-18	FYE Dec-19	FYE Dec-20
Revenue	4,568	4,925	5,313	3,962	4,525	4,748	12,611	12,306	13,546
CFO Pre-W/C	1,412	1,369	1,552	885	1,259	1,546	3,556	(367)	1,681
Total Debt	6,917	6,775	7,671	4,673	5,340	5,820	15,486	17,284	20,993
CFO Pre-W/C + Interest / Interest	6.5x	4.2x	4.5x	6.4x	8.0x	9.0x	5.4x	0.6x	2.9x
CFO Pre-W/C / Debt	20.4%	20.2%	20.2%	18.9%	23.6%	26.6%	23.0%	-2.1%	8.0%
CFO Pre-W/C – Dividends / Debt	16.8%	20.2%	17.6%	17.9%	20.7%	24.8%	17.5%	-4.8%	1.4%
Debt / Capitalization	47.4%	43.2%	44.1%	46.4%	46.7%	47.1%	45.7%	42.9%	46.2%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months.
Source: Moody's Financial Metrics

Exhibit 8

Cash flow and credit measures [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
As Adjusted					
FFO	1,437	1,409	1,386	1,680	1,689
+/- Other	-9	-30	26	-311	-137
CFO Pre-WC	1,428	1,379	1,412	1,369	1,552
+/- ΔWC	-99	169	189	-229	-140
CFO	1,329	1,548	1,601	1,140	1,412
- Div	175	450	250	0	200
- Capex	1,405	1,556	1,542	1,568	1,967
FCF	-251	-458	-191	-428	-755
(CFO Pre-W/C) / Debt	27.1%	22.3%	20.4%	20.2%	20.2%
(CFO Pre-W/C - Dividends) / Debt	23.8%	15.0%	16.8%	20.2%	17.6%
FFO / Debt	27.3%	22.8%	20.0%	24.8%	22.0%
RCF / Debt	24.0%	15.5%	16.4%	24.8%	19.4%
Revenue	4,253	4,476	4,568	4,925	5,313
Interest Expense	223	237	256	422	446
Net Income	537	637	595	778	789
Total Assets	17,857	17,967	19,348	20,560	22,286
Total Liabilities	12,272	12,430	13,399	13,508	14,576
Total Equity	5,585	5,537	5,949	7,052	7,710

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Ratings

Exhibit 9

Category	Moody's Rating
SAN DIEGO GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured Shelf	(P)A1
Senior Unsecured Shelf	(P)A3
Pref. Shelf	(P)Baa2
Commercial Paper	P-2
PARENT: SEMPRA ENERGY	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3

Pref. Stock	Ba1

Source: Moody's Investors Service

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