BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Recover Insurance Costs Recorded in the Wildfire Expense Memorandum Account. U 39 M	Application 20-02-004 (Filed February 7, 2020)

REPLY COMMENTS OF THE UTILITY REFORM NETWORK

ON THE PROPOSED DECISION OF ALJ SISTO

October 11, 2021

Robert Finkelstein, General Counsel

THE UTILITY REFORM NETWORK
785 Market Street, Suite 1400
San Francisco, CA 94103
Phone: (415) 929-8876
Fax: (415) 929-1132
E-mail: bfinkelstein@turn.org

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ON THE PROPOSED DECISION OF ALJ SISTO**

Pursuant to Rule 14.3(d) of the Commission's Rules of Practice and Procedure, The Utility Reform Network (TURN) respectfully submits these reply comments on the Proposed Decision of ALJ Sisto (Proposed Decision) in this Wildfire Expense Memorandum Account (WEMA) reasonableness review for Pacific Gas and Electric Company (PG&E). Opening comments were filed jointly by the parties supporting the proposed settlement that is the subject of the Proposed Decision (TURN, PG&E and the Public Advocates Office at the California Public Utilities Commission (Cal Advocates)), as well as by Southern California Edison Company (SCE). TURN's reply comments respond solely to the arguments presented in SCE's opening comments.

The Proposed Decision would adopt, in part, the proposed settlement submitted by PG&E, TURN and Cal Advocates, but with the modification of permitting PG&E to recover the agreed-upon revenue requirement over a 36-month amortization period, rather than the 12-month period specified in the proposed settlement. In the opening comments jointly submitted by the settling parties, TURN reiterated support for adoption of the 12-month amortization period agreed to in the settlement, as a reasonable element of an overall reasonable compromise reached by the active parties in the proceeding.

SCE's comments on the Proposed Decision present two arguments in support of the same modification proposed in the settling parties' comments. The first focuses on the need to assess the proposed settlement as a whole, and is generally consistent with the argument PG&E, TURN and Cal Advocates made in opening comments. SCE's second set of arguments rely on inadequately supported assertions regarding intergenerational equity and a utility's financial health as reasons for rejecting a longer amortization period. The Commission must not rely on those arguments as a basis for revising the PD to adopt the amortization period proposed in the settlement.

I. SCE's Arguments Based On Intergenerational Equity Are Incorrect And Lack Record Support.

SCE asserts that intergenerational equity interests are best served if "current customers" pay for the costs of wildfire insurance policies that were procured to protect them.[1] Whatever merit the assertion has as a general principle, it provides little guidance under the circumstances here.

Any timing mismatch between when the above-authorized costs were incurred and when they might be recovered in rates is largely a direct product of the Commission's reliance on memorandum accounts and balancing accounts to permit utilities an opportunity to recover above-authorized levels of spending. Here, PG&E's customers in 2017-2019 fully paid the wildfire liability insurance expense amounts authorized in PG&E's then-most recent GRC, consistent with SCE's current position on intergeneration equity. With the WEMA, the Commission gave PG&E an opportunity to seek recovery of above-authorized spending recorded during that period. Such above-authorized spending was never going to be recovered from customers taking service in 2017-2019; by design, the recovery was to occur in some later period. So when SCE argues that "prolonging the amortization period … would force future customers to pay for past insurance policies that protected past customers,"[2] it asks the Commission to ignore the fact that under either of the amortization periods under consideration, customers in 2021 and thereafter are being required to pay for policies that ostensibly protected customers in 2017-2019. Whether the amortization period is 12-months as provided for under the settlement, or 36-months as the Proposed Decision sets forth, the amounts at issue here will never be collected from 2017-2019 customers. And for achieving an outcome more consistent with "intergenerational equity," SCE has failed to demonstrate that recovery of 2017-2019 costs in 2021-2022 under a 12-month amortization is

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[1] SCE Opening Comments, pp. 3-4.

[2] SCE Opening Comments, p. 4.

obviously superior to collecting those same costs in 2021-2024 under a 36-month amortization. Therefore, the Commission's decision to revise the Proposed Decision to restore the settlement's 12-month amortization must not rely on SCE's intergenerational equity arguments.

II. SCE's Arguments Based On Purported Impacts On A Utility's Financial Health Are Incorrect And Lack Record Support.

SCE presents a number of arguments in support of its position that "Protracted Amortization Periods Stress Utility Financial Health to the Detriment of Customers."[3] The arguments largely rely on factual assertions that lack any support in the evidentiary record of this proceeding – for example, SCE cites nothing for its implication that anything other than a 12-month amortization period would constitute a "prolonged" amortization period, or would represent "delayed and non-compensatory cost recovery" that would "only exacerbate investor mistrust in the California regulatory construct."[4] Furthermore, while SCE concedes that it made similar arguments in its opening comments in its own WEMA application, it fails to note that there the Commission adopted a two-year amortization despite SCE's arguments. After summarizing SCE's arguments and TURN's reply thereto, the Commission explained its determination that a two-year amortization is reasonable (rather than the one-year amortization sought by SCE):

> First, although SCE began incurring costs in late 2017 and expensed the $500 million costs on their books, these actions are consistent with direction provided in the WEMA Decision D.18-11-051. In theory, annual expenses should be paid as soon as possible after they are incurred. Second, in consideration of the magnitude of the costs and impact on ratepayers, it is reasonable to smooth the costs of the premiums over a two-year period, which is the equivalent length of time that the application covers (2018-2020). Third, SCE did not make a compelling case that deferring cost recovery of insurance premiums and inhibiting cash flow over a two-year period could negatively impact the financial health of the utility over time; or, if not dealt with, this could contribute to lower credit ratings and higher

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[3] SCE Opening Comments, pp. 4-5.

[4] *Id.*

> priced long-term financing options. SCE achieved a more favorable "stable" rating in July 2019 at approximately the same time it submitted its application in this proceeding. Contrary to what SCE alleges, timely Commission approval of the $505 incremental wildfire insurance premiums, regardless of recovery period, could result in positive rather than negative perceptions by the financial community. In other words, the subject amount has significantly contributed to the current under-collection amount in SCE's memorandum account being carried on the books at exceptionally high levels; however, timely resolution of this application brings this balance down in a manner that provides more business certainty for all stakeholders.[5]

Clearly, the Commission recognized that the cost recovery opportunity achieved through the memorandum account made available for above-authorized wildfire liability insurance costs will adequately satisfy any cost recovery concerns investors may reasonably hold. And it determined that the adoption of a longer cost recovery period (there, two years) would not pose any threat to the utility's financial health, notwithstanding SCE's inadequately supported assertions to the contrary made in that proceeding. SCE appears to be simply reiterating arguments here in the hope that the Commission might forget what it thought of those arguments in D.20-09-024.

Furthermore, the decision involving regulated water utilities that SCE cites in its comments made the general observation of the need for a "reliable process to recovery just and reasonable costs and an opportunity to earn a fair return," as quoted by SCE.[6] But that observation follows a lengthy explanation of how reliance on "these numerous balancing and memorandum accounts that recover significant portions of the companies' costs free of the forecast risk inherent in general rate cases" helps to ensure California has "financially viable public utilities."[7] Here, the establishment of the WEMA account for PG&E and the opportunity to recover in rates the above-authorized wildfire liability insurance expenses from 2017-2019 would satisfy any reasonable concern about

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[5] D.20-09-024 (in A.19-07-020, SCE WEMA Application), pp. 57-58.

[6] SCE Opening Comments, pp. 4-5.

[7] D.09-05-019 (in A.08-05-002, et al. Water Utilities' Cost of Capital Applications), pp. 6-7.

treating such expenses in a manner consistent with ensuring California has "financial viable public utilities."

In sum, the Commission should also ignore SCE's contentions that an amortization period of one-year is necessary in order to avoid adverse impacts on PG&E's financial health.

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Respectfully submitted,

By: __________/s/______________
Robert Finkelstein

Robert Finkelstein, General Counsel

THE UTILITY REFORM NETWORK
785 Market Street, Suite 1400
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Phone: (415) 929-8876
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