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Decision 05-08-037 August 25, 2005

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY under the Catastrophic Event Memorandum Account (CEMA) for Recovery of costs related to the 2003 Southern California Wildfires. (U 902-M)	Application 04-06-035 (Filed June 28, 2004)

OPINION ON THE REASONABLENESS OF SAN DIEGO GAS AND ELECTRIC COMPANY'S RESPONSE TO THE 2003 WILDFIRES

(*See* APPENDIX A for Appearance Lists)

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1. Summary

The firestorm of 2003 was the largest disaster of this type ever to occur in the State of California. Nearly 400,000 acres were burned, 16 lives were lost and more than 2,400 homes were destroyed in San Diego County alone. SDG&E experienced severe damage to its infrastructure with approximately 3,200 power poles, 700 spans of wire, 400 transformers and more than 100 other pieces of related equipment damaged and needing to be replaced. In total, approximately 108,000 of SDG&E's electric customers and 2,050 gas customers were left without service as a result of the firestorm.

By November 2, 2003, only one week following the start of the fire, SDG&E had restored service to more than 102,000 electric customers and had successfully restored service to the remaining 6,000 customers primarily living in areas of rugged terrain by November 20, 2003. This exceptional effort has been the subject of numerous accolades and commendations from customers as well as government officials thanking the Company for a job well done.

This decision finds San Diego Gas & Electric Company (SDG&E) prudently managed its response to the firestorm of 2003 in its service territory and allows the recovery of certain recorded costs incurred to restore service and repair or replace those portions of its gas or electric distribution systems damaged or destroyed by a series of catastrophic wildfires. This decision allows SDG&E to recover the full amount of its request, $40.8 million.

2. Background

On June 28, 2004, SDG&E filed an application to recover $37.6 million, the California jurisdictional costs associated with the 2003 Southern California Wildfires (Wildfires). Applicant asserts the memorandum account (Wildfire Account) is in conformance with its Catastrophic Event Memorandum Account (CEMA) tariff as authorized in its Preliminary Statement. Including

updates through December 2004, SDG&E spent $71.163 million in total, allocated $8.441 million to transmission service subject to the Federal Energy Regulatory Commission's (FERC) jurisdiction and the balance of $62.722 million to California- jurisdictional gas and electric service. SDG&E reduced this amount by $21.9 million to reflect funds already authorized in rates. The remaining $40.8 million are the residual incremental costs that are the subject of this proceeding.

a. History of the Wildfires

SDG&E described the Wildfires by citing[1] a joint report of the U.S. Forest Service and the California Department of Forestry and Fire Protection, "In October of 2003, Southern California experienced the most devastating wildland fire disaster in state history. The facts are staggering – 750,043 acres burned, 3,710 homes lost and 24 people killed including one firefighter."[2] The report further states:

> The October Fire Siege of 2003 tested the modern fire service like no other time. The combined efforts of the largest wildland fire agencies in the world, the United States Forest Service and the California Department of Forestry and Fire Protection (CDF), along with armies of local fire departments across the state mustered ground and air resources into the firefight as never before. At the peak of the fire siege, over 14,000 firefighters were on the line. Never in California's history were so many homes and lives in danger by fire at one moment . . . . In addition, countless miles of power lines were damaged, communication systems destroyed, watersheds reduced to bare scorched soils, and thousands of people were forced

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[1] Application, pp. 1-2.

[2] As quoted in the Application, from "California Fire Siege 2003 – The Story: October 21 – November 4, 2003" (Preface).

> into evacuation centers, unsure if they would have a home to return to – many did not.[3]

SDG&E further indicates that it believes no area in Southern California may have been harder hit by the wildfires than San Diego County. It states that approximately 3,200 power poles, 400 miles of wire, 400 transformers and more than 100 other pieces of related equipment were damaged by the fire and needed to be replaced. Over 2,400 homes were destroyed and countless other structures were damaged by these wildfires. In addition, SDG&E presents detailed testimony on the scope of the damage to its system attributed to the fire and the response to repair and replace the damage.[4]

In order to invoke and employ the Wildfire Account, SDG&E must demonstrate that the circumstances surrounding the Wildfires meet the conditions for a catastrophic event account as defined in Pub. Util. Code (Code) Section 454.9(a), for restoring utility services to customers, repairing, replacing, or restoring damaged utility facilities, and complying with governmental agency orders in connection with events declared disasters by competent state or federal authorities. Such costs are recoverable only after the Commission makes a finding of their reasonableness and approves them following an expedited proceeding in response to the utility's filed application (Code § 454.9(b)). This proceeding was conducted on a schedule designed to result in a prompt decision after first ensuring due process was provided to all parties.

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[3] As quoted in the Application, *Id.* (Introduction).

[4] Ex. SDG&E-1, Testimony of Steven D. Davis and in more detail in Ex. SDG&E-2, Testimony of Scott P. Furgerson.

On October 26, 2003, then-Governor Davis declared a state of emergency in San Diego County. The following day, October 27, 2003, President Bush also declared a state of emergency in San Diego County. In addition, the County of San Diego and the City of San Diego also declared states of emergency on October 28, 2003 and November 3, 2003, respectively. SDG&E invoked its CEMA tariff in response to this catastrophic event, and, in accordance with Resolution No. E-3238,[5] notified the Commission's Executive Director on November 24, 2003.[6] The first table below is from Ex. 3 and it shows SDG&E's original cost basis for the request before applying the incremental cost test discussed later in this decision. The second table is from Ex. 4 and it shows the $37.661 million portion of $58.011 million California-jurisdictional costs (through May 2004) that SDG&E claims are reasonable for inclusion in the memo Account and recoverable from ratepayers. As described in SDG&E's testimony, $20.35 million was identified to be already available in rates to fund the Wildfire's costs. The residual $37.661 million is described as incremental costs, not otherwise provided in rates, and therefore eligible for recovery.[7] The net request is for $37.309 million for electric costs and $0.352 million for natural gas costs.

The testimony and evidentiary hearings focused on those costs increased through May, 2004. SDG&E provided two late-filed exhibits

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[5] CPUC Resolution E-3238, dated July 24, 1991.

[6] Application, p. 3.

[7] There are some slight rounding differences in the two exhibits that are not material here. In the adopted recovery we identify the accurate reasonable jurisdictional allocation.

(SDG&E-9 and SDG&E-10) that updated actual costs through December, 2004. Those costs are discussed in a separate section of this decision. Parties reviewed the late-filed exhibits and filed comments that are considered in this decision.

Proposed Recovery of Wildfire Account Costs Through May 2004

	Total CPUC (a)	Memo Account (b)	Current Rates(b)
O&M Expenses:			
Internal Labor	$ 3,575	$ 2,250	$1,324
Materials	1,309	1,290	19
Overhead	2,538	251	2,288
Vehicle Charges	436	-	437
External Labor	718	7,546	341
Services/Other	7,887	7,546	341
Total O&M	$ 16,463	$12,055	$ 4,408
Capital Costs:			
Internal Labor	$ 5,596	$ 4,060	$ 1,536
Materials	2,769	2,769	-
Overhead	13,512	636	12,876
Vehicle Charges	1,505	-	1,504
External Charges	1,5883	1,5883	-
Services/Other	2,283	2,257	27
Total Capital	$ 41,548	$ 25,605	$ 15,943
Total Wildfire	$ 58,011	$ 37,661	$20,350

(a) Ex. 3 Attached Ex. D-1.
(b) Ex. 4, Attached Ex. J.

3. Procedural History

Notice of the Application appeared in the Commission's July 1, 2004 daily calendar. Resolution ALJ 176-3136, dated July 8, 2004, preliminarily categorized the application as ratesetting and determined that hearings were necessary. The Commission's in-house consumer advocacy arm, the Office of Ratepayer Advocates (ORA) filed a timely protest on July 30, 2004. On July 14, 2004,[8] the

[8] *Administrative Law Judge's Ruling Requiring San Diego Gas & Electric Company to Provide Further Information to Supplement its Application.* The Ruling identified 6 specific

Footnote continued on next page

ALJ required SDG&E to serve supplemental testimony. On July 29, 2004, SDG&E served the requested supplemental testimony as Ex. SDG&E-4. On October 29, 2004[9], the ALJ required SDG&E to further supplement the testimony contained in EX. SDG&E-4 and on November 10, 2004, SDG&E served Ex. SDG&E-7 in response. A Prehearing Conference was held on August 17, 2004 and ORA, the Aglet Consumer Alliance (Aglet) and the Utility Consumer Action Network (UCAN) served timely prehearing Conference Statements.

On August 27, 2003 *The Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (Scoping Memo) designated the assigned Administrative Law Judge (ALJ) as the principal hearing officer as defined in Rule 5(l) of the Rules. It also determined that this is a ratesetting proceeding. Pursuant to Rule 5(k)(2), the principal hearing officer is the presiding officer for this proceeding, and is responsible for issuing the proposed decision pursuant to Code § 311(d) and Rule 8.1.

The scope of this proceeding was identified[10] as:

- Reasonableness of SDG&E's overall management of the restoration of service in a safe and timely manner, consistent with worker safety, public need, and equitable treatment of customers.
- Reasonableness of the gross amount of Operating & Maintenance Expenses recorded in the Wildfire Account.

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deficiencies and directed SDG&E to provide adequate documentation or further explanations, as appropriate, in the form of additional testimony.

[9] *Administrative Law Judge's Second Ruling Requiring San Diego Gas & Electric Company to Provide Further Information to Supplement its Application.*

[10] Scoping Memo, pp. 3-4.

- Reasonableness of the gross amount of Capital Expenditures recorded in the Wildfire Account.
- Reasonableness of SDG&E's determination of incremental costs as defined by Resolution E-3238.
- Reasonableness of the forecast 2005 ongoing capital-related costs of $4.3 million for electric distribution and gas revenue requirements. This includes an analysis of any 2005 incremental or avoided expense or capital expenditure impacts on SDG&E's subsequent operations as a result of service restoration after the Wildfires.
- Allocation of all costs between the jurisdictions of the Federal Energy Regulatory Commission and the California Public Utilities Commission.
- The reasonableness and timing of SDG&E's proposed ratemaking treatment of any authorized recovery of the Wildfire Account balances.

Testimony was served by ORA and UCAN on October 22, 2004. Evidentiary hearings were conducted on November 15 – 16, 2004, and over 20 exhibits were received in evidence. All issues are ready for consideration.

In accordance with the Scoping Memo, opening and reply briefs were filed by SDG&E, ORA, and UCAN, on December 3, 2004 and December 10, 2004, respectively. A late-filed exhibit, Ex. SDG&E-9, was served to update the balance in the Wildfire Account. It was received into evidence on January 18, 2004, and on February 7, 2005 ORA and UCAN filed comments. SDG&E served an errata, Ex. SDG&E-10 on February 4, 2005 and it was received into evidence. The matter was submitted on February 9, 2005. This decision adopts rates consistent with Ex. SDG&E-9 and SDG&E-10 as modified for the reasonableness adjustments to the recorded costs.

4. The Burden of Proof

SDG&E and ORA did not discuss the burden of proof in opening briefs. In its opening brief, UCAN argues that SDG&E bears the burden of proof to "demonstrate the reasonableness of its application, SDG&E must support each component of its proposed request through clear and convincing evidence."[11] UCAN correctly states the law, as applied in this decision. SDG&E must meet its burden of proof and demonstrate that in fact its responses to the 2003 Wildfires were prudent and consistent with the Commission's standard for prudent managerial action. Finally, it is the utility, not the staff or interested parties that faces the burden of showing with clear and convincing evidence that its course of action was reasonable and therefore entitled to compensation. As discussed below we find that in this proceeding SDG&E has met its burden.

a. The Standard for Prudent Managerial Action

The Commission's standard[12] in a reasonableness review of managerial action is settled. In a reasonableness review of the 2003 Wildfires, and consistent with previous statements of the standard, SDG&E should be held to the following standard:

> Utilities are held to a standard of reasonableness based upon the facts that are known or should be known at the time. While this reasonableness standard can be clarified through the adoption of guidelines, the utilities should be aware that guidelines are only advisory in nature and do not relieve the utility of its burden to show that its actions were reasonable in light of circumstances existent at the time. Whatever guidelines are in place, the utility always will be required to

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[11] UCAN Opening Brief, p. 9, citing D.01-10-031 Ordering Paragraph 26.

[12] Decision 02-08-064 (2002 Cal. PUC LEXIS 534; 219 P.U.R.4th 421).

> demonstrate that its actions are reasonable through clear and convincing evidence.[13]

Thus, the reasonableness of a particular management action depends on what the utility knew or should have known at the time that the managerial decision was made, not how the decision holds up in light of future developments. The Commission has affirmed this standard of review in numerous decisions over many years.

The term "reasonable and prudent" means that at a particular time any of the practices, methods, and acts engaged in by a utility follows the exercise of reasonable judgment in light of facts known or which should have been known at the time the decision was made. The act or decision is expected by the utility to accomplish the desired result at the lowest reasonable cost consistent with good utility practices. Good utility practices are based upon cost effectiveness, reliability, safety, and expedition.

> A "reasonable and prudent" act is not limited to the optimum practice, method, or act to the exclusion of all others, but rather encompasses a spectrum of possible practices, methods, or acts consistent with the utility system needs, the interest of the ratepayers and the requirements of governmental agencies of competent jurisdiction.[14]

The standard of reasonableness does not derive from the consequences of managerial action, but the soundness of the utility's decision-making process that led to the decision and the consequences:

> Thus, a decision may be found to be reasonable and prudent if the utility shows that its decision making process was sound,

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[13] D.88-03-036 (1988 Cal. PUC LEXIS 155,*7; 27 CPUC2d 525).

[14] D.87-06-021 (1987 Cal. PUC LEXIS 588, *28-29, 24 CPUC 2d 476).

> that its managers considered a range of possible options in light of information that was or should have been available to them, and that its managers decided on a course of action that fell within the bounds of reasonableness, even if it turns out not to have led to the best possible outcome. As we have previously stated, the action selected should logically be expected, at the time the decision is made, to accomplish the desired result at the lowest reasonable cost consistent with good utility practices.[15]

The Commission has noted that this standard can prove difficult to apply:

> The reasonable and prudent act is not limited to the optimum act, but includes a spectrum of possible acts consistent with the utility system need, the interest of the ratepayers, and the requirements of governmental agencies of competent jurisdiction.[16]

And:

> The burden rests heavily upon a utility to prove with clear and convincing evidence, that it is entitled to the requested rate relief and not upon the Commission, its staff, or any interested party to prove the contrary.[17]

Thus, although the utility need not show that it has undertaken the optimal act, it must show that its course of action was reasonable and that the utility took care in making its decision.

5. Review by Other Parties

UCAN proposes in its opening brief a standard of review that would preclude SDG&E from recovery of costs subject to the CEMA tariff provisions

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[15] D.89-02-074 (1989 Cal. PUC LEXIS 128, *11, 31 CPUC 2d, 236).

[16] *D.90-09-088 (1990 Cal. PUC LEXIS, 847,* *23-25, *37 CPUC 2d 488, 499),* based on language in D.87-06-021, and quoted with approval in *D.98-09-040 (1998 Cal. PUC LEXIS 972* *34-35).

[17] *Ibid.*

unless ORA performed a review sufficient to meet the standards as asserted by UCAN. This argument would shift the burden of proof to ORA – it would unreasonably shift to ORA the Commission's obligation to determine whether a utility behaved in a reasonable fashion. Neither UCAN nor ORA are obliged to review an application by SDG&E before the Commission can make a finding on reasonableness: their appearance often informs the proceeding; but it is not a precondition for the Commission to reach a decision.

UCAN relies on a decision rejecting a settlement where ORA assumed the burden of a settling party[18] to show that the settlement was fair. Our standard for a settlement is established in Rule 51.1(e) that requires it to be "reasonable in light of the whole record, consistent with law, and in the public interest." The Commission found in D.01-02-075 that ORA had not performed sufficient analysis, so as to have an adequate and informed opinion, necessary to settle with SoCalGas.

UCAN's interpretation of D.01-02-075 would tie the hands of the Commission giving ORA a virtual veto over any rate recovery. If ORA did not participate, logically according to UCAN, we could not find the applicant's request to be reasonable. As noted previously, this is not the case.

6. Restoration Management

This section addresses the reasonableness of the overall management response to the Wildfires.

SDG&E presented testimony describing its response to the Wildfires, beginning with monitoring and rapidly progressing to activation of an

[18] D.01-02-075, Conclusion of Law No. 1: "The burden of proving that the settlement is fair is on the proponents."

"emergency desk" and finally the activation of SDG&E's Emergency Operations Center.[19] Ultimately SDG&E decided to call for assistance on other utilities, Arizona Public Service Company, Pacific Gas and Electric Company, Sacramento Municipal Utility District, Sierra Pacific Power Company, Tucson Electric Power, the Salt River Project, and the Western Area Power Authority. All of them were reimbursed by SDG&E and the costs are included in the Wildfire Account. Southern California Edison Company was at risk from the fires and was not called on for assistance. The use of mutual assistance crews and additional contractor personnel was necessary to restore service in a timely fashion.

Senior management was involved in the oversight of the project and SDG&E systematically (to the extent possible following the fires) tried to reestablish service as quickly as possible. As a result, the company had to quickly assess the damage and plan a coordinated response. We find that SDG&E has met its burden of proof to show that it actively engaged in a reasonable response directed and supervised by senior management in a coordinated manner. SDG&E used a central management process that gave it the best opportunity to respond to the Wildfires in a rational and responsible fashion with the information that was available during the project. The use of the Emergency Response Center, and the operational decisions described in the testimony and in this record, meet the prudent manager standard.

7. Reasonableness of Costs

This section addresses SDG&E's prudence in controlling and reasonably managing the costs incurred to restore service following the 2003 Wildfires. Before we can consider the reasonableness of the proposed allocation of costs to

[19] Ex. SDG&E-1, pp. 2-3.

retail customers we must first examine the total costs incurred, consider any available revenues to offset to these costs to determine the incremental costs, and then determine the appropriate allocation of incremental costs.

SDG&E stated that it had no insurance coverage that would reimburse the costs of the Wildfires. The justification is the cost of insurance estimated at $3 million annually for $10 million in coverage.[20] Thus in about two years the premiums would have equaled the coverage provided for the Wildfires. Based on this explanation it is reasonable not to expect insurance coverage for these costs.

SDG&E used an "incremental cost criteria" to calculate costs includable in the Wildfire Account. That is, the company assumed direct labor at straight - time (excluding overtime) and other costs that were incurred solely to restore service are incremental to existing costs already included in rates. SDG&E stated its belief that this approach is in conformance with Resolution E-3238. ORA concludes that SDG&E's calculations of incremental costs are a reasonable basis for recovering the Wildfire Account. ORA further supports the recovery of the incremental costs either through the amortization of the expenses included in the Wildfire Account and the capital expenditures added to SDG&E's rate base, as calculated by SDG&E.[21] UCAN notes various adjustments and proposes several specific disallowances, and in addition to those issues which are discussed below, UCAN otherwise opposes the rate recovery of the Wildfire Account costs based on its burden of proof arguments.

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[20] Ex. SDG&E-3, p. 15.

[21] Ex. ORA-1, pp. 2-4, 3-3, 4-3, 6-3, 7-2, and 8-2.

We find that, except for one exception as noted in the following section, SDG&E has accounted for its costs in a reasonable manner and it is reasonable to allow rate recovery of the Wildfire Account costs.

a. ORA's Examination

ORA's prepared testimony in Ex. ORA-1 indicates that its staff conducted a review of the costs incurred to restore service and found only the one exception noted in its testimony. Otherwise, ORA believes the incremental costs to be reasonable.[22] The one cost recovery exception noted by ORA is to exclude from recovery $9,146 for advertisements used to publicly thank the other utilities that provided mutual assistance to SDG&E.[23] We will adopt this minor adjustment, with which SDG&E has agreed.

b. UCAN's Recommendations

UCAN submitted prepared testimony in Ex. 151, which makes several recommendations:

1. Disallow $738,400 for food-related costs that cannot be justified. (p. 6.)
2. An estimated $42,348 in pole test and treat expenses avoided over the next 4 years should be offset against the Wildfire Account O&M expense. (p. 7.)
3. Prior to evidentiary hearings, UCAN was concerned that SDG&E used an incorrect franchise fee and uncollectible allowance for an error of $67,000. (p. 10.)
4. UCAN expresses a non-monetary concern that SDG&E's tree-trimming inventory has increased, rather than decreased in the fire-damaged area. (p. 8.)

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[22] Ex. ORA-1, pp. 1-4 and 1-5.

[23] Ex. ORA-1, p. 7-2.

5. SDG&E incorrectly accounts for $7.2 million in various Support Services as an expense, which should be allocated between expense and capital (rate base) based on the relative split of direct labor - 15.8% to expense and 84.2% to capital. (p. 9.)
6. Because of the rate impact of SDG&E's Cost of Service A.02-12-028 (2004 increase under collection plus 2005 attrition increase.) the Commission should amortize the Wildfire Account over two years instead of one. (pp. 10-11.)

UCAN applies an additional reasonableness test to SDG&E's request that was not employed by ORA. UCAN argues that some of SDG&E's costs are excessive when compared to a fair market price for the commodity.[24] UCAN does not dispute that SDG&E incurred the costs nor does it disagree with SDG&E's process for allocating costs to the Wildfire Account. It does take exception to the ratemaking treatment of certain costs. UCAN in total considered cost causation, cost reduction and cost avoidance as a part of its examination of SDG&E's proposals.

1. Food Services

The company spent $5.4 million to provide meals, snacks, water and other items, and over 92,000 meals. UCAN could not determine the accuracy of the 92,000 meal count. UCAN disputes the total based upon the duration of the project and the number of personnel involved. UCAN first equates the total to 30,677 person-days of meals, assuming 3 meals per day. Next, UCAN argues that the personnel counts provided by SDG&E in testimony and data responses total only 1,339 and not 1,800 as stated by the company in Ex. 2 and this suggests

[24] This would equate to the "cost reduction" standard included in D.01-02-075.

5,400 meals a day not the 6000 included in Ex. 2.[25] UCAN expresses a very significant concern with SDG&E's contract management practices and concludes that SDG&E did not exercise sufficient reasonable control over costs or the performance of some vendors.

UCAN closely examined the snack and drink cost of approximately $2 million and took exception to the costs incurred for Gatorade, bottled water and Red Bull energy drink. UCAN opined that SDG&E paid its vendors a significant premium compared to the nearby COSTCO in La Mesa, California, and based on a daily consumption calculation, determined that SDG&E was over-charged by $582,300.[26] UCAN argued that employees appeared to consume extraordinary quantities and that SDG&E exercised no reasonable control over unit costs. UCAN justifies the disallowance by showing that the other costs included in a typical retail price are already separately charged to the Wildfire Account as ancillary costs and labor. UCAN also argued in its opening brief that food services costs should be further reduced by $113,111[27] based on its calculation of extra (*i.e.*, unnecessary) meals.

SDG&E's rebuttal testimony objects to UCAN's price comparison and argues that it "did not have the luxury of time or resources to evaluate all options ahead of time, plan out exactly what was needed and then competitively

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[25] Ex. 151, pp. 2-3, compared to data in Ex. 2, p. 30.

[26] UCAN adds 7.75% for sales tax and then deducts a 10% discount from the total. UCAN initially calculated an adjustment of $738,400, corrected at hearing by the witness.

[27] UCAN Opening Brief, p. 7, and shown in detail in footnotes 63 and 64 on p. 23.

bid for these emergency services and supplies." SDG&E argues too that it was against company practices for employees to make purchases on behalf of SDG&E[28] without going through established processes"[29] SDG&E also argues that UCAN made a simplistic count of meals without considering such things as some tired and hungry employees (Ex. 4) ate more than a single portion, there was no "rationing," the incidental feeding of police, fireman and even fire victims, and overall, UCAN did not consider the complexity of the project to quickly restore service after the wildfires. The company concludes that it "followed its procedures and generally accepted practices and utilized established catering firms that it believed could meet the challenge during this extraordinary time. The unit prices for meals, snacks and drinks were in line with typical rates utilized by the catering industry."[30]

UCAN proposes to apply a further appropriate test to the costs that is more rigorous than the ORA tests discussed above. UCAN argues that SDG&E unreasonably paid excessive prices that were charged by the food service vendors for the basic commodities of bottled water and various energy drinks by failing to exercise reasonable control over the contractors or its own employees.

Discussion

The essential question is whether SDG&E exercised sufficient control over its vendors to ensure that despite the desperate situation of the Wildfires it paid reasonable prices for essentially basic commodities: bottled water, energy drinks,

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[28] UCAN does not say SDG&E should have done "snack-runs" to COSTCO, only that SDG&E was charged too much by the vendors it used for food services.

[29] Ex. 4, pp. 2-3.

[30] Ex. 4, p. 8.

and snacks. We believe that it did, and we reject UCAN's arguments to the contrary. As ORA argued in its Reply Brief:

> Over the course of almost a month, SDG&E and its Mutual Assistance and Contract crews worked around the clock in extremely hazardous conditions and often in inaccessible areas to restore utility service. The suggestion that SDG&E should have diverted resources to comparison shopping for Gatorade does not strike ORA as either [sic] responsible, reasonable, or a productive use of limited resources.[31]

We agree, and therefore decline to make the disallowances. Furthermore, comparing the prices paid by SDG&E for drinks for its workers to prices at a local Costco is not appropriate for weighing whether SDG&E met its burden of proof for cost control purposes as it fails to create a consistent comparison.

2. Avoided Pole Test and Treat Expenses

UCAN determined that SDG&E replaced 2,872 poles used for distribution service, and that 73% of the destroyed poles (2,096) were over 15 years old which put them on a 10-year inspection and treatment cycle. UCAN believes that no inspection will be needed on the new poles during the next 10 years and this will avoid inspections at $34.29 per pole.[32] UCAN allows for the 30% of 2,096 older poles (861) that were already inspected before they were destroyed by the fire so SDG&E only avoids inspecting the remaining 70% or 1,235 poles that were

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[31] ORA Reply Brief, p. 5.

[32] Ex. 151, p. 6, *see* also UCAN DR 3, Q 15, and DR 3, Q 18.

destroyed before inspection. Savings calculated by UCAN total $42,348.[33] UCAN proposes to offset this amount from the Wildfire Account and avoid the complication of adjusting base rates to reduce the number of pole inspections forecast in base margin rates.

SDG&E responds that an offset is unreasonable because under conventional cost of service ratemaking "practices do not require the utility to expend every dollar of its authorized revenue requirement as the utility may have predicted would be necessary in its cost of service application. To the contrary, traditional test year ratemaking principles permit the utility to redeploy its authorized revenue requirement in order to accommodate the real world circumstances it encounters during the test period."[34] SDG&E argues further that money "saved from avoiding inspections of the recently replaced poles, if not needed for inspection and treatment of other poles, will most likely be spent on other reliability-related activities."[35]

Discussion

The narrow scope of the CEMA proceeding is limited to addressing the recoverability of costs incurred in response to the catastrophic event. UCAN's proposed reduction exceeds this narrow scope and ignores traditional ratemaking principles. UCAN's analysis fails to acknowledge that any money saved from avoided inspections of replaced poles will likely be spent on other reliability-related activities. Consistent with traditional ratemaking principles, SDG&E may redeploy its authorized revenue requirement in order to

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[33] Ex. 151, pp. 6-7. (1,235 poles @ $34.29 = $42,348.)

[34] Ex. 5 p. 2. (Rebuttal.)

[35] Ex. 5, p. 2.,

accommodate the real world circumstances it encounters during the test period. The implications of these redeployments are then assessed in a subsequent Cost of Service proceeding or, if appropriate, by means of an authorized earnings sharing mechanism. We are persuaded by SDG&E's arguments and reject UCAN's proposed disallowance.

3. Franchise Fees and Uncollectibles

SDG&E requests $627,000 for both franchise fees and otherwise uncollectible revenue (billed to customers but never collected).[36] Initially UCAN identified what it believed to be a computational error of $7,000 for Franchise Fees and Uncollectibles. SDG&E testified that the correct calculation is to increase the recoverable costs ($15,300,000) by a factor that recovers both the uncollectible allowance and the appropriate franchise fees. This is a typical ratemaking convention to ensure the utility an opportunity to recover the full amount of authorized revenues. The calculation has to allow for a full recovery including collecting from all customers the amount otherwise uncollectible from a few, plus the franchise fees SDG&E must pay on the total. SDG&E calculates[37] the gross-up factor as: 1 / 1 – (3.67% + 0.266%) = 1.041. The revenue requirement request after "grossed-up" is $15,300,000 x 1.041 = $15,927,000.

Discussion

UCAN withdrew its testimony without further explanation following SDG&E's rebuttal.[38] After reviewing SDG&E's calculation we agree that it has

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[36] Ex. 3, attached Exhibit D-4. (SDG&E captioned attachments to testimony as "exhibits," thus Ex. 3 contains attachments also titled as exhibits.)

[37] Ex. 5, p. 6.

[38] Transcript, p. 115, deleting *Section B. Franchise Fees and Uncollectibles*, in Ex. UCAN-1 at p. 10.

made the correct calculation for recovery of the franchise fee and otherwise uncollectible revenues. We will use this method as a part of the calculation of the final revenue requirement authorized in this decision.

4. Tree Inventory

UCAN argues that SDG&E has been removing large numbers of trees as a result not only of the Wildfires but also due to the bark beetle infestation that killed many trees and led to a programmatic removal of affected trees. UCAN points out that a tree inventory before October 6, 2003, *i.e.*, prior to the Wildfires, showed 145,575 trees. A September 2004 inventory showed 145,661 trees, an increase of 86 trees. UCAN is concerned that after the removal of numerous trees due to the Wildfires and the bark beetle, the inventory tally should have clearly fallen, and that SDG&E needs to explain this anomaly.

SDG&E explains in rebuttal that many scorched trees are retained in the inventory until they determined whether or not the tree will survive. Additionally, SDG&E added scorched trees outside the rights-of-way and not in the previous inventory because they may fail and could subsequently fall into the overhead lines.

SDG&E's explanation is reasonable and no further action is necessary at this time.

8. Ratemaking Treatment

This section addresses the reasonableness of the ratemaking proposal to recover the reasonable costs of the 2003 Wildfires. Included in this section are two of UCAN's proposals.

a. Allocation of Support Costs to Expense and Capital

UCAN argues that SDG&E inappropriately categorized various support costs totaling about $7.2 million as expense rather than allocating the

costs between expense and capital expenditures includable in rate base. UCAN uses an allocation factor of labor costs and calculates that 15.8% should be expensed and 84.2% should be capitalized.[39] According to UCAN, SDG&E used the too literal assumption that meals and lodging are consumed and should be expensed. UCAN objects to SDG&E's accounting interpretation that environmental support costs ($1.2 million of the total) were not incurred as a part of new construction. UCAN also argues that some environmental costs were clearly for pole replacement and reconductoring projects, but for simplicity it did not compute a separate environmental allocation. UCAN proposes to allocate these costs in proportion to direct labor. The effect of UCAN's recommendations is to allocate a larger share of the support costs to capital which results in rate recovery through depreciation over a longer period of time.

SDG&E's proposes to expense these overheads because these costs were "consumed" concurrently[40] and should not be capitalized as a part of the costs of installing new long-lived assets. SDG&E did not capitalize these costs because as a general rule, they argue that costs with future economic value or alternative uses should be capitalized.[41] SDG&E's witness testified that this approach is generally consistent with GAAP, the Code of Federal Regulations and SDG&E's current accounting practices, and is supported by ORA.[42]

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[39] Ex. 151, pp. 8-9, relied on Ex. 4, Exhibit G-9, G-12 and H-13 for the support costs, and Ex. 3, Exhibit D-1 for the labor costs to calculate the split.

[40] Ex. SDG&E-4, p. CAS-3, lines 10-18.

[41] Ex. SDG&E-6, p. 3.

[42] Ex. SDG&E-6, p. 3-5; Bower/ORA, Tr. 146-148.

SDG&E does not agree with UCAN's proposal to capitalize more of these costs rather than expensing them. SDG&E argues that the record shows that not only would this approach be inconsistent with established practices, it would not be in the best interests of customers to unnecessarily extend the recovery of these expenses for 30-40 years while SDG&E earns a return on these consumable, non-construction costs.[43]

Discussion

Our well-established ratemaking practice is consistent with the matching principle or concept in accounting. That principle requires costs incurred for current service to be "expensed" in a single year and all of those costs that are necessary to provide service over many years to be "capitalized" and recovered over the useful life of the underlying asset. In this proceeding, many physical assets, poles, wire, transformers, etc., that were destroyed by the Wildfires were capitalized when they were originally placed in service.

The overhead costs at issue in this proceeding include the crew support costs that were incurred to provide food and shelter to the crews during the firestorm restoration efforts. SDG&E has applied its general rule that since these expenses do not have a future economic value or an alternative use, they should not capitalized. Moreover, SDG&E argues that these costs were not project-specific or incidental; they were part of a greater effort to restore service to those customers in SDG&E's service territory who were victims of this extraordinary and tragic event. As discussed under the management of the project, we found SDG&E to be reasonable in its many decisions, big and small, on how to

[43] Ex. SDG&E-6, p. 5.

reasonably restore service. While it can be argued that this finding does not automatically extend to the ratemaking consequences, we give it great weight in our consideration in this instance

We agree with SDG&E's interpretation to expense all support costs, including meals and accommodations. If SDG&E were to capitalize these costs as UCAN suggests, the incremental CPUC-jurisdictional capital expenditures attributable to the firestorms would increase by approximately 25%, resulting in overvalued assets without any real increase in their use value or life

With respect to the environmental costs, UCAN argues that SDG&E failed to allocate appropriate environmental support costs to capital projects. The record shows that SDG&E recorded $1.320 million in environmental costs to operating and maintenance expense and only $0.003 million to capital. SDG&E only capitalized $3,000 for environmental costs out of the total $25,605,000 that is capitalized by SDG&E.[44] The environmental services costs incurred in connection with the firestorm were primarily for operational erosion control assessments and hazardous material clean up, as well as for equipment and supplies required to determine the firestorm natural resource damages. UCAN suggests using the labor cost allocation as a proxy to allocate the environmental costs. We agree that SDG&E's allocation of all support costs, including environmental costs, almost exclusively to operating and maintenance expense reflects a reasonable allocation of costs between expense and capital.

UCAN's ostensible enthusiasm for capitalizing these support costs appears to be motivated by a desire to reduce the short-term impact on customers' rates

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[44] Ex. SDG&E-4, attached Exhibit J, pp. 1 through 3. Incremental environmental costs as included by SDG&E in the Wildfires Account.

by requiring SDG&E to collect these costs over a much longer period. UCAN is shortsighted in this regard, however, and ignores the long-term costs of such an approach. Since these support costs have no future economic value, it is simply not in the interests of ratepayers to extend the recovery of these expenses while SDG&E would earn a return on consumable, non-construction costs over the life of the capital assets replaced during the firestorm (30–40 years). As a matter of general principle, while reducing rates now may lead to immediate rate reductions, the public interest is served by taking a longer term view. Capitalizing more current costs adds to rate base for future recovery and is more costly.

b. Amortization of the Wildfire Account

SDG&E requests a 12-month amortization for the expense portion of the Wildfire Account beginning January 1, 2005. UCAN proposes that the amortization should be doubled to 2 years, citing the impact of rate changes likely in A.02-12-028 for a test year 2004 as well as any attrition allowance for 2005. There are other likely rate impacts too.[45]

Discussion

In fact this decision will not be implemented in time to begin amortization on January 1, 2005. A reasonable compromise is readily available to us to begin amortization on October 1, 2005 for 18 months through December 31, 2006. This will conveniently allow amortization to begin shortly after this decision is

[45] SDG&E noted in the evidentiary hearing that in another proceeding there is a proposal to substantially increase SDG&E's allocation of costs for energy contracts held by the Department of Water Resources.

adopted and its end will coincide with the next base margin adjustment likely to occur on January 1, 2007.[46]

9. Labor Costs and Incentive Compensation

SDG&E incurred labor costs of $10.076 million to restore services after the Wildfires. ORA performed test procedures and in its opinion verified that this expenditure is supported by payroll records and was credibly incurred. ORA's testimony notes no exceptions to SDG&E's labor costs.[47]

SDG&E made the assumption that all "straight-time" cost of employee labor was not an incremental cost: it was essentially already included in rates, available to restore service, and therefore was not includable in the Wildfire Account. We agree with SDG&E that this is a reasonable convention for catastrophic event cost recovery. SDG&E identifies $726,000 of "time-and-a-half" and $5,581,000 of "double-time" labor costs as both incremental and allocable to California-jurisdictional gas and electric service, because these costs were incurred solely due to the Wildfires.

In addition to the direct costs of $10.076 million for labor, SDG&E also recorded $726,000 for incentive compensation, and allocated $470,000 as incremental costs to be recovered in the Wildfire Account.[48]

Labor	Cost	Incentive	Percent
Union	$8,209,536	$380,838	4.64%

[46] *See* D.04-12-015, p. 10 orders an application for test year 2004. Phase 2 is pending on A.02-12-028 addressing post-test year 2004 ratemaking. Annual adjustments have been consistently allowed in the past.

[47] Ex. ORA-1, p. 3-4, and Transcript, pp. 130-131.

[48] Ex. SDG&E-4, attached Exhibit J, p. 3.

Non-Union & Non-Management	269,579	44,724	16.59%
Cash Awards & Other	15,000	0	-
Management	1,583,304	300,881	19.00%
Total	**$10,077,422**	**$726,443**	

Discussion

We find that SDG&E has justified its request to recover both the direct and incentive labor costs in the Wildfire Account.

10. SDG&E's Wildfires Update

When SDG&E filed A.04-06-035, $66.4 million had already been recorded to SDG&E's Wildfires Account through May 31, 2004. As updated in Ex. SDG&E-9,[49] SDG&E's actual total firestorm costs recorded through December 31, 2004 are $70.6 million, representing a difference of $4.2 million from May 31, 2004. According to SDG&E, the difference is the result of approximately $0.2 million of O&M (primarily environmental costs and accounting adjustments) and $4.0 million of capital expenditures primarily incurred for the rebuilding of Circuit 79[50] and the smaller amount spent on Circuit 176 that serves the eastern area of the city of Poway.

$2.9 million of the additional costs recorded through December 31, 2004 are incremental Commission jurisdictional costs, and according to SDG&E, the balance of $1.3 million is non-incremental and should be excluded from the Wildfires Account. The capital costs were not included when the application

[49] Filed on January 18, 2005.

[50] "Circuit 79 is a 12 kV electric distribution line that traverses through Cuyamaca Rancho State Park. Circuit 79 was extensively damaged during the firestorm and as a result had to be rebuilt and relocated." (Ex. SDG&E-9. p. 1-2.)

was filed because SDG&E records the costs in the Wildfires Account after the work is completed.[51]

On February 4, 2005, SDG&E filed Ex. SDG&E-10, which as errata to Ex. SDG&E-9, made several adjustments to the update. As updated[52] in Ex. SDG&E-10, SDG&E's actual total firestorm costs recorded through December 31, 2004 are $71.1 million, representing an increase of $4.7 million ($71.1 million less $66.4 million) from May 31, 2004. Thus the errata, Ex. SDG&E-10, increased the total by $500,000 compared to the Late-filed Update Ex. SDG&E-9 ($71.1 million less $70.6 million).

[51] Ex. SDG&E-9. p. 1.

[52] Ex. SDG&E-10, p 2.

Wildfire Costs Including Update & Errata

			CPUC		
	Total Cost	(FERC) Electric Transmission	Electric Distribution	Gas	Total CPUC
O&M Expenses:					
Pre-Update O&M	$ 18,032	$ 1,569	$ 15,865	$ 598	$ 16,463
Internal Labor	$ 11	1	$ 10	$ -	$ 10
Materials	4	(1)	5	-	5
Overhead	10	1	9	-	9
Vehicle Charges	(2)	-	(2)	-	(2)
External Labor	8	-	8	-	8
Services/Other	225	16	$ 208	1	209
Update & Errata	$ 256	$ 17	$ 238	1	239
Total O&M	$ 18,288	$ 1,586	$ 16,103	$ 599	$ 16,702
Capital Costs:					
Pre-Update Capital	$ 48,395	$ 6,847	$ 41,445	$ 103	$ 41,548
Internal Labor	$ 47	-	$ 41	$6	47
Materials	19	-	17	2	19
Overhead	1,229	2	1,213	14	1,227
Vehicle Charges	30	-	29	1	30
External Labor	342	-	342	-	342
Services/Other	2,813	6	2,807	-	2,807
Update & Errata	4,480	8	4,449	23	4,472
Total Capital	$52,875	$ 6,855	$ 45,894	$ 126	$46,020
Updated Total	$ 71,163	$ 8,441	$ 61,997	$ 725	$ 62,722

According to SDG&E, the final difference is the result of approximately $0.3 million of O&M (primarily environmental costs and accounting adjustments) and $4.4 million of capital expenditures primarily incurred for the

rebuilding of Circuit 79[53] and the smaller amount spent on Circuit 176 that serves the eastern area of the city of Poway. As revised, $3.2 million of the additional costs recorded through December 31, 2004 are incremental Commission jurisdictional costs, and according to SDG&E, the balance of $1.5 million is non-incremental and should be excluded from the Wildfires Account.

Memo Account-Eligible Wildfire Costs
Including Update & Errata

	Total (CPUC) (a)	Memo Account (b)	Current Rates (b)
Pre-Update O&M	$ 16,463	$ 12,056	$ 4,407
Internal Labor	$ 10	-	$ 10
Materials	5	-	5
Overhead	9	44	(35)
Vehicle Charges	(2)	-	(2)
External Labor	8	-	8
Services/Other	209	(17)	226
Update & Errata	$ 239	$ 27	$ 212
Total O&M	$ 16,702	$ 12,083	$ 4,619
Capital Costs:			
Pre-Update Capital	$ 41,548	$ 25,605	$15,943
Internal Labor	$ 47	5	42
Materials	19	19	-
Overhead	1,227	5	1,222
Vehicle Charges	30	-	30
External Labor	342	342	-
Services/Other	2,807	2,745	$62
Update & Errata	$ 4,472	$ 3,116	$ 1,356
Total Capital	$ 46,020	$ 28,721	$ 17,237
Total Wildfire	$ 62,722	$ 40,804	$ 21,919

(a) Ex. SDG&E-10, attached Ex. D-1.
(b) Ex. SDG&E-10, attached Ex. D-2.

[53] "Circuit 79 is a 12 kV electric distribution line that traverses through Cuyamaca Rancho State Park. Circuit 79 was extensively damaged during the firestorm and as a result had to be rebuilt and relocated." (Ex. SDG&E-9. p. 1-2.)

On February 9, 2004, ORA and UCAN filed comments on SDG&E's updated testimony and errata. ORA had no objections. UCAN was succinct: it questioned the late inclusion of $600,000 of costs incurred prior to May 31, 2004; and secondly, UCAN pointed out that the update and errata include $209,000 of environmental costs which it believes supports UCAN's contention that the environmental costs are connected with the cost of installation of a capital project and should be capitalized.[54] UCAN does not convince us that SDG&E's earlier omission is somehow unrecoverable when included in an update. We know from SDG&E's testimony and ORA's review that SDG&E established reasonable accounting procedures to segregate and track the Wildfire costs. Corrections and updates are not innately unreasonable. We will not make this adjustment.

11. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(d) and Rule 77.1 of the Rules of Practice and Procedure. Opening Comments were filed by SDG&E and UCAN on August 8, 2005. Reply comments were filed by UCAN and SDG&E on August 15, 2005. The comments are incorporated herein.

12. Assignment of Proceeding

Susan P. Kennedy is the Assigned Commissioner and Douglas M. Long is the assigned Administrative Law Judge and principal hearing officer in this proceeding.

Findings of Fact

1. As a result of massive wildfires, on October 26, 2003, then-Governor Davis declared a state of emergency for San Diego County. The following day,

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[54] UCAN comments, p. 3.

October 27, 2003, President Bush also declared a state of emergency for San Diego County.

2. Approximately 3,200 power poles, 400 miles of wire, 400 transformers and more than 100 other pieces of related equipment were damaged by the fire and needed to be replaced by SDG&E. In total, SDG&E spent $71.1 million to replace lost equipment and restore service.

3. SDG&E's actions were reasonable when it activated its Emergency Operations Center. As a result of the damage, SDG&E decided it was necessary to call on other utilities for assistance to restore service. The use of mutual assistance crews and additional contractor personnel was necessary to restore service in a timely fashion. Senior management was involved in the oversight of the project and SDG&E systematically tried to reestablish service as quickly as possible.

4. Based on the high cost of premiums and limits on coverage, SDG&E had no reasonable insurance option to offset the costs of the Wildfires.

5. Resolution E-3238 established the Commission's requirements for invoking and applying the CEMA tariff provisions. SDG&E complied with these requirements by informing the Commission in a timely manner and establishing separate accounting and other controls for the Wildfires' costs. The company reasonably assumed that direct labor at straight -time (*i.e.*, excluding overtime) was not includable in the Wildfire Account, but overtime labor and other costs incurred solely to restore service are incremental to existing costs already included in rates.

6. ORA's examination of SDG&E's actions was focused on ensuring that only incremental costs were included in the Wildfire Account. ORA found that SDG&E included in the Wildfire Account $9,416 for newspaper advertisements

to thank the utilities that provided mutual assistance crews. This cost was not necessary to restore service and is not reasonably included in the Wildfire Account.

7. ORA did not review the reasonableness of expenditures for a cost causation perspective or from a cost reduction or avoidance perspective.

8. UCAN applied an additional reasonableness test to SDG&E's request. UCAN proposed that costs incurred by SDG&E should be compared to a fair market price for the commodity.

9. SDG&E provided meals, beverages and snacks in large number to all workers, including, incidentally, some police, fire and other workers involved in fighting the Wildfires or SDG&E's efforts to restore services. SDG&E utilized established catering firms that it believed could provide adequate service in numerous locations throughout the affected service territory.

10. SDG&E's vendors charged for food service on the basis of the number of meals served, but the measurement was a standard assumption of the size of food portions that would constitute a meal. Many workers often ate the caterer's equivalent of multiple meals as a result of long hours and hard work. No accurate head-count was maintained. SDG&E did negotiate a generic 10% reduction to the bills from one major vendor after the Wildfires.

11. SDG&E exercised reasonable control over all vendor costs, including the costs of meals, snacks and drinks.

12. The CEMA process as authorized in Resolution E-3238 allows SDG&E the opportunity to recover its reasonable costs incurred as a result of a catastrophic event. Without this ratemaking exception, SDG&E would have no option but absorb all of its Wildfires expenses and would only recover capital expense

changes to rate base in a subsequent rate setting proceeding such as the next general rate case.

13. In order to allow for a full cost recovery, Commission ratemaking conventions allow SDG&E to increase its revenue requirement to collect from all customers the amount of revenue otherwise uncollectible from a few, plus the franchise fees it pays on the total revenue requirement. SDG&E correctly calculated the gross-up factor as: 1 / 1 – (3.67% + 0.266%) = 1.041.

14. The tree inventory maintained for vegetation management has increased since the Wildfires because damaged trees adjacent to the right-of-way are now monitored by SDG&E. Many damaged trees in the right-of-way were not physically removed and remain in the inventory.

15. The total cost of replacing long-lived assets destroyed by the Wildfires is higher because SDG&E expedited construction; this management decision resulted in incurring both higher costs, including overtime and mutual assistance, and additional costs, including meals and snacks, compared to slower methods of restoring service. All of the costs are allocated between maintenance, which is a current expense, and capital expenditures, which reflect installing long-lived assets in rate base.

16. SDG&E expensed most of its support costs that are accounted for as overheads based on its interpretation of the applicable accounting standards that these costs were immediately "consumed" and should not be capitalized as a part of the costs of installing new long-lived assets in rate base as they have no future economic value or alternative use.

17. UCAN recommended an allocation factor for support costs based on the allocation of labor costs to reflect the correct split of costs between expense and

capital. This method allocates 15.8% to current expense and 84.2% to capital expenditures.

18. SDG&E correctly allocates its crew support costs to expense.

19. SDG&E employees are eligible for incentive compensation under a performance evaluation plan where the actual incentive is based upon their performance in relationship to specific goals and objectives. SDG&E accrued $726,000 for incentive compensation, and allocated $470,000 as incremental costs to be recovered in the Wildfire Account. SDG&E demonstrated that these costs are appropriately recovered in the Wildfire Account.

Conclusions of Law

1. The disaster declarations issued by the Governor and the President for the 2003 Wildfires constitute an event declared to be a disaster by competent state or federal authorities for purposes of § 454.9.

2. Use of the Wildfire Account for recording and recovering the costs incurred by SDG&E to restore utility service to customers, repair, replace or restore damaged facilities, as caused by the 2003 Wildfires, is appropriate under the statute as written.

3. SDG&E alone bears the burden of proof to show that its costs were reasonable and are eligible for recovery under the CEMA tariff.

4. The Commission's Standard for Prudent Managerial Action is the appropriate standard to apply to the costs recorded in the Wildfire Account.

5. The Commission is not dependent on an intervenor performing any specific analysis before the Commission may determine the reasonableness of a pending matter.

O R D E R

IT IS ORDERED that:

1. The reasonable total recoverable costs resulting from this Catastrophic Event Memorandum Account (Wildfire Account) application is $40.8 million to be collected in retail rates charged by San Diego (SDG&E).

2. For electric CEMA costs, the non-capital expenditure portion and the 2003-2005 capital-related revenue requirement portion shall be amortized in rates beginning October 1, 2005 and ending December 31, 2006. The 2006-2007 capital-related revenue requirement shall be recovered as an annual adjustment to base margin rates effective January 1 of 2006 and 2007. For gas CEMA costs, the recovery of the approved costs should be handled through a transfer to the Gas Fixed Cost Account as proposed by SDG&E.

3. SDG&E shall file a compliance advice letter with the Commission's Energy Division for its electric department Wildfire costs prior to the effective date of the rate change described in Ordering Paragraph No. 2. It shall be served on the service list for this proceeding. The advice letter shall include the calculations of the rate amortization to recover the current portion of the Wildfire Account and include a description of the recovery in the Preliminary Statement.

4. SDG&E's gas department Wildfire costs shall be recovered by transferring the gas department Wildfire Account balance to the Core and to the Noncore Fixed Cost Accounts. SDG&E shall file an advice letter to allocate the gas department's Wildfire costs between Core and Noncore. The Wildfire costs allocated to the Core and Noncore Fixed Costs Accounts shall be recovered in rates as a part of the ongoing operation of these accounts. The advice letter will be effective on the date filed subject to Energy Division determining that the filings are in compliance with this order.

5. Application 04-06-035 is closed.

This order is effective today.

Dated August 25, 2005, at San Francisco, California.

MICHAEL R. PEEVEY,
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners

Appendix A D.05-08-037 Appearance List