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TO PARTIES OF RECORD IN APPLICATION 20-12-010:

This is the proposed decision of Administrative Law Judge Rajan Mutialu. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's April 27, 2023 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKEMichelle Cooke
Acting Chief Administrative Law JudgeMLC:sgu
Attachment

Decision PROPOSED DECISION OF ALJ Mutialu (Mailed 3/24/2023)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Request for Authorization to Recover Costs Related to July 2020-December 31, 2020, Wildfire Insurance Premiums Recorded in its Wildfire Expense Memorandum Account

Application 20-12-010

DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON TO RECOVER SPECIFIC INSURANCE COSTS RECORDED IN ITS WILDFIRE EXPENSE MEMORANDUM ACCOUNT

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**DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON TO RECOVER
SPECIFIC INSURANCE COSTS RECORDED IN ITS WILDFIRE EXPENSE
MEMORANDUM ACCOUNT**

Summary

This decision authorizes Southern California Edison Company (SCE) to recover \$207.3 million, or 50 percent, of wildfire liability insurance premium costs recorded from July 1, 2020, to December 31, 2020, in SCE's Wildfire Expense Memorandum Account (WEMA) for the policy period between July 1, 2020 and June 30, 2021. This amount includes \$204.6 million in Commission-jurisdictional incremental wildfire insurance premiums, plus \$0.2 million associated financing costs, \$0.1 million in memorandum account interest, and \$2.4 million for Franchise Fees & Uncollectibles. The Commission denies SCE's request to collect \$7.2 million for a prior period adjustment related to wildfire liability insurance coverage previously allocated to the San Onofre Nuclear Generating Station Non-Disclosure Trust fund.

Application 20-12-010 is closed.

1. Background**1.1. Factual Background**

On April 3, 2018, Southern California Edison Company (SCE) filed Application (A.) 18-04-001 to request authorization to establish the Wildfire Expense Memorandum Account (WEMA). The purpose of SCE's WEMA is to track costs related to wildfire claim payments, insurance coverage, risk-transfer mechanisms, external legal expenses to defend wildfire claims, and financing that are incremental to those recovered pursuant to SCE's 2018 General Rate Case (GRC) Final Decision (D.) 19-05-020 (2018 GRC Final Decision).¹

¹ A.18-04-011 at 3.

On December 3, 2018, D.18-11-051 concluded that SCE's wildfire-related costs may be significant and not recoverable through SCE's GRC or standard utility insurance policies.² Accordingly, D.18-11-051 authorized SCE to establish the WEMA and ordered that non-event related wildfire-related costs, such as wildfire insurance premium costs, should be segregated by cost type, with notice to the Commission when new cost types are recorded to the WEMA.³

On July 31, 2019, SCE filed A.19-07-020 (2019 WEMA Application) to receive authorization to recover in rates \$505 million in WEMA costs tracked from April 3, 2018, to July 1, 2020. These costs included \$478 million for insurance premiums, \$12 million for forecast financing costs (at a commercial paper rate), \$10 million for forecast memorandum account interest, and \$5 million for franchise fees and uncollectibles.⁴ SCE also proposed to transfer a portion of the revenue requirement, \$252.5 million, to its Base Revenue Requirement Balancing Account (BRRBA) to be recovered in SCE customer distribution rates starting on October 1, 2019, until issuance of a final decision. SCE intended to place the remaining revenue requirement, \$225.5 million, in the BRRBA for cost recovery over a 12-month period.⁵

In its 2019 WEMA Direct Testimony, SCE explained that a portion of its general liability insurance coverage, including wildfire liability coverage, is regularly allocated to the San Onofre Nuclear Generating Station (SONGS). To justify the coverage, SCE specified that SONGS remains energized, and its electric transmission and distribution lines are sited within or next to Tier 2

² D.18-11-051 Finding of Fact 4 at 10.

³ D.18-11-051 at 6.

⁴ A.19-07-020 at 1.

⁵ A.19-07-020 at 8.

High Fire Threat District areas. For the 2019 - 2020 policy year, SCE proposed to allocate \$9 million in general liability costs to SONGS. SCE detailed that these liability costs are shared by SONGS co-owners⁶ and SCE would seek cost recovery in the SONGS Nuclear Decommissioning Trust (NDT) fund.

In its 2019 WEMA Rebuttal Testimony, SCE clarified its proposal on cost allocation and recovery of \$9 million in SONGS general liability costs. Rather than allocate this portion of SONGS general liability costs to the SONGS NDT fund and ultimately to SONGS co-owners, SCE proposed to allocate \$1.3 million to the SONGS NDT fund and \$7.7 million to WEMA, the latter to be recovered in rates in future applications.⁷

D.20-09-024 (2020 WEMA Decision) adopted SCE's proposed \$505 million revenue requirement based on SCE's demonstration by a preponderance of evidence that it complied with the Commission's prudent manager standard.⁸ The decision acknowledged that utilities were likely to assume "incremental unreimbursed wildfire liability related" costs including those associated with wildfire premiums.⁹ To decrease ratepayer impact, the 2020 WEMA Decision also imposed a two-year amortization period for cost recovery in rates.¹⁰

1.2. Procedural Background

SCE filed A.20-12-010 (2020 WEMA Application) on December 17, 2020, to obtain authorization for rate recovery of \$214.5 million that includes 50% of

⁶ SCE is a 75.74% co-participant in the decommissioning of SONGS. According to SCE, SONGS general liability costs would be shared according to ownership percentage.

⁷ A.19-07-020 SCE Rebuttal Testimony-01 at 33.

⁸ D.20-09-024 at 59.

⁹ D.20-09-024 at 44.

¹⁰ D.20-09-024 Finding of Fact 63 at 68.

wildfire insurance premium costs, associated financing and interest costs, and Franchise Fees and Uncollectibles (FFU) tracked during the 2020 - 2021 policy year (July 1, 2020–December 31, 2020) and \$7.2 million in Commission -jurisdictional SONGS wildfire insurance premium costs (SONGS Adjustment) from the 2019 -2020 policy year that was not requested in its 2019 WEMA Application.¹¹ If approved by the Commission, SCE proposed to transfer the authorized revenue requirement from WEMA to the distribution sub-account of BRRBA for recovery in customer distribution rates over a 12-month period.¹² In support of its application, SCE cited the Pacific Gas and Electric Company (PG&E) San Bruno gas pipeline explosion, Aliso Canyon gas leak, and wildfires as factors leading to reduced utility access to and heightened cost of wildfire liability insurance premiums.¹³

On December 20, 2020, SCE served Direct Testimony that summarized SCE's justification for the reasonableness and rate recovery of SCE's WEMA revenue requirement, and SCE's rationale that WEMA-related costs are incremental to those recovered in GRCs.¹⁴ SCE's revenue requirement included \$9 million in SONGS general liability insurance costs that SCE deferred from the 2019-2020 policy year. SCE explained that it historically allocates a certain portion of general liability coverage costs, including wildfire liability costs, to

¹¹ Pursuant to SCE's 2018 GRC Decision (D.19-05-028) at 270, SCE utilized a Commission authorized factor to calculate the \$7.2 million CPUC-jurisdictional SONGS Adjustment. Based on SCE's calculation, \$0.5 million in costs were Federal Regulatory Commission (FERC) - jurisdictional. The CPUC and FERC-jurisdictional costs when combined with the \$1.3 million in costs assumed by SONGS co-owners total \$9 million.

¹² Exhibit SCE-0001 at 24.

¹³ A.20-12-010 at 3.

¹⁴ Exhibit SCE-0001 at 4.

SONGS co-owners¹⁵ via the SONGS NDT fund. SCE described these costs as “appropriately allocated to SONGS co-owners.” However, after conferring with SONGS co-owners, SCE expressed its intention to allocate \$1.3 million of these costs to SONGS co-owners and \$7.2 million to WEMA (i.e., the SONGS Adjustment) and SCE ratepayers.¹⁶

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) timely filed a Protest on January 20, 2021. Cal Advocates requested that the Commission review the reasonableness, amount, and rate recovery method for SCE’s proposed revenue requirement. In addition, Cal Advocates recommended that evidentiary hearings should be scheduled, and adequate time be allotted for discovery.¹⁷

On February 1, 2021, SCE replied to Cal Advocates’ protest. In its reply, SCE urged the Commission to adopt their proposed scoping issues and concurred with those proposed by Cal Advocates.¹⁸

The assigned Administrative Law Judge (ALJ) held a Pre-Hearing Conference on February 25, 2021, to hear proposed amendments to proceeding categorization, scoping issues, and schedule. Cal Advocates recommended that the Commission examine the reasonableness of SCE’s proposal to amortize WEMA costs over a 12-month period.¹⁹

Cal Advocates served a report on the reasonableness and cost allocation of SCE’s July 2020 - December 2020 wildfire premium costs on May 21, 2021 and re-

¹⁵ Per Exhibit SCE-0001 Footnote 41 at 21, SCE is responsible for 80% of the decommissioning costs for SONGS Unit 1, 75.7363% of costs for SONGS Unit 2, and 75.7475% of SONGS Unit 3.

¹⁶ Exhibit SCE-0001 at 21.

¹⁷ Cal Advocates’ Protest at 3.

¹⁸ SCE Reply to Protest of Cal Advocates.

¹⁹ A.20-12-010 Pre-Hearing Conference RT 9:11, February 25, 2021

served it on September 2, 2021. After evaluating SCE's application, testimony, and supporting documentation, Cal Advocates found no issue with SCE's recovery of \$207.3 million in costs related to SCE's WEMA-related wildfire premiums, financing costs, interest, and Franchise Fees & Uncollectibles for the period between July 1, 2020 and December 31, 2020. In addition, Cal Advocates did not take issue with amortizing these costs over a 12-month period. However, Cal Advocates did not support SCE's request for rate recovery of the SONGS Adjustment from ratepayers because, according to Cal Advocates, SCE had not provided reasonable justification. According to Cal Advocates, SCE should allocate these costs to SONGS co-owners through the SONGS NDT fund.²⁰

SCE served Rebuttal Testimony on June 28, 2021. In rebuttal testimony, SCE proposed that SCE's SONGS Adjustment should be earmarked for WEMA.²¹

On July 9, 2021, an ALJ ruling directed Cal Advocates and SCE to meet and confer and file and serve a Joint Status Report by July 22, 2021. The ruling required parties to address the need for evidentiary hearings, discovery, legal issues and material facts, and pending or anticipated motions. The ruling also set a Status Conference to be held on August 4, 2021.²²

On July 13, 2021, the Assigned Commissioner's office issued a Scoping Memo and Ruling (scoping memo) that set the proceeding category, initial schedule, and issues to be considered. The scoping memo reasoned that material issues of fact may be contested, including the incrementality, reasonableness, cost recovery, and cost allocation of SCE's requested revenue

²⁰ Exhibit PAO-0100 (Cal Advocates Report on the Results of Examination of SCE's WEMA Related to the July 2020 - December 2020 Wildfire Insurance Premiums) at 4.

²¹ Exhibit SCE-0002.

²² E-Mail ALJ Ruling Setting Status Conference & Joint Status Report Deadline, July 9, 2021.

requirement. To address these issues, the Commission concluded that evidentiary hearings were needed.²³

SCE and Cal Advocates filed and served a Joint Status Report on July 22, 2021. The report detailed that SCE and Cal Advocates stipulated on the reasonableness and rate recovery of \$207.3 million in WEMA costs related to wildfire liability insurance premiums, financing, interest, franchise fees, and uncollectibles. SCE and Cal Advocates disagreed on the allocation of SCE's SONGS Adjustment to the SONGS NDT fund or the WEMA. Despite this dispute, SCE and Cal Advocates did not see a need to hold evidentiary hearings.²⁴

On August 4, 2021, the assigned ALJ held a Status Conference. In the conference, SCE and Cal Advocates supported full document-only evidence processing and briefing.²⁵ On August 20, 2021, SCE and Cal Advocates filed a Joint Motion to Enter Stipulated Facts into the Record and a Joint Motion to Enter Stipulated Exhibits.²⁶ On September 21, 2021, the assigned ALJ issued a ruling that granted the Joint Motion.²⁷ The exhibits were marked as follows:

- SCE-0001: SCE Direct Testimony
- SCE-0001 Confidential: SCE Confidential Direct Testimony
- SCE-0001 Confidential App. B: Insurance Policy Binders
- SCE-0002: SCE Rebuttal Testimony

²³ Assigned Commissioner's Scoping Ruling July 13, 2021.

²⁴ SCE and Cal Advocates Joint Status Report July 22, 2021.

²⁵ Joint Status Conference RT, August 13, 2021.

²⁶ SCE and Cal Advocates Joint Motion for Entry of Stipulated Facts into the Record and SCE and Cal Advocates Joint Motion for Entry of Stipulated Exhibits into the Record August 20, 2021.

²⁷ Email ALJ Ruling Entering Stipulated Exhibits into the Record, September 21, 2021.

- PAO-0100: Cal Advocates Report on SCE WEMA Related to July 2020 - December 2020 Wildfire Insurance Premiums
- PAO-0101: SCE Responses to Cal Advocates Data Requests

SCE and Cal Advocates filed Opening Briefs on September 2, 2021. SCE detailed that it stipulated with Cal Advocates on the reasonableness and rate recovery of \$207.3 million in wildfire liability-related costs recorded in WEMA. SCE expressed its view that reallocation of the SONGS Adjustment to SCE customers was justified due to increased wildfire risk posed to SCE's distribution system customers.²⁸ Cal Advocates disagreed with SCE's contention that these costs are a "routine cost-of-service ratemaking expense" and could be reallocated based on a "dispositive precedent" set in SCE's 2019 WEMA Application.²⁹

On May 11, 2022, the proceeding was reassigned from President Marybel Batjer to President Alice Reynolds. On May 19, 2022, the assigned ALJ issued a decision to extend the statutory deadline for completion of the application until October 21, 2022.

The assigned ALJ issued a Supplemental Ruling on May 24, 2022, requesting SCE to detail Facts and Law that:

- Prompted SCE's shift away from a headcount methodology to a risk model after issuance of the 2020 WEMA Decision;
- Supported SCE's right to adopt a risk-based methodology versus a headcount methodology to allocate \$7.2 million in Commission-jurisdictional wildfire liability premium costs between the WEMA and SONGS NDT fund;
- Detailed any underlying retroactive ratemaking implications or non-implications of the WEMA and

²⁸ SCE Opening Brief at 3.

²⁹ Cal Advocates Opening Brief at 4.

SONGS NDT fund reallocations requested in A.20-12-010 in light of the 2020 WEMA Decision;

- Explained why SCE sought retroactive relief regarding the 2019 - 2020 SONGS policy year in the instant 2020 WEMA Application proceeding rather than by petition for modification of the 2020 WEMA Decision, including but not limited to pinpoint cites in the instant 2020 WEMA Application evidentiary record; and
- Described the interrelatedness of proceedings listed below and the pending 2020 WEMA Application/NDT reallocation requests as to the 2019 - 2020 SONGS policy year:
 - 2019 WEMA Application/Decision
 - 2020 WEMA Application
 - 2021 Nuclear Decommissioning Cost Triennial Proceeding (NDCTP) A.22-02-01630

SCE filed a Supplemental Brief in response to the May 24, 2022, ALJ ruling on June 9, 2022. The proceeding was submitted upon receipt of this Supplemental Brief.

On October 3, 2022, the proceeding was reassigned from ALJ McGary to ALJ Mutialu. On October 10, 2022, the proceeding deadline was extended until April 30, 2023.

2. Issues Before the Commission

The issues to be determined or otherwise considered are:

1. Is SCE's request to recover \$214.5 million in revenue requirement related to the WEMA-eligible insurance costs

³⁰ Email ALJ Ruling Ordering Supplemental Briefing, May 24, 2022.

- incremental, reasonable, and recoverable under Pub. Util. Code Section 451?³¹
2. Are the cost allocation and cost recovery methods proposed by SCE reasonable, justified, and consistent with the law?
 3. Is the Application in the public interest?
 4. Does grant or denial of the application require environmental review pursuant to the California Environmental Quality Act (CEQA)?

3. Incrementality of 2020 WEMA Costs

From January 2020 - June 2020, SCE incurred \$229.959 million in wildfire insurance expenses. SCE's 2018 GRC Decision authorized SCE to recover \$78.8 million of these expenses.³² To recover the remainder, SCE filed its 2019 WEMA Application.³³ Subsequently, the 2020 WEMA Decision authorized SCE to collect \$142 million in wildfire insurance premium expenses for the January 2020 - June 2020 period from ratepayers.

SCE's 2020 WEMA Application requested authority to recover \$207.3 million in wildfire insurance premium costs incurred from July 1, 2020 - December 31, 2020 and the SONGS Adjustment incurred during the 2019 - 2020 policy year. SCE did not request recovery of these costs in SCE's 2018 GRC or 2019 WEMA Applications. Accordingly, we find that WEMA-eligible costs requested in its 2020 WEMA application are incremental to those recovered in SCE's 2018 GRC and the 2019 WEMA Application. We will now discuss the reasonableness of these costs, their allocation and recovery.

³¹ The Assigned Commissioner's Scoping Memo incorrectly stated that SCE's 2020 WEMA Application revenue requirement equaled \$214.6 million. This number has been amended to \$214.5 million to reflect SCE's actual revenue requirement.

³² Exhibit SCE-0001 at 23.

³³ Ibid.

4. Reasonableness of 2020 WEMA Costs and Cost Allocation

In SCE's 2020 WEMA Application, SCE requests rate recovery of wildfire liability premium costs from two distinct periods: \$207.3 million in costs recorded in WEMA during the first half of SCE's 2020-2021 policy year (July 1, 2020 - December 31, 2020) and the SONGS Adjustment recorded in WEMA during the 2018 - 2020 policy period (April 3, 2018-July 1, 2020). First, we will examine the reasonableness of SCE's wildfire liability premium costs recorded in WEMA from July 2020 - December 2020. Second, we will examine the reasonableness of cost recovery and cost allocation of the SONGS Adjustment.

4.1. Reasonableness of July 1, 2020 - December 31, 2020 SCE Wildfire Insurance Premium Costs

In Direct Testimony, SCE explained that wildfire insurance liability premium costs have increased due to two factors: increasing wildfire risk liability and decreasing supply of wildfire insurance coverage.³⁴

SCE detailed several factors that have contributed to increasing wildfire risk including prolonged drought conditions, a progressive increase in vegetation with low moisture content, decreased humidity, strong Santa Ana winds, and an accumulation of wildfire fuels.³⁵

With respect to increased wildfire liability, SCE pointed to continued exposure to inverse condemnation claims. For example, SCE cited a \$230,000 payment ordered by a decision in *Rathje v. SCE* that applied inverse condemnation.

³⁴ Exhibit SCE-0001 at 12-13.

³⁵ Exhibit SCE-0001 at 12.

Due to increasing wildfire risk and liability, SCE explained that insurance carriers have a decreased willingness to offer wildfire insurance coverage. According to SCE, the tightened supply of coverage options has resulted in higher wildfire premium prices. From 2016 - 2017, SCE paid \$59 million in wildfire cash premiums. This value rose to \$290 million from 2018 - 2019, escalated to \$551 million from 2019-2020, and declined to \$435 million from 2020 - 2021.³⁶

Since SCE's 2018 - 2019 policy year, SCE reported that the general liability insurance market has excluded wildfire liability coverage. To address insurance coverage gaps, SCE worked with insurance brokers to purchase non-wildfire and wildfire liability coverage tiers to create a \$1 billion insurance "tower." SCE's "tower" includes a \$50 million GRC-funded self-insurance-retention (SIR) deductible that must be utilized initially by SCE to cover wildfire liability-related expenses including wildfire-related injury claims. When SIR funds are exhausted, SCE may access insurance coverage purchased in the market. These insurance and reinsurance³⁷ policy tiers vary in price according to type of coverage (i.e., property damage (least cost) versus bodily injury (higher cost)).³⁸

When considering the trajectory of wildfire risks, consequences, and insurance costs, we concur with SCE's view that it is reasonable to recover WEMA-eligible wildfire insurance premium costs, and associated fees, interest, and finance-related charges tracked from July 1, 2020 - December 31, 2020. As the

³⁶ Exhibit SCE-0001 at 14, Table III-2.

³⁷ Exhibit SCE-0001 at 10, Footnote 19. Reinsurance is an insurance instrument wherein SCE is insured for wildfire liability by an intermediary (i.e., Edison Insurance Services Inc.) who in turn is insured by a third-party. The result is SCE's reduced exposure to wildfire liability risk.

³⁸ Exhibit SCE-0001 at 10.

effects of climate change continue to evolve, predicting the frequency and severity of wildfire events will continue to be a challenge. Consequently, the ability of SCE and insurance brokers to forecast required wildfire liability coverage in SCE's GRC filings will be tested.

If SCE is required to make wildfire-related liability payments between GRC filings, due to inverse condemnation claims or otherwise, SCE should retain interim and/or replacement wildfire liability coverage, through self-insurance or through insurance policies purchased in the market. SCE correctly notes that it would not be in the best interest of SCE customers to reimburse wildfire claimants directly from GRC revenues or from WEMA versus through insurance coverage.³⁹ To maintain SCE's wildfire liability insurance coverage at an adequate level, we agree with SCE's and Cal Advocates' stipulation that it is just and reasonable, per requirements of Public Utilities Code Section 451, for SCE to recover \$207.3 million in wildfire liability insurance premiums, Commission-jurisdictional financing costs, memorandum account interest, and Franchise Fees and Uncollectibles tracked in SCE's WEMA.

4.2. Reasonableness of SONGS Wildfire Insurance Premium Costs and Cost Allocation

SCE and Cal Advocates disagreed on cost allocation of the SONGS Adjustment requested in SCE's 2020 WEMA Application. SCE claimed that a \$7.2 million CPUC-jurisdictional portion of the \$9 million in SONGS general liability premium costs, including wildfire insurance coverage originally allocated to the SONGS NDT fund and SONGS co-owners in SCE's 2019 WEMA Application, should now be allocated to WEMA and recovered by SCE ratepayers. Originally,

³⁹ Exhibit SCE-0001 at 11.

SCE utilized a head count methodology, based on the relative number of SCE employees located at a SCE facility, division, etc., to allocate general liability insurance premium costs to SONGS co-owners. After further consideration and consultation with the SONGS co-owners, SCE concluded that the headcount methodology overstated SONGS contribution to the increased cost of wildfire insurance. Therefore, in lieu of using the headcount methodology, SCE utilized what it referred to as a “risk-based methodology” to reallocate the \$7.2 million SONGS Adjustment to SCE ratepayers, after concluding that wildfire risk is primarily associated with SCE electric distribution assets. SCE allocated the remaining \$1.3 million in wildfire liability insurance premium costs to SONGS co-owners, that, according to SCE, were in alignment with historical SONGS coverage amounts and not subject to increasing wildfire risk. As described earlier, \$0.5 million in wildfire insurance premium costs were FERC-jurisdictional.

Cal Advocates recommended that the SONGS Adjustment should be allocated to SONGS co-owners. After a review of SCE’s supporting documentation in this proceeding, Cal Advocates concluded that SCE’s rationale for allocating the SONGS Adjustment to its customers, namely SCE’s view that these costs represent a historical common cost-based ratemaking expense, was not justified due to the lack of supporting documentation.

After evaluating the facts, we do not agree that SCE’s request to recover the SONGS Adjustment is reasonable or that it should be re-allocated to SCE ratepayers. SCE’s 2020 WEMA Decision clarified that SCE’s 2019 WEMA proceeding applied “a standard reasonableness review, which follows a long tradition of examining costs and the prudence of management actions that are

already incurred but recorded in a memorandum account.”⁴⁰ The 2020 WEMA Decision defined the Commission’s standard for reasonableness reviews as follows:

“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 the 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, safety and expedition.

Per the Commission’s standard for reasonableness review, reasonable judgement should be exercised by a utility in light of the facts known or which should have been known at the time a decision was made. Given that the 2020 WEMA Decision did not authorize or provide direction on cost recovery of the SONGS Adjustment, the Commission must weigh facts and evidence in the record of the instant proceeding to determine the reasonableness of SCE’s decision to reallocate the SONGS Adjustment to WEMA, which entailed estimating the proportion of SONGS wildfire insurance premium costs borne by SONGS co-owners and the proportion that should be borne by SCE ratepayers.

Hence, the Commission must determine if the amount re-allocated by SCE from the SONGS NDT to WEMA is reasonable. SCE ultimately decided to only allocate \$1.3 million (out of the originally allocated \$9 million) in historical liability insurance costs to the SONGS NDT. According to SCE, the \$1.3 million allocation reflected “historical liability insurance expense allocated to SONGS for

⁴⁰ D.20-09-024 at 12.

the 2015-2017 period, before wildfire costs substantially escalated”.⁴¹ SCE claimed this amount reflected SONGS’ historical liability insurance expenses for the 2015-2017 period.⁴² ⁴³ However, SCE initially stated in its 2019 WEMA Direct Testimony, which was served in July 2019, that its SONGS insurance policies were “appropriate because SONGS remained energized and is covered by SCE’s insurance policies. In fact, SONGS and its associated electric transmission and distribution lines are located in or immediately adjacent to areas designated as Tier 2 on the Commission’s High Fire Threat District maps”.⁴⁴

Despite this, SCE declared in its 2019 WEMA Rebuttal Testimony, served in November 2019, that “after careful consideration” SCE intended to reallocate \$7.2 million (of the originally allocated \$9 million) from the SONGS NDT to WEMA (SONGS Adjustment). SCE explained that its decision was based on SONGS’ decreased wildfire risk.⁴⁵ SCE asserted that “material increases in costs for wildfire liability insurance that SCE was then experiencing were not attributable to SONGS specifically, but rather were related to increased risk across SCE’s system, the vast majority of which is related to SCE’s distribution-level electric facilities”.⁴⁶

In reference to the \$1.3 million wildfire insurance premium cost assigned to SONGS co-owners, SCE did not explicitly state whether the associated coverage pertained solely to SONGS or whether it also pertained to its associated

⁴¹ Exhibit SCE-0002 at 4.

⁴² Exhibit PAO-0100 at 4.

⁴³ Exhibit PAO-0101 at 1.

⁴⁴ A.19-07-010 Direct Testimony at 24.

⁴⁵ Exhibit SCE-0002 at 4.

⁴⁶ Exhibit SCE-0002 at 2.

electric delivery assets. In addition, SCE had the opportunity to provide insurance risk analysis (i.e., a description and application of its selected insurance risk methodology, quantitative risks, and resulting costs) as well as insurance broker assessments that might illustrate why “material increases in wildfire liability insurance” did not pertain to SONGS and instead pertained to SONGS’ electric distribution infrastructure. But SCE did not provide any such information. Nor did SCE otherwise provide evidence to support why allocating \$1.3 million to the SONGS co-owners (for the cost of providing wildfire insurance to SONGS) was more appropriate than allocating \$9 million to the SONGS co-owners, as originally suggested by headcount methodology. Without such supporting evidence in the record, the Commission cannot determine the reasonableness of the SONGS Adjustment.

Moreover, there is also the complicating factor that the SONGS Adjustment “represents the CPUC-jurisdictional costs associated with insuring against systemwide wildfire risk associated with SCE’s electrical assets (almost exclusively transmission and distribution facilities),”⁴⁷ but such costs are also a “prior period adjustment,” [REDACTED] and \$505 million in wildfire insurance premium costs were previously authorized in the 2020 WEMA Decision. Based on this, the SONGS Adjustment should not be considered as an isolated wildfire insurance premium cost from the prior period, but rather it should be analyzed in relation to other wildfire insurance costs from that period. This is important because the burden of proof rests on SCE to show that the SONGS Adjustment covers distribution and system wildfire liability risks not otherwise previously covered.

⁴⁷ A.20-12-010 Supplemental Brief at 8.

To demonstrate this SCE is required to provide supporting facts and evidence in the record of the instant proceeding.

To be clear, the Commission agrees with SCE “it is beyond reasonable dispute that the costs at issue here are insurance amounts paid by SCE...”⁴⁸ Per WEMA tariff rules, SCE did exercise its right to transfer insurance costs from the SONGS NDT to WEMA. In addition, SCE acknowledges “the instant A.20-12-010 proceeding is an appropriate proceeding to address the reasonableness of these costs.”⁴⁹

However, based on a preponderance of evidence, the Commission does not find SCE met its burden of proof to show that the prior period SONGS Adjustment relates to distribution and system risks that were not previously covered in the 2020 WEMA Decision. And moreover, even if SCE had met such burden, the Commission finds that upon review of the record, SCE did not provide adequate evidence or an attestation to show that the \$1.3 million in SONGS wildfire insurance premium costs allocated to SONGS NDT co-owners was appropriate and reasonable. On this basis, we agree with Cal Advocates that “SCE’s assertion that the \$7.2 million is a routine cost-of-service ratemaking expense is unsupported by factual evidence and the proposed recovery through the WEMA has not been adequately justified”.⁵⁰ Based on SCE’s failure to meet the Commission’s standard for reasonableness review, SCE’s request to recover the \$7.2 million SONGS Adjustment is denied. Since we do not authorize SCE to recover the SONGS Adjustment in this decision, SCE may exercise its right to

⁴⁸ A.20-12-010 Supplemental Brief at 7.

⁴⁹ A.20-12-010 Supplemental Brief at 9.

⁵⁰ Exhibit PAO-0100 at 5.

reopen conversations with SONGS co-owners regarding allocation of the SONGS Adjustment.

5. Consistency with AB 1054

SCE asserted that maintaining \$1 billion in wildfire insurance coverage is prudent and consistent with guidance in Assembly Bill (AB) 1054 (Stats. 2019, Ch. 79) and requirements in Public Utilities Code Section 3293. To meet this objective, SCE acquired \$950 million in wildfire insurance coverage for the 2020 - 2021 policy year and retained \$50 million in SIR.⁵¹ Cal Advocates did not oppose SCE's request for rate recovery of July 2020 - December 2020 wildfire premium costs, associated financing and interest costs, and FFU in its 2020 WEMA Application that supported SCE's wildfire insurance coverage during the 2020 - 2021 policy year.

We agree with SCE. AB 1054 established a Wildfire Fund that electric corporations may access to pay eligible claims for damages caused by covered wildfires.⁵² Eligible claims must exceed the greater of two values, \$1 billion in third-party damages or a reasonable amount of wildfire insurance as required by Public Utilities Code Section 3293, as measured by the amount excess.⁵³ Hypothetically, if SCE incurs \$1.5 billion in third-party damages, SCE may be eligible to claim \$0.5 billion from the Wildfire Fund if it retains \$1 billion in wildfire insurance. If SCE retains \$0.9 billion in wildfire insurance coverage, SCE will be required to pay uncovered wildfire-related damages, up to \$100 million, before seeking approval to access the Wildfire Fund. In this instance, SCE may

⁵¹ Exhibit SCE-0001 at 18.

⁵² Per Pub. Util. Code § 1701.8, covered wildfires are those determined to be caused by an electric corporation a government agency by a court or government agency and results in a court-appointed dismissal due to settlement of third-party damage claims.

⁵³ Eligible claims are defined in Pub. Util. Code § 3208(f).

need to utilize GRC revenues to pay wildfire liability claims.⁵⁴ Consequently, SCE could be subject to financial risk that may impair SCE's ability to deliver safe, reliable, and affordable electric service. SCE's maintenance of \$1 billion in wildfire insurance coverage, as supported by SCE's purchase of incremental wildfire insurance premiums from July 2020 - December 2020, is consistent with AB 1054 requirements serves the public interest.

6. Ratepayer Impacts

In SCE's 2020 WEMA Direct Testimony, SCE requested authority to recover \$214.5 million in wildfire insurance premium costs, and associated financing and interest costs, and FFU recorded from July 1, 2020 - December 31, 2020 and the SONGS Adjustment in distribution rates over a 12-month period. SCE reasoned that its ratepayers should pay for costs that benefit them as they are incurred.⁵⁵ SCE also noted that this cost recovery approach aligns with SCE's authorization in the 2020 WEMA Decision to recover a year of WEMA costs in 24-months.⁵⁶

Based on estimated ratepayer impacts, we find merit in SCE's proposal. In SCE's 2019 WEMA Application, SCE reported that amortization of the \$505 million revenue requirement over a 24-month period would result in a 2.1% rate increase across all SCE customer classes. SCE's residential ratepayers were expected to witness a 2.6% rate increase.⁵⁷ In SCE's 2020 WEMA Application, SCE detailed that amortization of the \$214.5 million revenue requirement recovered over a 12-month period would result in a 1.5% rate

⁵⁴ Exhibit SCE-0001 at 11.

⁵⁵ Exhibit SCE-0001 at 24.

⁵⁶ Exhibit SCE-0001 at 25.

⁵⁷ A.19-07-020 at 8.

increase for all SCE customers and a 1.8% increase for SCE's residential customers.⁵⁸ In relative terms, the estimated rate increases proposed in SCE's 2020 WEMA Application are less than those proposed in SCE's 2019 WEMA Application approved by the Commission. In absolute terms, amortization of SCE's July 2020 - December 2020 wildfire premium-related costs tracked in WEMA would not bear a significant impact on SCE ratepayers.

As discussed, the Commission does not approve SCE's request to recover the SONGS Adjustment. In light of the estimated rate impact, the Commission authorizes SCE to amortize the remainder of SCE's revenue requirement, which amounts to \$207.3 million, or 50 percent, of wildfire liability insurance premium costs and associated financing, interest, and FFU recorded in WEMA from July 1, 2020, to December 31, 2020, in distribution rates over a 12-month period.

7. Need for CEQA Review

CEQA intends to "prevent significant, avoidable damage to the environment by requiring changes in projects through the use of alternatives or mitigation measures when the governmental agency finds the changes to be feasible."⁵⁹ According to California Code of Regulations (CCR) Section 15378, a CEQA review is required for projects that may result in a direct or reasonably anticipated indirect physical change in the environment. CCR Section 15378 defines a project as "the activity which is being approved and which may be subject to several discretionary approvals by governmental agencies."⁶⁰

Per CEQA regulatory requirements, Commission approval of SCE's 2020 WEMA Application does not necessitate a CEQA review. SCE's request for

⁵⁸ A.20-12-010 at 10.

⁵⁹ Public Resource Code § 21000, Division 13.

⁶⁰ Cal. Code Regul. §15378

Commission authority to recover wildfire insurance premium costs would not result in a direct or indirect physical impact to the environment. Pursuant to CCR Section 13578, SCE's 2020 WEMA Application is not a project and therefore not subject to CEQA review.

8. Conclusion

After careful deliberation, the Commission has determined that SCE's request to recover \$207.3 million in wildfire premium costs tracked in its WEMA from July 2020 - December 2020 is reasonable. Due to the uncertainty of wildfires and resultant claims, SCE acted prudently to acquire incremental wildfire insurance policies to retain approximately \$1 billion in wildfire insurance coverage.

Furthermore, SCE's request to recover the \$7.2 million SONGS Adjustment recorded during the 2019 - 2020 policy year is denied. SCE has not met its burden of proof to justify reallocating the SONGS Adjustment to SCE ratepayers via the WEMA.

9. Summary of Public Comment on the Docket Card

Several comments centered on unwarranted rate increases resulting from Commission approval of SCE's 2020 WEMA Application. Rather than imposing a financial impact on ratepayers, some reasoned that SCE shareholders should bear wildfire insurance premium costs. A few comments attributed rising wildfire insurance premium costs to SCE's increased wildfire risk, due to ineffective maintenance of its distribution grid.

10. Comments on Proposed Decision

The proposed decision of ALJ Rajan Mutialu in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice

and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

11. Assignment of Proceeding

President Alice Reynolds is the assigned Commissioner and Rajan Mutialu is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. SCE's wildfire insurance coverage approved in its General Rate Case may not be adequate to cover wildfire liability claims between GRCs.
2. SCE's 2020 WEMA Application revenue requirements are incremental to those recovered in SCE's 2018 GRC and the 2019 WEMA Application.
3. SCE purchased incremental wildfire insurance coverage to maintain approximately \$1 billion in wildfire insurance coverage.
4. If SCE cannot meet wildfire liability payment requirements, SCE may need to obtain additional funds from SCE ratepayers to pay for wildfire claims and this would not serve the interests of ratepayers or the public.
5. SCE purchased \$207.3 million in incremental wildfire insurance coverage for the July 1, 2020-December 31, 2020 period.
6. SCE provided sufficient facts and evidence in the record of the instant proceeding to justify rate recovery of the \$207.3 million in wildfire insurance coverage for the July 1, 2020-December 31, 2020 period.
7. SCE allocated the \$7.2 million SONGS Adjustment to SCE ratepayers on November 7, 2019, before the Commission issued the SCE 2020 WEMA Decision on September 20, 2020.
8. SCE did not provide sufficient facts and evidence in the record of the instant proceeding to justify reallocation of the SONGS Adjustment to WEMA.

Conclusions of Law

1. SCE must demonstrate that it is entitled to the relief sought in this proceeding, including affirmatively establishing the reasonableness of all aspects of its application.
2. SCE must satisfy its burden of proof to show the reasonableness of costs by a preponderance of evidence, which is evidence that, when weighed with that opposed to it, has more convincing force and greater probability of truth.
3. SCE should be authorized to recover \$207.3 million in wildfire insurance premium costs tracked in WEMA from July 1, 2020 - December 31, 2020, and associated financing and interest costs, and FFU costs in customer distribution rates over a 12-month amortization period.
4. The Commission should deny SCE's request to recover the SONGS Adjustment because it is not reasonable.
5. This proceeding should be closed.

O R D E R**IT IS ORDERED** that:

1. Southern California Edison (SCE) is authorized to recover a proposed revenue requirement of \$207.3 million for incremental wildfire insurance premiums recorded in SCE's Commission approved Wildfire Expense Memorandum Account (Insurance WEMA) for the July 2020- December 2020 period as follows:
 - (a) \$204.6 million for insurance premium expense;
 - (b) \$0.2 million for financing costs (at a commercial paper rate);
 - (c) \$0.1 million for memorandum account interest; and

(d) \$2.4 million for franchise fees and uncollectibles.

2. Southern California Edison is authorized to transfer the recorded balance of \$207.3 million from the Wildfire Expense Memorandum Account for the July 2020 - December 2020 period, and associated financial and interest costs, and franchise fees and uncollectibles to the Base Revenue Requirement Balancing Account for recovery in distribution rates and amortize it over a 12-month period.
3. SCE's request to collect the SONGS Adjustment is denied.
4. Application A.20-12-010 is closed.

This order is effective today.

Dated _____, at San Francisco, California.