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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 22-03-018:

This is the proposed decision of Administrative Law Judge Peter Wercinski. 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 May 30, 2024 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 COOKE

Michelle Cooke

Chief Administrative Law Judge

MLC: hma

Attachment

Decision **PROPOSED DECISION OF ALJ Wercinski** (Mailed 4/9/2024)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California
Edison Company (U338E) for
Authorization to Recover Costs
Related to 2019 Winter Storms, 2020
Heatwaves, and 2020 Fires Recorded
in the Catastrophic Event
Memorandum Account.

Application 22-03-018

**DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY TO
RECOVER COSTS RELATED TO 2019 WINTER STORMS, 2020
HEATWAVES, AND 2020 FIRES RECORDED IN THE CATASTROPHIC
EVENT MEMORANDUM ACCOUNT**

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**DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY TO
RECOVER COSTS RELATED TO 2019 WINTER STORMS, 2020
HEATWAVES, AND 2020 FIRES RECORDED IN THE CATASTROPHIC
EVENT MEMORANDUM ACCOUNT**

Summary

This decision authorizes Southern California Edison Company (SCE) to recover a revenue requirement of \$190.725 million in rates over a 12-month period for costs recorded in its Catastrophic Event Memorandum Account related to 2019 winter storms, 2020 heatwaves and 2020 fires. SCE established that its requested costs were within the categories eligible for recovery and were incremental to amounts previously authorized to be recovered in rates in SCE's general rate cases. SCE also established that all of its requested costs were reasonable except for \$3,216,000 in supplemental pay to salaried, exempt employees that were disallowed.

This proceeding is closed.

1. Background**1.1. Procedural Background**

In Decision (D.) 19-05-020 (2018-2020 GRC Decision), the Commission approved 2018 test year and 2019 and 2020 post-test year revenue requirements for Southern California Edison Company (SCE) pursuant to its general rate case (GRC) application (A.) 16-09-001. In D.21-08-036 (2021 GRC Decision), the Commission approved a 2021 test year revenue requirement for SCE pursuant to its GRC application A.19-08-013.

SCE filed A.22-03-018 (Application) on March 30, 2022, requesting that the Commission:

- Find reasonable \$311.625 million in incremental capital expenditures and \$206.677 million in operations and maintenance (O&M) expenses used as the basis for the

revenue requirement recorded in SCE's 2019-2020 Catastrophic Event Memorandum Account (CEMA) subaccounts;

- Authorize SCE to recover the revenue requirement of \$197.681 million associated with the 2019-2020 CEMA subaccounts and transfer the recorded balance (O&M and capital-related revenue requirement), including interest plus franchise fees and uncollectibles, to the distribution subaccount of the Base Revenue Requirement Balancing Account (BRRBA) for recovery in distribution rates upon a final decision in this proceeding;
- Authorize SCE to record and transfer the annual ongoing revenue requirement, as of each December 31, for the capital expenditures approved in this Application from the CEMA subaccounts to the distribution subaccount of the BRRBA until the ongoing revenue requirement is included in the GRC-authorized rates; and
- Authorize SCE to recover the CEMA revenue requirement of \$197.681 million over a 12-month period.

On May 2, 2022, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) filed a protest to the Application. On May 19, 2022, SCE filed a reply. A prehearing conference was held on May 27, 2022. On June 30, 2022, a scoping memo and ruling was issued by the assigned Commissioner addressing the scope of the proceeding, schedule, and other procedural matters.

On December 6, 2022, an evidentiary hearing addressed the issues whether supplemental pay should be awarded to exempt employees working more than 40 hours a week and whether a Tier 2 Advice Letter should be filed regarding the allocation of insurance proceeds. At the evidentiary hearing, Exhibits SCE-01, SCE-02, SCE-02E, SCE-03, SCE-04, and PAO-01 were admitted into evidence.

After the evidentiary hearing, the assigned Administrative Law Judge (ALJ) issued a ruling asking for a joint briefing about Commission decisions in awarding supplemental pay to exempt employees. The joint briefing was filed on December 23, 2022.

SCE and Cal Advocates filed opening briefs on January 12, 2023, and reply briefs on January 20, 2023. In its opening brief, SCE stated that it was reducing its recovery request for O&M expenses by \$3.74 million to reflect payment by Pacific Gas and Electric Company (PG&E) for SCE's Doyle Springs 12kV Tap Claim.¹

On April 27, 2023, June 28, 2023, and February 1, 2024, the assigned ALJ issued rulings ordering SCE to submit additional information. SCE filed its response to the April 27, 2023, ruling on May 17, 2023 (May 17, 2023 Response), filed two responses to the June 28, 2023, ruling on June 30, 2023 (June 30, 2023 Responses), and filed its response to the February 1, 2024, ruling on February 9, 2024 (February 9, 2024 Response). The May 17, 2023 Response, June 30, 2023 Responses, and February 9, 2024 Response are admitted into evidence.

1.2. Submission Date

This matter was submitted on February 9, 2024, upon SCE's filing of its February 9, 2024 Response.

1.3. Factual Background

1.3.1. 2019 Winter Storms

Beginning on January 5, 2019, an atmospheric river system with high winds, substantial precipitation, and flooding swept across California. That system and subsequent storms impacted California through February 12, 2019, when another significant atmospheric river system swept across the state. These winter storms (2019 Winter Storms) caused mud slides, erosion, power outages,

¹ SCE Opening Brief at 20-21.

and widespread damage to infrastructure and had a direct impact in the districts of Metro West, Ventura, and Arrowhead served by SCE, with 78,259 customers experiencing service interruptions. Between February 2, 2019, and February 14, 2019, SCE crew members were deployed to each of the three districts to restore power and make repairs. A communications site for emergency services, Kellar Peak, was damaged by snowfall, and generators were utilized for several months to maintain power for 911, the Office of Emergency Services, Verizon, the California Highway Patrol, the U.S. Forest Service, the California Department of Forestry and Fire Protection, and SCE transmitters until SCE gained access to make repairs after the snow melted.² On February 21, 2019, Governor Gavin Newsom proclaimed a State of Emergency in 21 California counties due to the 2019 Winter Storms.³

1.3.2. 2020 Heatwaves

Two extreme heatwaves impacted California in August and September 2020 (2020 Heatwaves). Beginning on August 14, 2020, a heatwave with temperatures well over 100 degrees Fahrenheit affected much of the state. The heatwave caused the California Independent System Operator (CAISO), which manages the state's power grid, to issue multiple system emergencies and resulted in rolling blackouts for customers throughout California. SCE notified 2,370,256 customers in August of potential rotating outages. On August 14, 2020, approximately 132,000 SCE customers lost power for one hour. On August 15, 2020, approximately 70,000 customers lost power for 15 minutes.⁴ On August 16,

² Exhibit SCE-01 at 14-17.

³ Exhibit SCE-01 at 14.

⁴ Exhibit SCE-01 at 18.

2020, Governor Newsom issued a State of Emergency due to the effects of the heatwave.⁵

Beginning on September 2, 2020, a second extreme heatwave hit California, putting significant demand and strain on California's energy grid and causing CAISO to issue a Flex Alert calling for voluntary electricity conservation to mitigate the impact to energy supplies. SCE notified 856,236 customers of potential rotating outages regarding this heat event. However, no customer experienced an outage related to this September heatwave.⁶ On September 3, 2020, Governor Newsom proclaimed a State of Emergency, recognizing that it was necessary to take action to reduce the strain on the energy infrastructure and increase energy capacity.⁷

1.3.3. 2020 Fires

Five 2020 fires, identified as the Apple Fire, Sequoia Complex Fire, Creek Fire, El Dorado Fire, and Bond Fire (2020 Fires), affected SCE's service territory as summarized in Table 1:

⁵ Exhibit SCE-01 at 4.

⁶ Exhibit SCE-01 at 20.

⁷ Exhibit SCE-01 at 4.

TABLE 1
Summary of 2020 Fires⁸

Fire	County	Start Date	Containment Date	Acreage Burned	No. of Burn Days	No. of Affected Customers
Apple	Riverside San Bernardino	7/31/2020	11/16/2020	33,424	108	2817
Sequoia Complex	Tulare	8/19/2020	1/5/2021	174,178	139	744
Creek Fire	Fresno Madera	9/4/2020	12/24/2020	379,895	111	2783
El Dorado	San Bernardino	9/5/2020	11/16/2020	22,744	72	989
Bond	Orange	12/3/2020	12/11/2020	6,686	8	2814

The Federal Emergency Management Agency (FEMA) declared disasters (1) on August 2, 2020, in Riverside and San Bernardino Counties related to the Apple Fire,⁹ (2) on September 13, 2020, in Tulare County related to the Sequoia Complex Fire,¹⁰ and (3) on December 3, 2020, in Orange County related to the Bond Fire.¹¹ Governor Newsom proclaimed States of Emergency on September 6,

⁸ Exhibit SCE-01 at 5, 26.

⁹ Exhibit SCE-01 at 6.

¹⁰ Exhibit SCE-01 at 7.

¹¹ Exhibit SCE-01 at 10.

2020, for Fresno and Madera Counties related to the Creek Fire¹² and for San Bernardino County related to the El Dorado Fire.¹³

The 2019 Winter Storms, 2020 Heatwaves, and 2020 Fires are collectively referred to in this decision as the CEMA Events.

2. Legal Principles

2.1. Burden of Proof

As the applicant, SCE has the burden of affirmatively establishing the reasonableness of all aspects of its application.¹⁴ The standard of proof the applicant must meet in rate cases is that of a preponderance of the evidence.¹⁵ Preponderance of the evidence is defined “in terms of probability of truth, *e.g.*, ‘such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.’”¹⁶

2.2. Costs Eligible for Recovery

Public Utilities (Pub. Util.) Code Section 454.9(a) directs the Commission to authorize public utilities to establish and record in CEMAs costs of (1) restoring utility services to customers, (2) repairing, replacing, or restoring damaged utility facilities, or (3) complying with governmental agency orders in connection with events declared disasters by competent state or federal authorities. The intent of establishing the CEMA mechanism is to resolve the problem of timely obtaining a Commission order, following truly unusual catastrophic events, to record costs

¹² Exhibit SCE-01 at 8.

¹³ Exhibit SCE-01 at 9.

¹⁴ D.09-03-025 at 8; D.06-05-016 at 7.

¹⁵ D.19-05-020 at 7; D.15-11-021 at 8-9; D.14-08-032 at 17.

¹⁶ D.08-12-058 at 19, citing Witkin, Calif. Evidence, 4th Edition, Vol. 1 at 184.

that would otherwise be lost due to the retroactive ratemaking prohibition.¹⁷ The blanket authorization to establish a CEMA, however, should not be construed as a prejudgment of the appropriateness of recovery.¹⁸

2.3. Incrementality

In D.01-02-075, a proceeding concerning the recovery of storm-related costs through the CEMA, the Commission required that the utility seeking cost recovery establish incrementality:

In addition to confirming that the funds for which [a utility] seeks recovery were spent on the stated repairs, a proper review requires us to determine whether, at a minimum ... the costs for which recovery is sought are reasonable and incremental to normal ... facility repair activity, including whether the costs were or should have been included among the risks contemplated to be borne by the utility in current rates.¹⁹

Res. ESRB-4, adopted on June 12, 2014, by the Commission, ordered California Investor-Owned Utilities (IOUs) to “take practicable measures to reduce the likelihood of fires associated with their facilities”²⁰ and stated:

To the extent additional funding is reasonable, and not already included or recoverable in the Investor-Owned Electric Utilities’ accounts, incremental cost recovery through ...CEMA may be sought by the IOUs However, the Commission may analyze such costs to determine if they are truly incremental, and meet the other requirements of CEMA.

¹⁷ Resolution (Res.) E-3238 at 4; D.22-11-010 at 14-15 (“The purpose of the Commission’s authorizing memorandum accounts in anticipation [of truly unusual catastrophic events] is to ensure that these utilities are not precluded by the retroactive ratemaking prohibition from recovering the extraordinary additional costs they may incur immediately after a disaster but before the Commission can act to authorize such accounts.”)

¹⁸ Res. E-3238 at 2.

¹⁹ D.01-02-075 at 13.

²⁰ Res. ESRB-4 Finding of Fact 2.

Consistent with Commission practice, double collection of costs is strictly prohibited.²¹

D.23-02-017 noted that incrementality of costs is a standard requirement for recovery of memorandum accounts. Traditionally, memorandum accounts are for matters not included in GRC forecasts, like emergency events or new and costly regulatory obligations that arise between GRC proceedings.²² The decision also noted that wildfire mitigation is critical to the state's overall efforts to prevent catastrophic wildfires, but it is also critical that ratepayers are not charged twice for the same work or capital expenditures.²³ The Commission stated:

Generally, costs are incremental if, in addition to completing the planned work that underlies the authorized costs, the utility had to procure additional resources, be they in labor or material, to complete the new activity. The existence and completion of a new activity by itself does not prove the cost was incremental. If a new activity is completed by redirecting existing resources in a related work category, no incremental cost was incurred, despite the activity itself being "incremental."²⁴

In a SCE CEMA proceeding, the Commission held that costs are incremental when "the costs are in addition to amounts previously authorized to be recovered in rates."²⁵ To establish incrementality, it is reasonable to compare CEMA costs to authorized recovery for similar expenditures.²⁶

²¹ Res. ESRB-4 Ordering Paragraph 4.

²² D.23-02-017 at 22.

²³ D.23-02-017 at 23.

²⁴ D.23-02-017 at 27.

²⁵ D.21-08-024 at 12, citing Res. E-3238 at 2-3.

²⁶ D.21-08-024 at 20.

2.4. Reasonableness

Pub. Util. Code Section 454.9(b) allows a utility to recover costs recorded in CEMA accounts upon a Commission finding on their reasonableness.

Utilities are held to a standard of reasonableness based upon the facts that are known or should be known at the time, not how the decision holds up in light of future developments. 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. 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. A decision may be found to be reasonable and prudent if the utility shows that its decision making process was sound, 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.²⁷

²⁷ D.05-08-037 at 9-11.

As part of a reasonableness review of proposed CEMA wildfire costs, where there is evidence that utility equipment ignited the fire for which the utility seeks cost recovery, it is reasonable to consider whether the utility prudently maintained its equipment.²⁸

3. Discussion

3.1. SCE Established Eligibility for Recovery of Requested Costs under Public Utilities Code Section 454.9(a)

As set forth in Section 2.2 above, under Pub. Util. Code Section 454.9(a), SCE must establish that its requested costs were for restoring utility services to customers, repairing, replacing, or restoring damaged utility facilities, or complying with governmental agency orders in connection with events declared disasters by competent state or federal authorities.

Cal Advocates conducted a review of the 2020 Heatwaves and the Apple, Sequoia Complex, and Creek Fires to confirm that the funds for which SCE seeks recovery were actually spent on an approved cost category. Cal Advocates used transactional testing²⁹ to verify that the O&M expenses and capital expenditures

²⁸ D.21-08-024 at Conclusion of Law 8.

²⁹ Cal Advocates selected expense and capital expenditure transactions to review the associated supporting documentation (such as invoices and other source data) to determine the accuracy of SCE's recorded CEMA entries. Cal Advocates reviewed documents for vendors' names, descriptions of work or services performed, dates of work, amount of costs, and whether costs were incurred in counties that a competent state or federal authority declared a state of emergency. For the Creek Fire, Cal Advocates requested a breakdown of SCE's recorded O&M expenses and recorded capital expenditures into journal entries, including the journal entries of \$186 million of the total of \$192 million of the recorded O&M expenses and \$150 million of the total of \$160 million of the recorded capital expenditures. From these journal entries, Cal Advocates reviewed supporting documents for selected recorded journal entries to verify that the O&M expenses and capital expenditures were for work and services incurred in the Creek Fire. Cal Advocates verified that the selected journal entries match the invoices and supporting documents such as the vendor's names, dates of work, amount of invoice, and work performed are for the Creek Fire. Exhibit PAO-01 at 7-11.

booked in the CEMA were for work and services incurred for the 2020 Heatwaves and Creek Fire.³⁰ For the Apple Fire and the Sequoia Complex Fire, Cal Advocates examined select ledger transactions and related supporting documents, including invoices, control sheets, purchase orders, and journal entries, to determine the accuracy of the financial data.³¹

Cal Advocates found that entries recorded into the CEMA by SCE were appropriate, with no discrepancies from recorded entries to invoices and receipts. Cal Advocates' accounting audits verified that the selected O&M expenses and capital expenditures were consistent with work and services performed for the corresponding disaster in the affected counties.

Our review of the evidentiary record reflects that all of SCE's requested costs in responding to the CEMA Events fall within one of the cost categories identified in Pub. Util. Code Section 454.9(a) and that SCE actually spent the claimed amounts in those approved categories. In addition, as set forth in Section 1.3 above, either FEMA or Governor Newsom declared disasters or states of emergency for each of the CEMA Events. As a result, SCE has complied with the requirements of Pub. Util. Code Section 454.9(a) to establish its eligibility to recover costs recorded in SCE's CEMA for the 2019 Winter Storms, 2020 Heatwaves, and 2020 Fires.

3.2. SCE Established the Incrementality of All Requested Costs

To recover its requested costs for the CEMA Events, SCE must establish that those costs are incremental, meaning that they are in addition to amounts previously authorized to be recovered in rates. Double collection of costs is

³⁰ Exhibit PAO-01 at 8-11.

³¹ Exhibit PAO-01 at 18-19.

strictly prohibited: it is critical that ratepayers are not charged twice for the same work or capital expenditures.³² SCE's costs for the CEMA Events were recorded in the CEMA in 2019, 2020, and 2021. For 2019 and 2020, incrementality is shown if SCE's CEMA costs were in addition to the amounts previously authorized in the 2018-2020 GRC Decision approving SCE's 2019 and 2020 post-test year revenue requirements. For 2021, incrementality is established if SCE's CEMA costs were in addition to the amounts previously authorized in the 2021 GRC Decision approving SCE's 2021 test year revenue requirement.

SCE's February 9, 2024 Response describes how SCE calculated its requested incremental costs. First, SCE explains its calculation of GRC-authorized costs for O&M expenses and capital expenditures in 2019, 2020, and 2021 related to the GRC activity identified as "Storm" in SCE's workpapers. To establish 2019 GRC-authorized O&M expenses, SCE (1) references 2018 "Storm" expenses consisting of (a) \$7.814 million for "Distribution Storm O&M" specifically referenced in the 2018-2020 GRC Decision³³ and (b) \$1.564 million for "Transmission and Substation Storm Expense" shown in an SCE exhibit to the 2018-2020 GRC Decision and reproduced in SCE's workpapers to the February 9, 2024 Response and (2) applies the escalation rates used to convert constant dollars to nominal 2019 dollars, with references to the relevant cost escalation sections of the 2018-2020 GRC Decision. As a result, total 2019 GRC-authorized O&M expenses for "Storm" were \$10.055 million. SCE uses the same methodology to establish 2020 GRC-authorized O&M expenses of \$10.299 million and 2021 GRC-authorized O&M expenses of \$16.539 million derived

³² See the discussion of incrementality in Section 2.3 above.

³³ D.19-05-020 at 66.

from “Storm Response” categories referenced in the 2021 GRC Decision under “Emergency Management” based on prior “storm events.” The February 9, 2024 Response reflects a similar approach by SCE to establish GRC-authorized capital expenditures of \$44.234 million in 2019, \$45.335 million in 2020, and \$49.103 million in 2021.

The next step in the incrementality analysis is to identify all recorded CEMA costs eligible for recovery for 2019, 2020, and 2021. SCE’s February 9, 2024 Response includes the following table:

Table II-2
A.22-03-018 CEMA Storm O&M Expenses

A	B	C	D	E	F	G	H
		Amounts Removed from SCE's Total Storm O&M					
Year	Storm GRC Authorized	Total Actual Storm O&M ¹	FERC ²	Non-CEMA Storm	Other CEMA Storm ³	CEMA Storm Non-Incremental ⁴	CEMA Storm Incremental O&M Request ⁵
2019	\$10,055	(\$8,093)	N/A	N/A	N/A	N/A	N/A
2020	\$10,299	\$204,989	\$918	\$8,947	\$661	\$3,094	\$191,369
2021	\$16,539	\$35,463		\$13,785	\$10,142	(\$28)	\$11,565
							\$202,934 ⁶

Column C in the table includes all SCE actual storm spending by year, including both CEMA and non-CEMA storm activity. Column D includes yearly costs related to activity within the jurisdiction of the Federal Energy Regulatory Commission and therefore not recoverable in this proceeding. Column E includes costs by year related to non-CEMA storm events. Column F includes yearly CEMA costs for which SCE is not seeking recovery in this proceeding. Column G includes costs by year that SCE recorded in CEMA but determined to be GRC-authorized costs and therefore not recoverable. The amounts shown in Columns E, F, and G include the GRC-authorized amounts shown in Column B.

Column H in the table shows SCE's final determination of incremental O&M costs for the CEMA Events by year, derived by subtracting the sum of the amounts in Columns D-G from the amount shown in Column C. The February 9, 2024 Response applies the same methodology to calculate total incremental capital expenditures incurred by SCE in 2019, 2020, and 2021 for the CEMA Events.

Cal Advocates did not oppose, comment on, or otherwise respond to SCE's incrementality methodology set forth in its February 9, 2024 Response. We find that SCE has established that its requested costs are incremental because they are in addition to the amounts previously authorized to be recovered in rates pursuant to the 2018-2020 GRC Decision and the 2021 GRC Decision.

3.3. SCE Established the Reasonableness of All Requested Costs Except Supplemental Pay for Exempt Employees

Under Pub. Util. Code Section 454.9(b), recovery of CEMA costs requires that SCE establish the reasonableness of those costs. SCE states that it took the following steps to assure that the costs incurred for the CEMA Events were reasonable: (1)) selecting and utilizing contractors and vendors from among those that SCE maintains competitively-bid purchase orders; (2) obtaining materials and supplies from SCE's normal supply chain; and (3) utilizing additional service providers from among those that SCE has previously (and productively) conducted business with.³⁴ SCE also states that it is not aware of

³⁴ Exhibit SCE-01 at 72.

any evidence or finding that its equipment caused or contributed to the ignition of the 2020 Fires.³⁵

As the damage throughout SCE's service territory became more widespread as a result of the 2020 CEMA events, SCE states that it did not have sufficient in-house resources to timely repair damaged equipment and restore service, and it became necessary to selectively secure contract crews to assist in restoration efforts. In anticipation of these types of emergency situations, SCE maintains purchase orders with many contractors to quickly and efficiently cover unforeseen conditions when an emergency occurs. In many instances, the purchase orders are based on hourly rates that were competitively bid at the time they were established. To make sure that these rates remain competitive, SCE's Material Supply organization reviews and updates contractual terms and conditions periodically. Contractor-related costs include contract linemen crews and civil contractors to assist SCE crews in facilities repairs and replacements, vegetation contractors used to conduct extensive vegetation mitigation, and contractors brought in to provide sleeping trailers, portable shower trailers, restroom facilities, meal preparation services, and related services.³⁶

To respond to the September 2020 heatwave, SCE activated the Incident Support Team (IST). The IST oversees management of large incidents and simultaneous incidents with multiple Incident Management Teams (IMTs) assigned. The IST's primary role is to provide effective coordination between IMTs, efficient resource allocation, and appropriate internal and external

³⁵ Exhibit SCE-01 at 2; *see* D.21-08-024 at Conclusion of Law 8 (reasonable to consider whether a utility prudently maintained its equipment where there is evidence that utility equipment ignited the fire for which the utility seeks cost recovery).

³⁶ Exhibit SCE-01 at 76.

messaging.³⁷ An IMT is a group of trained personnel from different SCE organization units called on to lead a response to an emergency or incident. IMTs are typically activated for incidents expected to last longer than a day and requiring coordinated planning and resource allocation within a specific functional area.³⁸ IMTs coordinate and assign internal resources, help conduct damage assessment and prioritize work assignments, oversee critical messaging to customers and the public, ensure restoration was conducted in a safe and well-resourced manner, and assess potential safety hazards for both crews and the public.³⁹

In testimony presenting findings and recommendations regarding an examination of SCE's cost recovery request, Cal Advocates states that one of its objectives was to ensure that costs recorded in SCE's CEMA were reasonable.⁴⁰ The scope of Cal Advocates' examination focused on O&M expenses and capital expenditures incurred in the 2020 Heatwaves and the Apple, Sequoia Complex, and Creek Fires.⁴¹ Cal Advocates reviewed documents for descriptions of work or services performed and the amount of costs.⁴² In its testimony regarding the Creek Fire, Cal Advocates notes SCE's testimony regarding the extensive scope of SCE's operations in support of its restoration efforts, including (1) vegetation mitigation within the burn areas due to the significant amount of dead and dying trees, (2) costs associated with (a) temporary entry permits or lease payments to

³⁷ Exhibit SCE-01 at 19.

³⁸ Exhibit SCE-01 at 18-19.

³⁹ See Exhibit SCE-01 at 62.

⁴⁰ Exhibit PAO-01 at 5-6.

⁴¹ Exhibit PAO-01 at 8.

⁴² Exhibit PAO-01 at 8-9.

private property owners for use of the space, (b) site preparation, (c) restrooms, (d) kitchens, (e) food service, (f) lighting, (g) lodging, (h) security personnel, and (3) SCE's completion of the major restoration of the distribution, transmission, and telecommunications systems damaged or destroyed by the Creek Fire.⁴³

Regarding the Sequoia Complex Fire and the Apple Fire, Cal Advocates reviewed SCE historical data covering O&M expenses, SCE's general ledger, and selected subsidiary ledger transactions, with tests conducted to determine the reasonableness of SCE's financial data.⁴⁴

Based on its examination, Cal Advocates does not oppose any amount of SCE's requested recovery of capital expenditures.⁴⁵ Cal Advocates specifically found that all SCE capital expenditures for the Creek Fire were "within the scope of Section 454.9(b),"⁴⁶ the statutory provision that requires the applicant to establish the reasonableness of its requested costs. Further, Cal Advocates does not challenge the reasonableness of SCE's actions in deploying crew, hiring contractors, restoring service, repairing facilities, replacing damaged equipment, and managing vegetation. Cal Advocates' only recommendations for denial of cost recovery relate to O&M expenses of \$2,706,000 for the Creek Fire and \$513,000 for the 2020 Heatwaves resulting from SCE's discretionary payment of supplemental pay to exempt employees.⁴⁷ We address the recovery of supplemental pay to exempt employees below. For all other costs that SCE seeks recovery in this proceeding, we find that SCE acted reasonably and prudently in

⁴³ Exhibit PAO-01 at 9-10.

⁴⁴ Exhibit PAO-01 at 18-19.

⁴⁵ Exhibit PAO-01 at 7.

⁴⁶ Exhibit PAO-01 at 12.

⁴⁷ Exhibit PAO-01 at 6, 12.

responding to the CEMA Events and that the cost amounts incurred by SCE were reasonable.

SCE's IMT activation for the 2020 Heatwaves included 226 employees working 4,800 hours,⁴⁸ with supplemental pay of \$513,000 for exempt employees.⁴⁹ SCE's IMT activation for the Creek Fire resulted in total IMT labor costs (excluding normal time labor) of \$2,706,000, including \$2,703,000 for exempt employees.⁵⁰

SCE states that exempt employees are eligible to receive supplemental pay when required to work significantly longer-than-usual hours in extraordinary situations. The management of conditions during the 2020 Heatwaves required IMT members to work extended shifts, including on weekends, to support emergency response. SCE describes the work as "complex and difficult."⁵¹

IMT members were eligible for supplemental pay for work in excess of 40 hours per week.⁵² According to SCE, salaried employees were provided supplemental pay "in some instances" when working extended hours to support the emergency restoration work.⁵³ Although SCE acknowledges that supplemental pay for exempt employees is not required by law, SCE maintains

⁴⁸ Exhibit SCE-01 at 20.

⁴⁹ Exhibit SCE-03 at 2.

⁵⁰ Exhibit SCE-04 at 2. The exhibit identifies \$2,374,000 of salaried, exempt IMT labor costs and \$3,000 of hourly IMT labor costs that were not normal time labor. SCE also identifies \$329,000 of IMT labor costs as "corrections" that are either exempt or non-exempt labor, but SCE was unable to determine how much of the \$329,000 was attributable to either exempt or non-exempt labor. Because 99.87 percent of identifiable IMT labor costs related to the Creek Fire are for exempt labor, we find that all of the \$329,000 in corrections is attributable to salaried, exempt labor.

⁵¹ Exhibit SCE-01 at 20-21.

⁵² Exhibit SCE-01 at 62.

⁵³ Exhibit SCE-01 at 77.

that supplemental pay is essential to maintain performance levels and morale among IMT staff and prevent attrition.⁵⁴

In its testimony, Cal Advocates states that SCE's exempt employees are paid on a salary basis and are not subject to the mandatory overtime provisions of the Fair Labor Standards Act and California wage and hour laws. Payment of overtime costs to exempt, salaried employees was a discretionary decision by SCE.⁵⁵ As a result, Cal Advocates asserts that SCE should not be able to recover its overtime labor costs for exempt employees.⁵⁶

We are not persuaded by Cal Advocates' argument that the discretionary nature of SCE's supplemental pay to exempt employees requires the conclusion that recovery should be denied. In responding to the CEMA Events, SCE was required to make many "judgment calls." The test for cost recovery is not whether SCE had discretion regarding its decisions, but rather whether SCE met its burden to establish that it acted in a reasonable and prudent manner based upon the facts that were known or should have been known at the time.

We accept as true SCE's statements that its exempt employees who received supplemental pay faced difficult, extraordinary conditions that resulted in long hours, often beyond the normal workday. But many exempt employees encounter challenges, obstacles, and crises in their work without any expectation that they will receive any extra compensation beyond their regular salary. Here, SCE must show facts in existence at the time its exempt employees were performing the work to establish that the decision to award supplemental pay was reasonable and prudent. SCE fails to do so. SCE claims that supplemental

⁵⁴ Exhibit SCE-02 at 8.

⁵⁵ Exhibit PAO-01 at 12.

⁵⁶ Exhibit PAO-01 at 14.

pay for its IMT salaried employees was “essential” to maintain performance levels and morale and to prevent attrition, but it did not provide any specific evidence to support that assertion. Further, SCE did not explain why it chose to provide supplemental pay “in some instances” but not in others. Therefore, SCE failed to meet its burden to establish that it acted reasonably and prudently in awarding supplemental pay to its salaried, exempt employees. As a result, we disallow \$3,216,000 of SCE’s total requested O&M expense recovery relating to supplemental pay to salaried, exempt employees of \$513,000 for the 2020 Heatwaves and \$2,703,000 for the Creek Fire.

4. Tier 2 Advice Letter Regarding Insurance Reimbursements

Cal Advocates requests that the Commission direct SCE to file a Tier 2 advice letter that explains the calculations regarding SCE’s proposal that any insurance reimbursement amount attributable to transmission and distribution facilities will be recorded in the distribution sub-account of the Base Revenue Requirement Balancing Account as a credit to be returned to all customers once insurance companies have provided the full reimbursement amount.⁵⁷ In reply, SCE states that it will not have complete insurance reimbursement information until it files a CEMA application regarding Big Creek generation restoration and repair costs and that it will include in that filing an accounting of insurance credits allocated between transmission/distribution and generation.⁵⁸ SCE proposes that this decision order SCE to provide a full accounting regarding insurance reimbursements in its Big Creek generation CEMA cost recovery

⁵⁷ Cal Advocates’ Opening Brief at 7.

⁵⁸ SCE Reply Brief at 6.

application.⁵⁹ We note that SCE does not provide a specific date for the filing of a Big Creek generation CEMA application, and SCE does not rule out the possibility that there could be a time gap between the resolution of all insurance reimbursement matters related to this proceeding and SCE's future filing of a Big Creek generation CEMA application.⁶⁰ As a result, this decision orders SCE to file a Tier 2 advice letter within 30 days of the resolution of all insurance reimbursement matters related to this proceeding that provides a full description of the insurance reimbursement claims and amounts, including the allocation of costs between transmission/distribution and generation assets and the timing and methodology for refunding insurance reimbursement amounts to customers.

5. Conclusion

SCE met its burden of proof to establish that it is eligible for CEMA cost recovery under Pub. Util. Code Section 454.9(a) and that the costs for which it seeks recovery were incremental to amounts previously authorized to be recovered in rates in SCE's GRCs. SCE also established the reasonableness of all requested costs except for an O&M expense of supplemental pay of \$3.216 million to salaried, exempt employees. We find reasonable and approve for recovery \$311.625 million in capital expenditures and \$199.718 million in O&M expenses (reflecting SCE's \$3.74 million recovery request reduction to account for payment by PG&E for SCE's Doyle Springs 12kV Tap Claim and the \$3.216 million supplemental pay disallowance), and we authorize SCE to recover in rates a revenue requirement of \$190.725 million over a 12-month period.

⁵⁹ SCE Reply Brief at 7.

⁶⁰ See SCE Opening Brief at 20 ("SCE anticipates recovering all proceeds and performing the allocation of costs between [transmission and distribution] assets and generation assets by the end of 2023 and before SCE submits its application to recover Big Creek generation CEMA costs").

6. Summary of Party Comments

Rule of Practice and Procedure 1.18 allows any member of the public to submit written comments in any Commission proceeding using the “Public Comment” tab of the online Docket Card for that proceeding on the Commission’s website. As of the issuance of this decision, there were 21 comments in the Public Comment section of the Commission’s Docket Card for this proceeding. The comments generally opposed any rate increase for SCE ratepayers.

7. Comments on Proposed Decision

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 _____.

8. Assignment of Proceeding

John Reynolds is the assigned Commissioner and Peter Wercinski is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. This Application is a request by SCE for authorization to recover costs related to 2019 Winter Storms, 2020 Heatwaves, and 2020 Fires recorded in SCE’s CEMA and collectively identified as the CEMA Events.
2. All of the CEMA Events were declared disasters by either Governor Newsom or the Federal Emergency Management Agency.
3. All of the costs for which SCE requests recovery in this proceeding were for restoring utility services to customers, repairing, replacing, or restoring damaged utility facilities, or complying with governmental agency orders in

connection with events declared disasters by competent state or federal authorities.

4. All of the costs for which SCE requests recovery in this proceeding were incurred for the CEMA Events.

Conclusions of Law

1. SCE bears the burden of proof by a preponderance of the evidence to establish each element of its claim for CEMA cost recovery in this proceeding.

2. To establish its eligibility for CEMA cost recovery in this proceeding, SCE must show that (a) it is eligible to recover its requested costs under Pub. Util. Code Section 454.9(a), (b) the costs for which it requests recovery were incremental to amounts previously authorized to be recovered by SCE in rates, and (c) the costs for which it requests recovery were reasonable.

3. SCE established by a preponderance of the evidence that it is eligible to recover its requested costs under Pub. Util. Code Section 454.(a).

4. SCE established by a preponderance of the evidence that the costs for which it requests recovery in this proceeding were incremental to amounts previously authorized to be recovered by SCE in rates.

5. SCE established by a preponderance of the evidence the reasonableness of \$311.625 million in capital expenditures and \$199.718 million in O&M expenses for which it requests recovery in this proceeding.

6. SCE failed to establish by a preponderance of the evidence the reasonableness of \$3.216 million in O&M expenses for supplemental pay to salaried, exempt employees for which it requests recovery in this proceeding.

7. SCE should be authorized to recover in rates a revenue requirement of \$190.725 million over a 12-month period.

8. SCE should file a Tier 2 advice letter within 30 days of the resolution of all insurance reimbursement matters related to SCE's cost recovery in this proceeding that provides a full description of the insurance reimbursement claims and amounts.

9. All rulings of the assigned Commissioner and the assigned ALJ in this proceeding should be affirmed, and all motions not addressed in this proceeding should be deemed denied.

10. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company is authorized to recover a Catastrophic Event Memorandum Account revenue requirement of \$190.725 million over a 12-month period.

2. Southern California Edison Company is authorized to record the monthly capital-related revenue requirement in the 2019 and 2020 Catastrophic Event Memorandum Account capital costs sub-accounts and transfer the recorded balances, including interest plus franchise fees and uncollectibles, to the distribution sub-account of the Base Revenue Requirement Balancing Account for recovery in distribution rates upon the effective date of this decision.

3. Southern California Edison Company is authorized to record and transfer the ongoing revenue requirement, as of December 31 each year, for the approved capital expenditures from the Catastrophic Event Memorandum Account to the distribution sub-account of the Base Revenue Requirement Balancing Account until the ongoing revenue requirement is included in General Rate Case-authorized rates.

4. Southern California Edison Company shall file a Tier 2 advice letter within 30 days after the resolution of all insurance reimbursement claims related to this proceeding that provides a full description of the insurance reimbursement claims and amounts, including the allocation of costs between transmission/distribution and generation assets and the timing and methodology for refunding insurance reimbursement amounts to customers.

5. All rulings of the assigned Commissioner and the assigned Administrative Law Judge in this proceeding are affirmed, and all motions not addressed in this proceeding are denied.

6. Application 22-03-018 is closed.

This order is effective today.

Dated _____, at Sacramento, California.