



STATE OF CALIFORNIA

GAVIN NEWSOM, Governor **FILED**

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

06/07/24

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June 7, 2024

Agenda ID #22678
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 22-10-021:

This is the proposed decision of Administrative Law Judge Regina DeAngelis. 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 July 11, 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:smt

Attachment

Decision PROPOSED DECISION OF ALJ DeAngelis (Mailed 6/7/2024)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902M) for Authorization to Recover Costs of Several Catastrophic Events Recorded in Its Catastrophic Expense Memorandum Account (CEMA).

Application 22-10-021

**DECISION AUTHORIZING SAN DIEGO GAS & ELECTRIC COMPANY
TO RECOVER COSTS INCURRED FROM 2014 TO 2022
RELATED TO EIGHT CATASTROPHIC EVENTS**

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Attachment A - Revenue Requirement Impact Illustrated

**DECISION IMPLEMENTING ASSEMBLY BILL 209 AND
IMPROVING SELF GENERATION INCENTIVE
PROGRAM EQUITY OUTCOMES**

Summary

This decision grants the request by San Diego Gas & Electric Company (SDG&E) to recover approximately \$51.4 million (\$42.9 million in operations and maintenance expenses and \$8.4 million in capital expenditures), plus interest, in costs incurred to provide emergency-related services regarding eight government-issued, official emergencies from 2014 to 2022. This decision finds the requested costs, as recorded in eight Catastrophic Emergency Memorandum Accounts, reasonable and authorizes SDG&E to recover the expense costs through its electric distribution revenue requirement and gas distribution revenue requirement as soon as possible amortized over a 12-month period. The decision also authorizes recovery of the capital expenditures over a timeframe that will be, in part, determined in the 2028 general rate case. SDG&E is authorized to file a Tier 1 Advice Letter to implement these rate changes and close the eight accounts.

This proceeding is closed.

1. Background

On October 31, 2022, San Diego Gas & Electric Company (SDG&E) filed Application (A.) 22-10-021 seeking authority to recover in its customer rates approximately \$51.4 million in what it characterized as incremental, emergency-related expenses incurred between 2014 and 2022, plus interest, pursuant to Public Utilities (Pub. Util.) Code Section 454.9, Resolution E-3238, and SDG&E's tariffs related to the following eight catastrophic events: (1) 2014 Emergency Drought, (2) January 2017 Storms, (3) 2017 Lilac Fire, (4) 2018 West Fire, (5) 2019

Winter Storms, (6) 2020 COVID-19 Pandemic, (7) August 2020 Extreme Heat Event, and (8) September 2020 Extreme Heat and Valley Fire Event.¹

SDG&E states that it recorded its incremental costs in eight Commission-authorized catastrophic emergency memorandum accounts (CEMA accounts) and these accounts are identified (and referred to herein) by the same names as the related catastrophic events, noted above.

On this same date, SDG&E submitted prepared direct testimony in support of its request for cost recovery.²

As part of its Application, on October 31, 2022, SDG&E provided an analysis of the impact of its cost recovery request on customer bills, stating that “If SDG&E’s application is approved by the CPUC [Commission], the typical bundled residential monthly bill using 400 kWh per month could increase by approximately \$0.93 or 0.6% per month in 2024, compared to current rates. Individual customer bills may vary. The average residential monthly bill using 24 therms per month could increase by approximately \$0.45 or 0.9% per month in 2024.”³

On December 16, 2022, in compliance with Rule 3.2 (b) of the Commission’s Rules of Practice and Procedure, SDG&E mailed notice of its Application to the State of California and the cities and counties in its service territory and to all those persons listed in Attachment F to its Application.

¹ All code references are to the Pub. Util. Code, unless provided otherwise. All documents filed in this proceeding are available on the Commission’s website at *Docket Card* by searching A2210021. With regards to the 2014 costs sought in this proceeding, SDG&E does not address why it is only now requesting the recovery of these costs that have been pending for approximately 10 years.

² Ex. SDGE-01, Ex. SDG&E-08, Ex. SDG&E-09, Ex. SDG&E-10, and Ex. SDGE-02 (Rebuttal).

³ SDG&E Application at Attachment C (Illustrative Impact on Rates).

On January 20, 2023, a prehearing conference was held. Prior to this prehearing conference, on January 17, 2023, SDG&E filed a prehearing conference statement.⁴ The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) attended the prehearing conference and actively participated as a party to this proceeding.⁵

On February 28, 2023, Commissioner Shiroma issued an Assigned Commissioner's Scoping Memo and Ruling.

On June 30, 2023, Cal Advocates served prepared direct testimony.⁶

On July 21, 2023, SDG&E served prepared rebuttal testimony.⁷

On July 25, 2023, SDG&E filed a *Motion to Request Evidentiary Hearings*.⁸ On July 26, 2023, Cal Advocates filed a reply, stating it neither supported nor opposed SDG&E's motion.

On July 27, 2023, the Administrative Law Judge (ALJ) directed the parties to "meet and confer" and clarify the parties' respective positions regarding issues in dispute.

On August 7, 2023, SDG&E and Cal Advocates separately responded to the ALJ's request.

On October 9, 2023, the ALJ convened a status conference, at which it was determined that an evidentiary hearing was necessary based on the presentation by parties of a material issue of fact related to contested issues in the proceeding.

⁴ Ex. SDGE-07 (prehearing conference statement).

⁵ Ex. SDGE-07 (prehearing conference statement).

⁶ Ex. CA-01 (Cal Advocates Office's Report on the Results of Examination for SDG&E's Application for Authorization to Recover Costs of Several Catastrophic Events Recorded in its CEMA June 30, 2023).

⁷ Ex. SDGE-02 (Rebuttal).

⁸ Ex. SDGE-04 (July 25, 2023 Motion to Request Evidentiary Hearings).

On November 2, 2023, a remote evidentiary hearing was held. SDG&E and Cal Advocates appeared and participated at the evidentiary hearing. Testimony was provided and the ALJ admitted exhibits into the record of the proceeding.

SDG&E and Cal Advocates filed opening briefs on November 30, 2023 and reply briefs on December 14, 2023. In these briefs, the parties addressed the disputed issues in this proceeding, which relate to SDG&E's request for approximately \$2.071 million in capital costs. As detailed below, Cal Advocates contends that the Commission should deny SDG&E's request for recovery of this amount because those costs are not incremental.

This proceeding was submitted, upon the filing of reply briefs, on December 14, 2023.

2. Jurisdiction

In Resolution E-3238 (July 24, 1991), the Commission authorized utilities, including SDG&E, to establish CEMA accounts to record costs incurred in state or federal declared catastrophic emergencies that utilities could later request be recovered in rates.⁹ More specifically, Resolution E-3238 authorized utilities in a declared catastrophic emergency to record related costs in CEMA accounts for the following activities: "(a) restoring utility service to customers; (b) repairing, replacing or restoring damaged utility facilities; (c) complying with government agency orders resulting from declared disasters."¹⁰ Resolution E-3238 further provided that the Commission must review such costs prior to recovery by the utility, stating "[t]he Commission will examine closely all costs recorded in a

⁹ Resolution E-3238 (July 24, 1991) at 2. The Commission's resolutions and decisions are available on the Commission's website, at the *documents* link or the *archived* documents link.

¹⁰ Resolution E-3238 (July 24, 1991) at 2.

utility's catastrophic event memorandum account before allowing their recovery in customer rates."¹¹

Resolution E-3238 also directed utilities to file tariffs describing the process to establish CEMA memorandum accounts.¹² SDG&E filed tariffs in compliance with Resolution E-3238. SDG&E's tariffs have been approved by the Commission.¹³ In order to receive CEMA recovery, a utility must comply with its effective tariff.¹⁴

In 1994, these Commission requirements were largely codified in Pub. Util. Code Section 454.9(a). Pub. Util. Code Section 454.9(b) added that utilities may request "expedited" recovery of costs related to catastrophic events subject to Commission approval upon a finding of reasonableness.¹⁵ In this proceeding, SDG&E requests expedited resolution of its request.

Pursuant to Pub. Util. Code Section 454.9, SDG&E's tariff states it is authorized to record in CEMA memorandum accounts certain categories of costs, such as restoring utility services to customers; repairing, replacing, or restoring damaged utility facilities; and complying with governmental agency orders in connection with events declared disasters by competent state or federal authorities.¹⁶

¹¹ Resolution E-3238 (July 24, 1991) at 2.

¹² Resolution E-3238 (July 24, 1991) at 5-6.

¹³ SDG&E's Electric Tariff, Preliminary Statement, Section III.A, and SDG&E's Gas Tariff, Preliminary Statement, Section V.A, Sheet 1 at Section 1.

¹⁴ Decision (D.) 19-06-007, *Decision Authorizing Liberty Utilities (CalPeco Electric) to Recover Costs Recorded in the Catastrophic Event Memorandum Account Related to 2017 Winter Storms* (June 13, 2019) at 5, citing to D.07-07-041, *Opinion Denying Application in Part* (July 26, 2007) at 13.

¹⁵ Pub. Util. Code § 454.9 (b).

¹⁶ SDG&E's Electric Tariff, Preliminary Statement, Section III.A, and SDG&E's Gas Tariff, Preliminary Statement, Section V.A, Sheet 1 at Section 1. SDG&E Application at 2, stating "This
Footnote continued on next page.

D.07-07-041 limited CEMA recovery to costs incurred after the start of a declared disaster or state of emergency, which are directly linked to the facts underlying the disaster declarations.¹⁷ D.07-07-041 also held “that CEMA recovery is limited to costs incurred in jurisdictions declared disasters by competent state or federal authorities.”¹⁸

In Resolution ESRB-4 (June 12, 2014), the Commission addressed the recovery of costs specifically related to wildfires and the use of CEMA accounts to record those costs for later recovery. The Commission addressed the propriety of its review of CEMA costs, stating “[t]o the extent that additional funding is reasonable to address the wildfire threats, beyond such accounts, cost recovery through [CEMA] may be sought. However, the Commission may analyze such costs to determine if they are truly incremental, and meet the other requirements of CEMA.”¹⁹

Based on these statutes and Commission precedent, the Commission has jurisdiction in this proceeding to review and approve, all or part, of the costs requested by SDG&E in the eight CEMA accounts.

Application and the accompanying testimony of four (4) witnesses will describe each of these CEMA Events and SDG&E’s incremental costs incurred for these CEMA Events to: (1) restore service to customers, (2) repair, replace, or restore damaged facilities, and (3) comply with governmental agency orders in connection with events declared disasters by competent state or federal authorities.”

¹⁷ D.07-07-041, *Opinion Denying Application in Part* (July 26, 2007) at 18-20; see also Resolution E-4116 (September 20, 2007) at 5 (“Consistent with D.07-07-041, costs recorded to the CEMA are only those costs incurred after the start of a declared disaster or state of emergency, and which costs are directly linked to the facts underlying the disaster declarations.”).

¹⁸ D.09-10-046, *Decision Approving Settlement* (October 29, 2009) at 3; see also D.07-07-041, *Opinion Denying Application in Part* (July 26, 2007) at 20 (“The counties where PG&E incurred the greatest costs were not covered by county disaster declarations. We cannot accept these county declarations as a reasonable trigger to invoke CEMA ...”).

¹⁹ Resolution ESRB-4 (June 10, 2014) at 10, *citing to* D.07-07-041, *Opinion Denying Application in Part* (July 26, 2007) at 3-6.

3. Burden of Proof

Pub. Util. Code Section 451 provides that “all charges demanded or received by any public utility ... shall be just and reasonable.” Pursuant to Pub. Util. Code Section 454(a): “A public utility shall not change any rate or so alter any classification, contract, practice, or rule as to result in any new rate, except upon a showing before the commission and a finding by the commission that the new rate is justified.” It is well established that an applicant, such as SDG&E, must meet the burden of proving that it is entitled to a rate increase, which recovery of the CEMA amounts in this Application would -produce.²⁰ SDG&E has the burden of affirmatively establishing the reasonableness of all aspects of its Application. Although the utility bears the ultimate burden to prove the reasonableness of the relief it seeks and the costs it seeks to recover, the Commission has held that when other parties propose a different result, they too have a “burden of going forward” to produce evidence to support their position and raise a reasonable doubt as to the utility’s request.²¹

4. Standard of Proof

The standard of proof applicants must meet in rate cases is preponderance of the evidence.²² Preponderance of the evidence can be defined “in terms of

²⁰ D.21-08-036, *Decision on Test Year 2021 General Rate Case for Southern California Edison Company* (August 19, 2021) at 9, citing to D.09-03-025, *Alternate Decision of President Peevey on Test Year 2009 General Rate Case for Southern California Edison Company* (March 13, 2009) at 8; D.06-05-016, *Opinion on Southern California Edison Company’s Test Year 2006 General Rate Increase Request* (May 11, 2006) at 7.

²¹ D.21-08-036, *Decision on Test Year 2021 General Rate Case for Southern California Edison Company* (August 19, 2021) at 10; D.20-07-038, *Order Modifying D.19-09-051 and Denying Rehearing, as Modified* (July 16, 2020) at 3-4; D.87-12-067 at 25-26, 1987 Cal. PUC LEXIS 424, *37.

²² D.19-05-020, *Decision on Test Year 2018 General Rate Case for Southern California Edison Company* (May 16, 2019) at 7; D.15-11-021, *Decision on Test Year 2015 General Rate Case for Southern California Edison Company* (November 5, 2015) at 8-9; D.14-08-032, *Decision Authorizing Pacific Gas*
Footnote continued on next page.

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.’”²³

Additionally, when the necessity of a utility’s actions or costs are called into question, the Commission may in some circumstances apply the prudent manager standard. Under the prudent manager standard, the Commission does not evaluate reasonableness based on hindsight but based on what the utility knew or should have known at the time it made its decision.²⁴ This standard reaches not just the activities and associated costs for which SDG&E seeks recovery here but extends to the actions or inactions that resulted in those activities being necessary.²⁵

5. Summary of Public Comment

Rule 1.18 of the Commission’s Rules of Practice and Procedure allows any member of the public to submit written comments in a Commission proceeding in a number of different formats, including using the Public Comment tab of the online Docket Card on the Commission’s website. Rule 1.18(b) requires that comments by the public submitted in a proceeding be summarized in the decision issued in that proceeding. The public comments submitted in this proceeding state that the Commission should deny the request by SDG&E for

and Electric Company's General Rate Case Revenue Requirement for 2014-2016 (August 14, 2014) at 17.

²³ D.08-12-058, *Decision Granting a Certificate of Public Convenience and Necessity for the Sunrise Powerlink Transmission Project* (December 18, 2008) at 19, *citing to* Witkin, Calif. Evidence, 4th Edition, Vol. 1 at 184.

²⁴ D.22-06-032, *Decision Addressing Southern California Edison Company's Track 3 Request for Recovery of Wildfire Mitigation Memorandum and Balancing Account Balances* (June 23, 2022) at 18.

²⁵ TURN Opening Brief at 40; D.18-07-025, *Order Denying Rehearing of D.17-11-033* (July 12, 2018) at 3, 5 and 6, *citing to* D.87-06-021; D.21-11-036, *Order Modifying Decision 19-09-025 and Denying Rehearing of Decision 19-09-025, as Modified* (November 19, 2021) at 15.

rate recovery for a number of reasons, including that SDG&E's rates are already unreasonably high and further state that SDG&E has access to sufficient financial resources to render this request unnecessary. More information regarding public comments is available on the Commission's website.

6. Issues Before the Commission

As set forth in the February 28, 2022 Assigned Commissioner's Scoping and Ruling, the issues to be determined or otherwise considered in this proceeding are as follows:

Whether SDG&E's total CEMA expenses and capital costs are incremental, reasonable and recoverable?

1. Whether the Commission should authorize SDG&E to recover \$42.9 million in operations and maintenance expenses and \$8.4 million in capital expenditures?
2. Whether the Commission should authorize the recovery of depreciation, return and taxes that have been expensed and will be expensed through 2027?
3. Whether the Commission should authorize SDG&E to incorporate any remaining electric and gas capital-related costs into its 2028 Test Year General Rate Case?
4. Whether SDG&E's cost recovery proposal is reasonable?
5. Whether the Commission should authorize SDG&E's recovery of costs over its proposed time period or some other time period?
6. Whether there are any impacts on environmental and social justice communities, and whether they impact the achievement of any of the nine goals of the Commission's Environmental and Social Justice Action Plan?

7. SDG&E Request for Recovery of CEMA Costs

SDG&E states it seeks recovery of approximately \$51.4 million of Commission-jurisdictional costs in this proceeding and approval to collect in

customer rates “incremental” gas and electric costs related to the following eight catastrophic events, as recorded in CEMA accounts:

- 2014 Emergency Drought
- January 2017 Storms
- 2017 Lilac Fire
- 2018 West Fire
- 2019 Winter Storms
- 2020 COVID-19 Pandemic
- August 2020 Extreme Heat Event
- September 2020 Extreme Heat and Valley Fire Event

SDG&E explains that the total costs related to these eight catastrophic events is approximately \$77.2 million, with approximately \$11.02 million of this total amount subject review under the jurisdiction of the Federal Energy Regulatory Commission. In addition, SDG&E explains that it recorded a total of approximately \$66 million as Commission-jurisdictional cost in these eight CEMA accounts (which includes “incremental” and “non-incremental” costs) and that the portion of these costs which qualify as incremental is \$51.4 million. As such, this proceeding addresses the reasonableness of the Commission-Jurisdictional incremental costs, the \$51.4 million.²⁶ Cal Advocates does not contest SDG&E removal of amounts as non-incremental or SDG&E’s allocation of costs between state and federal jurisdictions.

In further presenting the details of the \$51.4 million, SDG&E states that the expense component of its request is approximately \$42.9 million. SDG&E seeks

²⁶ Ex. SDGE-01 at 5, stating “Of the \$66.0 million in total CPUC-specific jurisdictional costs, \$42.9 million of the O&M costs are considered incremental (Electric Distribution \$33.8 million and Gas \$9.1 million) and \$8.4 million of Electric Distribution capital costs are considered incremental.”

approval to recover the expense components of these costs, the approximately \$42.9 million, plus interest, in gas and electric distribution rates over a one year period, beginning January 1, 2024 or as soon as practical thereafter. Cal Advocates does not contest the reasonableness of the \$42.9 million in expense, the amortization timeline, or the electric and gas ratemaking aspects of this expense request.

With regard to the capital-related costs of \$8.4 million, SDG&E requests authority to recover the ongoing annual electric capital-related costs of \$1.8 million to be incurred from 2025 through 2027, including interest. SDG&E proposes that the ongoing electric capital-related revenue requirement be amortized into electric distribution rates over a one-year period during each year from 2025 through 2027. SDG&E further requests that the remaining electric capital-related incremental costs be incorporated into a future proceeding, its 2028 general rate case.

Cal Advocates opposes SDG&E's capital-related request and contends that the Commission should reduce SDG&E's request by \$2.071 million on the basis that this amount is not an incremental cost. Cal Advocates asserts that this amount is not incremental to other SDG&E costs because the costs are included in SDG&E's existing overhead costs and activities. As addressed in more detail below, Cal Advocates contends that the Commission should authorize SDG&E to collect a lesser amount of \$6.4 million.

Before evaluating the reasonableness of SDG&E's request for recovery of \$51.4 million recorded to the eight CEMA accounts, the Commission determines whether SDG&E adhered to the required procedure set forth in Resolution E-3238 and tariffs when establishing the eight CEMA accounts, recording its costs to those accounts, and whether SDG&E's recorded costs are for approved

activities. As part of the Commission’s reasonableness review, the Commission also determines whether SDG&E has established that the \$51.4 million represents incremental costs. The below chart, which SDG&E submitted as part of its prepared testimony, presents the costs recorded by SDG&E in its eight CEMA accounts and the slightly lesser amounts requested by SDG&E in this proceeding that are “incremental,” starting with the overall costs of approximately \$66 million (2014-2022) and isolating its requested CEMA incremental costs of \$51.4 million.

**SAN DIEGO GAS & ELECTRIC
EIGHT CEMA EVENTS - CPUC INCREMENTAL COSTS²⁷
(2014-2022)(in thousands of dollars)**

	Total CPUC	Non-Incr Excluded	CPUC Incremental		
			Total Incremental	Electric Distribution	Gas
O&M Expenses:					
Internal Labor	12,343	2,730	9,613	7,973	1,640
Materials	4,802	-	4,802	3,613	1,189
Overheads	6,052	6,053	-	-	-
Vehicle Charges	714	714	-	-	-
External Labor	28	-	28	28	-
Services/Other	28,826	316	28,510	22,205	6,305
Total O&M	52,765	9,811	42,954	33,819	9,135
Capital Costs:					
Internal Labor	3,431	407	3,025	3,025	-
Materials	966	-	966	966	-
Overheads	5,687	3,616	2,071	2,071	-
Vehicle Charges	744	744	-	-	-
External Labor	942	-	942	942	-

²⁷ SDG&E Opening Brief at Attachment 1 (Exhibit 10 to Ex. SDG&E-01.)

Services/Other	1,436	-	1,436	1,436	-
Total Capital	<u>13,206</u>	<u>4,767</u>	<u>8,439</u>	<u>8,439</u>	<u>-</u>
Total	<u>65,971</u>	<u>14,578</u>	<u>51,393</u>	<u>42,258</u>	<u>9,135</u>

8. CEMA Accounts – Procedure to Establish Accounts

SDG&E must demonstrate it complied with the required procedures when establishing the eight CEMA accounts and in recording its incurred costs, as set forth in Resolution E-3238, including proper notification to the Commission’s Executive Director and assessing interest, and in Pub. Util. Code Section 454.9., including limiting any request for recovery to approved categories of activities.

8.1. Notify Commission’s Executive Director

Pursuant to Resolution E-3238, SDG&E notified the Executive Director of the Commission by letter for each of the eight CEMA events specifically described herein that SDG&E had established CEMA accounts for both of its electric and gas departments to record the costs associated with these eight catastrophic events. In accordance with SDG&E’s CEMA tariff, the letters stated that the eight events had been declared a state of emergency by the federal and/or state governments. Upon the submittal of the letters of notification to the Executive Director, the Commission authorized SDG&E to record to CEMA the appropriate costs incurred because of these catastrophic events. SDG&E states that it followed this procedure. No party contests this issue.

Accordingly, the Commission finds that SDG&E properly followed the Commission-approved procedure that requires notification to the Commission’s Executive Director and Commission approval when establishing the eight CEMA accounts presented for review in this proceeding.

8.2. Recording Costs and Including Interest

SDG&E filed tariffs regarding the procedural steps required to establish and record costs in CEMA accounts, and those tariffs have been approved by the Commission.²⁸ SDG&E is authorized to record to CEMA accounts expense and capital-related costs associated with restoring utility services to customers following an event declared as a disaster and repairing, replacing, or restoring utility facilities damaged by the disaster. According to its tariff, interest on those costs is accrued on the average monthly CEMA balance at a rate equal to 1/12 of the annual interest rate on three-month commercial paper, as reported in the Federal Reserve Statistical Release H.15 or its successor. SDG&E complied with the requirements of its Commission-approved tariffs in establishing the eight CEMA accounts, including the assessment of interest. No party contests this matter.

Accordingly, the Commission finds that SDG&E properly recorded costs including interest consistent with SDG&E's Commission-approved tariffs and other applicable regulations.

8.3. Specific Costs & Activities Related to Catastrophic Events per Section 454.9

With regards to costs associated with catastrophic events, Pub. Util. Code Section 454.9(a) provides that utilities are authorized to record costs for the utility to conduct the following activities in a CEMA account: (1) restore service to customers, (2) repair, replace, or restore damaged facilities, and (3) comply with governmental agency orders in connection with events declared disasters

²⁸ SDG&E's Electric Tariff, Preliminary Statement, Section III.A and SDG&E's Gas Tariff, Preliminary Statement, Section V.A, Sheet 1 at Section 1.

by competent state or federal authorities.²⁹ The use of the phrase “cost associated with catastrophic events” in Section 454.9(b) affirms that the utility must establish a direct connection between the utility’s requested costs and the “declared disaster” by competent state or federal authorities.

The Commission expanded upon this required connection in D.07-07-041, denying the utility’s request for CEMA cost recovery because “no *direct link* between the agricultural impacts [livestock loss due to high temperatures] that led to the USDA’s [United States Department of Agriculture’s] declaration and the costs that PG&E incurred to restore service [*i.e.*, infrastructure repairs].”³⁰ In other words, the events addressed in the government’s declared disaster must have a “direct link” to the costs requested by the utility in a CEMA account. There is no evidence in the record contesting the linkage between the requested costs and the disaster declarations. Accordingly, the Commission finds that the government declared disasters have a “direct link” to the costs requested by SDG&E in the CEMA accounts.

In support of its request, SDG&E states that approximately \$51.4 million in expense and capital costs are appropriately designated and recorded as CEMA incremental costs because its activities and costs are permitted under Section

²⁹ Pub. Util. Code Section 454.9 provides: “(a) The commission shall authorize public utilities to establish catastrophic event memorandum accounts and to record in those accounts the costs of the following: (1) Restoring utility services to customers. (2) Repairing, replacing, or restoring damaged utility facilities. (3) Complying with governmental agency orders in connection with events declared disasters by competent state or federal authorities. (b) The costs, including capital costs, recorded in the accounts set forth in subdivision (a) shall be recoverable in rates following a request by the affected utility, a commission finding of their reasonableness, and approval by the commission. The commission shall hold expedited proceedings in response to utility applications to recover costs associated with catastrophic events.” (*Added by Stats. 1994, Ch. 1156, Sec. 1. Effective September 30, 1994.*)

³⁰ D.07-07-041, *Opinion Denying Application, In Part* (July 26, 2007) at 19. (Emphasis added.)

454.9. SDG&E explains it only is requesting costs incurred for the eight catastrophic events related to its work to: (1) restore service to customers, (2) repair, replace, or restore damaged facilities, and (3) comply with governmental agency orders in connection with events declared disasters by competent state or federal authorities. Cal Advocates does not contest this matter.

As such, the Commission finds that SDG&E properly tracked and recorded costs associated with catastrophic events in its eight CEMA accounts consistent with the activities set forth in Pub. Util. Code Section 454.9.

9. CEMA Accounts – Incremental Costs

The Commission relies upon a number of factors to evaluate the reasonableness of a utility's request to recover costs recorded in CEMA accounts include identifying and analyzing incremental costs. The factors used by the Commission to establish the "incremental" nature of costs recorded in CEMA accounts are derived from the Commission's discussion of memorandum accounts in Resolution E-3238, adopted on July 24, 1991. However, as further described below, with the passage of time, the Commission's analysis of incremental costs in the context of catastrophic events and CEMA accounts continues to evolve.

9.1. Factors to Establish Incremental Costs

The Commission first approached the concept of incremental costs within the context of catastrophic events in Resolution E-3238 (July 24, 1991) and suggested that the "foreseeability" of the costs incurred by the utility was an important factor to weigh when authorizing or limiting recovery of cost requests,

pointing to concepts such as “the level of loss already built into existing rates” as a limiting factor in authorizing costs.³¹ The Commission stated, as follows:

“Recovery [related to catastrophic events] may be limited by consideration of the extent to which losses are covered by insurance, *the level of loss already built into existing rates*, and possibly other factors relevant to the particular utility and event. Before authorizing recovery from customers of any costs, the Commission will examine how they relate to the overall costs currently authorized for these types of repairs.”³²

Under this analysis, the added costs directly related to the catastrophic events not embedded in a rate case forecast for repairs or, stated differently, reasonably foreseeable, were potentially recoverable.

The use of “reasonable foreseeability” of cost within the context of CEMA accounts as a factor that may limit recovery is widely adopted and the Commission has more recently expressed this concept as “incremental,” a term not used in Resolution E-3238. Rather, in Resolution E-3238, the Commission used the term foreseeability to address the propriety of establishing memorandum accounts for the purpose of avoiding retroactive ratemaking and at the same time provide for additional utility cost recovery upon a finding of reasonableness.

As such, Resolution E-3238 set forth a broad framework and no explicit evidentiary showing was adopted for establishing incremental costs. The Commission clarifies here that Resolution E-3238 served to incorporate into the reasonableness review an analysis, at least in part, of whether the utility’s

³¹ Resolution E-3238 (July 24, 1991) at 2-3.

³² Resolution E-3238 (July 24, 1991) at 2-3. (Emphasis added.)

requested costs were reasonably foreseeable during a prior rate case into a determination of incremental costs.

After Resolution E-3238 was adopted, the Commission's analysis of incremental costs continued to evolve. For example, in Resolution ESRB-4 (June 12, 2014), when addressing the need for utilities to take *future* actions to mitigate risks caused by ongoing droughts and wildfires to avoid potential catastrophic events, the Commission suggested that incremental costs could include costs that "go above and beyond normal operating requirements."³³ The Commission stated that the recovery of costs referenced in Resolution ESRB-4 may include the following:

"... a response to an emergency situation due in part to the drought conditions described by Governor Brown in his Emergency Proclamation...[which] requires the utilities *to go above and beyond normal operating requirements*, and provides for their recovery of incremental costs to address these emergency conditions. This is part of the utilities' requirement that they must keep their facilities safe and reliable based upon their obligations under California Public Utilities Code section 451."³⁴

In other words, utility costs may be recoverable as incremental costs when the utility, in response to a catastrophic event, acts pursuant to its obligation to provide safe and reliable service under Section 451 and incurs costs for activities

³³ Resolution ESRB-4 (June 12, 2014) at 9, explaining that the Commission sought to number of risks, such as the need for utilities to "... further protect their electric power lines and poles, as discussed herein, in order to prevent their facilities from causing wildfires and to protect their transmission and distribution facilities, which are threatened by wildfires. This is essential, so that the people of the State of California can continue to rely upon the IOUs' critical electric infrastructure, for the provision of safe and reliable electric service."

³⁴ Resolution ESRB-4 (June 12, 2014) at 11. (Emphasis added.)

not included in its rate case expense and capital forecasts, meaning costs that “go above and beyond normal operating requirements.”³⁵

In addition, based on Resolution ESRB-4, an increasingly common factor in the Commission’s analysis of incremental costs includes the results of independent audits to ensure that the CEMA costs and activities were not also included in a utility’s previous rate case and paid for through previously approved rates. Audits have evolved into a potentially key component of proof in cases involving incremental costs. These audits essentially seek to establish that the same expense is only recorded once for purposes of rate recovery. In this particular case, no formal audit was conducted but Cal Advocates engaged in an in-depth analysis of the eight CEMA accounts.³⁶ In this respect, the Commission finds that Cal Advocates’ thorough analysis of the costs presented by SDG&E was similar to an audit.

Notably, in addition to the above, the Commission’s analysis of each utility’s request to recover the costs recorded in CEMA accounts may include other factors on a case-by-case basis, depending on the unique circumstances of the particular catastrophic event. The appropriateness of a case-by-case analysis is suggested in Resolution E-3238 when the Commission explained that *other factors* may be considered particular to the utility and catastrophic event, stating “Recovery may be limited by consideration of the extent to which losses are covered by insurance, the level of loss already built into existing rates, and

³⁵ Resolution ESRB-4 (June 12, 2014) at 11.

³⁶ Reporter’s Transcript (Evidentiary Hearing November 8, 2023) at 13 (lines 18-22): “Q: Do you recall from the outset of this case that Cal Advocates requested that it undertake and complete its own comprehensive audit of SDG&E’s CEMA application? A: Yes.”

possibly other factors relevant to the particular utility and event."³⁷ This statement serves to emphasize that, in any proceeding in which a utility seeks to recover costs recorded to CEMA accounts, the Commission may rely upon its discretion to consider specific factors to limit (or expand) recovery.

To summarize, as set forth above, the Commission's analysis of CEMA accounts currently is broad and may include many factors, such as the following: (1) an evaluation of the "reasonable foreseeability" of the costs incurred as a means to ensure that requested costs were not embedded in a utility's previous rate case; (2) together with an audit to guard against recovery of duplicate entries of the same costs, referred to here as "double recovery;" and (3) a final step of potentially including *other factors* in this analysis, essentially an analysis of whether, despite finding the costs presented qualify as "incremental," other factors relevant to this particular utility and the specific catastrophic events exist justify denying the utility's request.

9.2. SDG&E Requests \$51.4 million in CEMA Incremental Costs

Regarding SDG&E's request for cost recovery in the amount of \$51.4 million, SDG&E argues that "incremental" costs for purposes of CEMA include the following: (1) "costs which are directly related to the restoring of utility services to customers: repairing, replacing, or restoring damaged facilities; complying with governmental agency orders in connection with events declared disasters by competent state or federal authorities and not already recovered through the utility's current rates" and (2) costs identified at the individual account level determined to be costs that would have been incurred (and recovered in rates) had these eight CEMA events not occurred, meaning that if

³⁷ Resolution E-3238 (July 24, 1991) at 2-3.

these costs would have been incurred absent these eight CEMA events, the account is not considered incremental....”³⁸

The Commission finds SDG&E’s explanation of the factors it used to identify incremental costs unclear and, as a result, the Commission is not persuaded, on this basis alone, that the requested amount, approximately \$51.4 million, qualify as incremental costs. However, SDG&E provides additional support which is persuasive.

This additional support is provided in the form of an analysis that centers on distinguishing “routine ordinary costs” that SDG&E states are not recoverable in this proceeding and, in contrast, so-called recoverable costs “associated exclusively with catastrophic events that are declared emergencies by a state or the federal government.”³⁹ SDG&E explains this distinction, as follows:

“The incremental costs reflected in this Application were reviewed to determine whether that cost would have been otherwise incurred had those eight CEMA Events not occurred.’ Besides abiding by this “but-for” test, SDG&E employed other rigorous protocols to track, verify, double-check all costs for their reasonableness and incrementality to make a wide demarcation between, on the one hand, routine ordinary costs for which recovery was sought or granted in an SDG&E GRC, and extraordinary and variable costs associated exclusively with catastrophic events that are declared emergencies by a state or the federal government.”⁴⁰

From this statement, the Commission recognizes that SDG&E is not seeking recovery of any costs for work characterized as “routine ordinary costs,” such as costs included in rates through a General Rate Case (GRC) or similar

³⁸ Ex. SDGE-01 at 6.

³⁹ SDG&E Opening Brief at 14, *citing to* Ex. SDGE-01 at 2.

⁴⁰ SDG&E Opening Brief at 14, *citing to* Ex. SDGE-01 at 2 (lines 10-12).

types of proceedings and is only requesting recovery of costs incurred for no other reason except because of the eight catastrophic events.

SDG&E further supports its request by confirming that SDG&E never sought recover of these costs, never forecasted these costs, and incurred costs to restore service to customer “due to the stated emergency, stating as follows:

“Costs requested for these emergency events are incremental because they have not been sought for recovery in any previous or pending cost recovery proceeding, they were not forecasted in any previous or pending proceeding, and they were incurred specifically to restore distribution service to SDG&E customers due to the stated emergency.”⁴¹

SDG&E adds that “None of these costs in SDG&E’s instant Application have previously been recovered in any GRC or other SDG&E proceeding.”⁴² The Commission finds that this statement clarifies that, to the best of SDG&E’s knowledge, no “double recovery” will occur if its request for recovery of the \$51.4 million is granted.

Cal Advocates disagree and seeks to refute this finding by asserting that a portion of SDG&E’s request includes “double recovery.”

9.3. Cal Advocates Recommends a Reduction of \$2.071 million as Not Incremental

Cal Advocates does not contest recover of the majority of SDG&E’s request. Cal Advocates seeks to reduce SDG&E’s recovery by \$2.071 million. Cal Advocates explains it conducted an in-depth review of SDG&E’s request (this review can be described as an informal type of audit) and found that the majority of costs sought by SDG&E represent incremental costs but that

⁴¹ Ex. SDG&E-02 (Rebuttal) at 2.

⁴² Ex. SDG&E-02 (Rebuttal) at 2.

\$2.071 million of SDG&E's request related to capital expenditures are not incremental.

To support its position, Cal Advocates explains how it identified incremental costs within the context of these eight catastrophic events. According to Cal Advocates, the requested \$2.071 million in capital overhead costs (non-labor) are not incremental because "SDG&E has already recovered these costs as part of SDG&E's General Rate Case's (GRC) previously authorized funding levels."⁴³

More specifically, upon review of the costs recorded in the eight CEMA accounts, Cal Advocates concludes that because these costs are not incremental, a downward adjustment of \$2.071 million in capital overhead costs is required, related to the following: (1) capital labor overheads that reflect payroll taxes and incentive compensation plan; (2) other common overheads for non-labor portion of capital work for contract administration, shop orders, small tools and purchasing and warehouse; and (3) additional overheads related to non-labor portion of capital work for engineering, department overheads and administrative and general expenses.⁴⁴ For these reasons, Cal Advocates contends the \$2.071 million should not be recoverable as those costs have already been authorized for recovery in rates as part of SDG&E's general rate case's previously authorized funding levels.

In this respect, the Commission finds that Cal Advocates' analysis is consistent with factors in Resolution ESRB-4 relied upon to limit utility recovery to those costs that "go above and beyond normal operating requirements" and

⁴³ Cal Advocates December 14, 2023 Reply Brief at 5.

⁴⁴ Ex. CA-01 at 13.

relied upon an audit to prevent recovery of duplicate entries of the same costs. However, in response to Cal Advocates' recommendation for a reduction of approximately \$2.071 million, SDG&E weakens Cal Advocate's argument, stating it provided sufficient evidence to support a finding that all its requested costs, including its capital costs totaling \$8.4 million, are properly recoverable and incremental costs.⁴⁵ To address concerns raised by Cal Advocates of "double recovery," SDG&E explains that it ensured that costs considered "routine ordinary costs" are not included in this request but only costs "associated exclusively with catastrophic events that are declared emergencies by a state or the federal government" are included.⁴⁶ SDG&E addresses this matter, as follows:

SDG&E distinguished "between, on the one hand, routine ordinary costs for which recovery was sought or granted in an SDG&E GRC [general rate case], and extraordinary and variable costs associated exclusively with catastrophic events that are declared emergencies by a state or the federal government."⁴⁷

Moreover, in addressing the disputed amount of approximately \$2.071 million and to support a Commission finding that the contested amounts are incremental cost, SDG&E emphasizes the following four factors: (1) "the instant CEMA case requests no costs that SDG&E has previously sought or is currently seeking in any other proceeding or venue, nor will it;" (2) "cost recovery of the [disputed amount] was not included in SDG&E's request for GRC funds or elsewhere;" (3) "[r]egular work was merely deferred until a later

⁴⁵ SDG&E Opening Brief at 14, *citing to* Ex. SDGE-01 at 2.

⁴⁶ SDG&E Opening Brief at 14, *citing to* Ex. SDGE-01 at 2.

⁴⁷ SDG&E Opening Brief at 14, *citing to* Ex. SDGE-01at 2 (lines 10-12).

time, but still completed, because all available resources were utilized to restore and repair damaged facilities;” and (4) no evidence was provided to prove that these “costs were recovered in SDG&E’s GRC,” *i.e.*, previously sought for recovery.⁴⁸

SDG&E also addresses each area of concern presented by Cal Advocates and addresses the four factors above to confirm that the costs are incremental.⁴⁹ For example, with respect to one contested category of costs, Engineering Non-Labor overhead costs of \$1.512 million, SDG&E explained:

“The Engineering Non-Labor overhead costs of \$1.512 million are the payments to third party vendors that perform engineering, design, project planning and project management on GRC and CEMA capital projects. As previously stated, the CEMA portion of these costs were not forecasted in SDG&E’s GRC and do indeed vary and increase when CEMA capital work is performed. Therefore, these costs are incremental to the GRC funding and appropriately included for recovery in SDG&E’s CEMA Application.”⁵⁰

The Commission finds SDG&E’s analysis persuasive. The Commission finds SDG&E sufficiently supports its assertion that the contested costs of approximately \$2.071 million do not represent a “double recovery,” that the costs were not reasonably foreseeable, and, therefore, that the costs qualify as incremental. The Commission further finds that Cal Advocates did not provide sufficient evidence to refute SDG&E’s evidentiary showing that the costs requested herein are incremental costs.

⁴⁸ Ex. SDGE-02 (Rebuttal) at 4-5.

⁴⁹ Ex. SDGE-02 (Rebuttal) at 5-9.

⁵⁰ Ex. SDGE-02 (Rebuttal) at 9.

However, Cal Advocates makes numerous noteworthy points. Regarding the legal framework for the Commission's review of CEMA accounts, Cal Advocates correctly states that "Resolution E-3238 emphasizes that the establishment of a CEMA account does not ensure recovery of the recorded costs" and that the burden of proof is carried by SDG&E.⁵¹

Cal Advocates also correctly explains that CEMA accounts, including the eight CEMA accounts presented by SDG&E in this proceeding, are intended to allow utilities to recover "'extraordinary additional costs they [the utilities] may incur immediately after a disaster,' which are 'truly unusual, catastrophic events'"⁵² Cal Advocates is further correct that Resolution E-3238 provides that costs in CEMA accounts "'may not necessarily all be properly recoverable from ratepayers' and that the Commission 'will examine closely all costs' before allowing recovery"⁵³

Moreover, as noted by Cal Advocates, Resolution E-3238 provides for certain circumstances when the Commission could rely upon its discretion to consider specific factors to limit recovery, stating that: "Recovery may be limited by consideration of the extent to which losses are covered by insurance, the level of loss already built into existing rates, and *possible other factors relevant to the particular utility and event.*"⁵⁴ Cal Advocates suggests that other factors be addressed. While the Commission agrees the other factors may be addressed, the

⁵¹ Cal Advocates Opening Brief at 5.

⁵² Cal Advocates Opening Brief at 5, *citing to* Resolution E-3238 at 2-3.

⁵³ Cal Advocates Opening Brief at 5-6, *citing to* Resolution E-3238, at 2; D.07-07-041, *Opinion Denying Application, In Part* (July 26, 2007) (the background of Resolution E-3238 and discussion on prohibition against retroactive ratemaking).

⁵⁴ Cal Advocates Opening Brief at 6, *citing to* Resolution E-3238 at 2-3. (Emphasis added).

Commission finds that no additional factors need to be reviewed in this proceeding.

Accordingly, on the basis of the Commission's understanding of SDG&E's assertions, the Commission finds that the requested amounts, approximately \$51.4 million, are incremental costs within the context of the eight catastrophic events because these costs were not reasonably "foreseeable" or embedded in the utility's previous rate case.

The Commission now addresses the reasonableness of SDG&E's request for recovery of \$51.4 million.

10. CEMA Accounts - Reasonableness of Costs

At the outset, it is instructive to note that for CEMA accounts, the Commission's analysis of reasonableness of costs typically heavily relies upon a showing by the utility that its request is limited to incremental costs. Above, the Commission makes the finding that SDG&E has established this fact by the preponderance of evidence. The Commission's analysis of reasonableness may include other factors.

In this proceeding, the Commission's finding of reasonableness is also based on evidence that SDG&E properly noticed the eight CEMA accounts to the Commission's Executive Director, that SDG&E properly recorded costs to approved cost categories and activities in these CEMA accounts in accordance with Section 454.9, and that SDG&E properly included accrued interest pursuant to SDG&E's authorized tariff. The arguments and evidence presented by Cal Advocates do not weigh in favor of a different outcome.

Therefore, the Commission finds SDG&E has established by the preponderance of evidence facts to support a finding by the Commission that the

incremental costs presented here, totaling approximately \$51.4 million (approximately \$42.9 million in expense and approximately \$8.4 million in capital) are reasonable.

As more precisely presented in **Attachment A**, hereto, the Commission finds reasonable SDG&E's request to implement rate recovery through an adjustment to its revenue requirement as described in the Application as follows: (1) recover the expense components of these costs, plus interest, in gas and electric distribution rates over a one year period, beginning January 1, 2024 or as soon as practical thereafter and (2) with regard to the incremental capital-related costs of \$8.4 million, SDG&E requests authority to recover the ongoing annual electric capital-related costs of \$1.8 million to be incurred from 2025 through 2027, including interest. SDG&E proposes that the ongoing electric capital-related revenue requirement be amortized into electric distribution rates over a one-year period during each year from 2025 through 2027. With regard to the remaining electric capital-related incremental costs, SDG&E may incorporate those costs into the yet-to-be filed 2028 general rate case. The Commission authorizes SDG&E to file Tier 1 Advice Letters to implement these rate changes.

These eight CEMA accounts are no longer needed. Therefore, the Commission also directs SDG&E to close the eight CEMA accounts by filing a Tier 1 Advice Letter within 90 days following the effective date of this decision.

11. Administrative Law Judge and Assigned Commissioner Rulings

All rulings made by the ALJ and assigned Commissioner in this proceeding are affirmed and adopted.

12. Comments on Proposed Decision

The proposed decision of ALJ Regina DeAngelis in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and

comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were timely filed on _____ by _____, and reply comments were timely filed on _____ by _____.

13. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Regina DeAngelis is the assigned ALJ in this proceeding.

Findings of Fact

1. SDG&E seeks recovery of approximately \$51.4 million of Commission-jurisdictional costs in this proceeding and approval to collect in customer rates "incremental" gas and electric costs related to the following eight catastrophic events, as recorded in CEMA accounts: (1) 2014 Emergency Drought, (2) January 2017 Storms, (3) 2017 Lilac Fire, (4) 2018 West Fire, (5) 2019 Winter Storms, (6) 2020 COVID-19 Pandemic, (7) August 2020 Extreme Heat Event, and (8) September 2020 Extreme Heat and Valley Fire Event.

2. The expense component of SDG&E's request is approximately \$42.9 million and is uncontested.

3. The capital-related component of SDG&E's request is approximately \$8.4 million and is contested by Cal Advocates, which seeks to reduce SDG&E's request by \$2.071 on the basis that this amount is not incremental.

4. In accordance with Resolution E-3238, SDG&E notified the Executive Director of the Commission by letter for each of the eight CEMA events specifically described herein that SDG&E established CEMA accounts for both of its electric and gas departments to record the costs associated with these eight catastrophic events.

5. SDG&E filed tariffs in compliance with the directive in Resolution E-3238 to seek Commission-approved tariff procedure to establish CEMA accounts and that these tariffs include a provision for the assessment of interest.

6. In the eight CEMA accounts presented in this proceeding, SDG&E tracked costs into the activity categories set forth in Pub. Util. Code Section 454.9(a), which provides that utilities are authorized to record costs for the following activities in a CEMA account: (1) restore service to customers, (2) repair, replace, or restore damaged facilities, and (3) comply with governmental agency orders in connection with events declared disasters by competent state or federal authorities.

7. No evidence in the record contests the linkage between the requested costs and the disaster declarations. The government declared disasters have a “direct link” to the costs requested by SDG&E in the CEMA accounts.

8. Cal Advocates performed an in-depth review of the request by SDG&E for recovery of costs and its review is similar to an audit.

9. SDG&E is not seeking recovery of any costs for work characterized as “routine ordinary costs,” such as costs included in rates through a general rate case or similar types of proceedings and is only requesting recovery of costs incurred for no other reason except because of the eight catastrophic events.

10. SDG&E has never sought recovery of the costs in this proceeding, never forecasted these costs, and incurred costs to restore service to customer “due to the stated emergency,” as described in the eight CEMA accounts.

11. The costs sought by SDG&E in the eight CEMA accounts were not reasonably foreseeable.

12. The costs SDG&E seeks to recovery in this proceeding are incremental costs.

13. SDG&E sufficiently supports its assertion that the contested capital costs of approximately \$2.071 million do not represent a “double recovery” and that these costs were not reasonably foreseeable.

14. Cal Advocates provided insufficient evidence to refute SDG&E’s evidentiary showing that the costs requested herein are incremental costs.

Conclusions of Law

1. It is reasonable to find that SDG&E complied with the required procedures when establishing the eight CEMA accounts and in recording its incurred costs, as set forth in Resolution E-3238, including proper notification to the Commission’s Executive Direction and assessing interest, and in Pub. Util. Code Section 454.9., including limiting any request for recovery to approved categories of activities.

2. SDG&E properly followed the Commission-approved procedure that requires notification to the Commission’s Executive Director and Commission approval when establishing the eight CEMA accounts presented for review in this proceeding.

3. SDG&E complied with the requirements of its Commission-approved tariffs in establishing the eight CEMA accounts by properly recording costs and assessing interest.

4. With regards to the costs presented in this proceeding associated with catastrophic events, SDG&E complied with Pub. Util. Code Section 454.9(a) by recording costs to the following activities in the eight CEMA accounts: (1) restore service to customers, (2) repair, replace, or restore damaged facilities, and (3) comply with governmental agency orders in connection with events declared disasters by competent state or federal authorities.

5. It is reasonable to find SDG&E's request for recovery of costs is consistent with the Commission requirement that the government declared disaster must have a "direct link" to the costs requested by the utility in a CEMA account and no evidence in the record contests the linkage between the requested costs and the disaster declarations.

6. Audits have evolved into a potentially key component of proof in cases involving the recovery of CEMA incremental costs and it is reasonable to rely upon audits to establish that the utility expense is only recorded once for purposes of rate recovery.

7. While SDG&E did not present an independent audit in this proceeding, it is reasonable to rely on Cal Advocates' examination of the costs when evaluating reasonableness.

8. When reviewing SDG&E's request to recover the costs recorded in CEMA accounts, it is reasonable to review many factors on a case-by-case basis, depending on the unique circumstances of each particular catastrophic event.

9. It is reasonable to find that, to the best of SDG&E's knowledge, no "double recovery" will occur if SDG&E's request for recovery of the \$51.4 million is granted.

10. It is reasonable to find that SDG&E's requested amount, approximately \$51.4 million, consists of incremental costs within the context of the eight catastrophic events because these costs were not reasonably "foreseeable" or embedded in the utility's previous rate case.

11. It is reasonable to find that SDG&E establishes by the preponderance of evidence that the incremental costs presented here, totaling approximately \$51.4 million (approximately \$42.9 million in expense and approximately \$8.4 million in capital) are reasonable and should be adopted.

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

1. San Diego Gas & Electric Company (SDG&E) is authorized to implement rate recovery through an adjustment to its revenue requirement as described at Attachment A, hereto, as follows: (1) recover the expense components of these costs, \$42.9 million, plus interest, in gas and electric distribution rates over a one year period, beginning as soon as practical and (2) recover the capital-related costs of \$8.4 million via ongoing annual electric capital-related costs of \$1.8 million to be incurred from 2025 through 2027, including interest and the remaining ongoing electric capital-related revenue requirement via electric distribution rates over a one-year period during each year from 2025 through 2027. With regard to any remaining electric capital-related incremental costs, SDG&E may request further Commission authorization to incorporate those remaining capital costs into rates in a future general rate case application. SDG&E shall file Tier 1 Advice Letters as soon as practical to implement these rate changes.

2. San Diego Gas & Electric Company (SDG&E) shall file a Tier 1 Advice Letter within 90 days following the effective date of this decision closing the following eight Catastrophic Emergency Memorandum Accounts: (1) 2014 Emergency Drought, (2) January 2017 Storms, (3) 2017 Lilac Fire, (4) 2018 West Fire, (5) 2019 Winter Storms, (6) 2020 COVID-19 Pandemic, (7) August 2020 Extreme Heat Event, and (8) September 2020 Extreme Heat and Valley Fire Event.

3. Application 22-10-021 is closed.

This order is effective today.

Dated _____, at San Francisco, California.