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TO PARTIES OF RECORD IN APPLICATION 22-05-006:

This is the proposed decision of Administrative Law Judge Garrett Toy. 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 February 20, 2025 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/ PETER WERCINSKI for

Michelle Cooke

Chief Administrative Law Judge

MLC:jnf

Attachment

Decision PROPOSED DECISION OF ALJ GARRETT TOY
(Mailed 1/9/2025)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
PACIFICORP (U901E), for an Order
Authorizing a General Rate Increase
Effective January 1, 2023.

Application 22-05-006

**DECISION GRANTING RECOVERY OF
WILDFIRE MITIGATION MEMORANDUM ACCOUNT COSTS**

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DECISION GRANTING RECOVERY OF WILDFIRE MITIGATION MEMORANDUM ACCOUNT COSTS

Summary

This decision grants PacifiCorp the authority it requests to recover incremental expenses, totaling \$36.4 million, recorded in the Wildfire Mitigation Plan Memorandum Account, Fire Risk Mitigation Memorandum Account, and Fire Hazard Prevention Memorandum Account, incurred from 2018 through December 31, 2022, implementing wildfire mitigation activities related to the Wildfire Mitigation Plan. It also directs PacifiCorp to enact additional reporting and documentation requirements when seeking recovery of future wildfire mitigation costs recorded in the same memorandum accounts, to increase the transparency of PacifiCorp's wildfire mitigation costs and increase accountability to ratepayers.

1. Background

On May 5, 2022, PacifiCorp filed Application (A.) 22-05-006, a general rate case (GRC) application, seeking rate increases for Test Year 2023. An amended application was filed on May 13, 2022. The initial Assigned Commissioner's Scoping Ruling was issued on August 9, 2022. The proceeding schedule was bifurcated into two tracks via a March 13, 2023, Administrative Law Judge (ALJ) Ruling (March 2023 ALJ Ruling). Track 1, dealing with the 2023 GRC application generally, was resolved in Decision (D.) 23-12-016, which established the revenue requirements and rates for Test Year 2023. Track 2 was established so that PacifiCorp could obtain an independent audit of the costs tracked in the Wildfire Mitigation Plan Memorandum Account (WMPMA), Fire Risk Mitigation Memorandum Account (FRMMA), and Fire Hazard Prevention Memorandum Account (FHPMA) (collectively, the Wildfire Mitigation Memorandum Accounts) through December 31, 2022, given the magnitude of the potential rate

increase to customers from those accounts as well as the novelty of the charges recorded in those memorandum accounts for PacifiCorp.

The scope of Track 2 of A.22-05-006, as identified in the March 2023 ALJ Ruling, was adopted in an Amended Commissioner's Scoping Memo and Ruling issued by President Alice Reynolds on October 5, 2023 (Amended Scoping Memo). The schedule of Track 2 was extended multiple times, but PacifiCorp ultimately filed the directed Independent Auditor's Report on its Wildfire Mitigation Memorandum Accounts on January 26, 2024 (KPMG Audit). The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submitted a Report on the Independent Auditor's Review on April 3, 2024. A status conference was held on April 10, 2024, when all parties suggested they would prefer to review PacifiCorp's rebuttal testimony before speaking about the need for evidentiary hearing. PacifiCorp's rebuttal testimony was filed on May 10, 2024. Parties submitted a Joint Motion to Modify the Phase II Schedule on May 23, 2024, stating that evidentiary hearings were not needed. A subsequent ALJ ruling on May 31, 2024, set dates of July 15, 2024 and August 5, 2024 for the submittal of Opening and Reply Briefs. In subsequent procedural e-mails, parties requested that the due date for reply briefs be moved to August 16, 2024, which was granted via ALJ ruling. Opening Briefs were filed on July 22 and 23, 2024 by PacifiCorp and Cal Advocates. Reply briefs were filed by PacifiCorp and the California Farm Bureau Federation (CFBF) on August 23, 2024.

2. Admission of Exhibits into Evidence

Since evidentiary hearings have not been held for Track 2, there was no opportunity to enter prepared testimony and exhibits into the record. In order to fairly access the record, it is necessary to include all testimony and exhibits

served by PacifiCorp, Cal Advocates, and CFBF. On July 15, 2024, the parties submitted a Joint Motion to Enter Track 2 Testimony into the Record. PacifiCorp offered exhibits PAC/2300, PAC/2301, PAC/2302, and PAC-2303; Cal Advocates offered Exhibit CA-6.¹ No party protested the motion. This motion is granted, and the exhibits are formally accepted into the record for consideration in this proceeding.

3. Issues Before the Commission

The scope of this proceeding encompasses all factual, policy, and legal issues necessary to determine whether PacifiCorp has met its burden of proving that it is entitled to rate recovery pursuant to Public Utilities (Pub. Util.) Code Section 8386 et. seq. for costs recorded in the Wildfire Mitigation Memorandum Accounts. The Amended Scoping Memo laid out a number of issues to consider in aid of determining whether the costs are reasonable, including:

1. Whether the results of PacifiCorp's audit submitted on January 26, 2024, fully address the issues raised in Appendix A of the initial August 2022 Scoping Memo and Ruling, including:
 - a. How PacifiCorp assesses the risks of and consequences of wildfire spread in its service territory.
 - b. Description of the risk-based approach used to determine the mitigation measures that were selected,

¹ The exhibits are as follows: PAC/2300, Track 2 Rebuttal Testimony of Matthew McVee; PAC/2301, Exhibit Accompanying Track 2 Rebuttal Testimony of Matthew McVee - Liberty Memorandum Account Review in Application 22-10-022; PAC/2302, Exhibit Accompanying Track 2 Rebuttal Testimony of Matthew McVee - Public Advocates Office of the California Public Utilities Commission Report on the Results of Examination for Liberty Utilities' (CalPeco Electric) Various Memorandum accounts dated July 14, 2023; PAC/2303, Exhibit Accompanying Track 2 Rebuttal Testimony of Matthew McVee - Excerpt from an Audit of PacifiCorp's Affiliate Rules Compliance per D.97-12-088 dated April 27, 2023; and CA-6, Report on the Independent Auditor's Review of PacifiCorp's Wildfire Mitigation Memorandum Accounts Test Year 2023 Incremental Expenses.

- or a discussion of why a risk-based methodology was not used to determine the selected mitigation measures.
- c. Whether the proposed mitigation measures prioritize areas that are at high risk for wildfires, and;
 - d. How high-risk wildfire areas were identified.
2. Whether PacifiCorp's proposed costs for wildfire risk and mitigation align with PacifiCorp's 2022 Wildlife Mitigation Plan.
 3. Whether there are proposed measures that can safely and cost-effectively reduce the scale and scope of future Public Safety Power Shutoffs.
 4. Whether covered conductors have reduced the number of faults on those lines with cover installation when compared to those lines' operation prior to conductor cover installation.
 5. Whether the costs recorded in PacifiCorp's Fire Risk Mitigation Memorandum Account (FRMMA), the Wildfire Mitigation Plan Memorandum Account (WMPMA), and the Fire Hazard Prevention Memorandum Account (FHPMA) are reasonable.
 6. Whether the costs recorded in PacifiCorp's FRMMA, WMPMA, and FHPMA align with PacifiCorp's 2022 Wildlife Mitigation Plan.
 7. Whether PacifiCorp's wildfire memorandum account recovery proposals have adverse impacts on environmental and social justice communities or otherwise impede the achievement of any of the nine goals of the Commission's Environmental and Social Justice Action Plan.
 8. If approved, how should costs recorded in the FRMMA, WMPMA, and FHPMA be recovered?

Of these questions, the KPMG Audit was intended to provide information in response to questions two, five, and six.

4. **Wildfire Mitigation Memorandum Accounts**

The Commission and Legislature have taken steps to authorize utility recovery for wildfire mitigation expenses while also increasing transparency into such costs in recent years, due to growing numbers of utility-started wildfires. Senate Bill 901 (Stats. 2018, ch. 626) implemented a number of statutes requiring that electric utilities establish Wildfire Mitigation Plans (WMPs) in order to address the growing risk of wildfires due to utility infrastructure. Pub. Util. Code² Section 8386.4 states that utilities, upon receiving approval for their WMP, should be allowed “to establish a memorandum account to track costs incurred to implement the plan.” Code Section 8386.4(b)(1) states that:

The commission shall consider whether the cost of implementing each electrical corporation’s plan is just and reasonable in its general rate case application. Each electrical corporation shall establish a memorandum account to track costs incurred for fire risk mitigation that are not otherwise covered in the electrical corporation’s revenue requirements. The commission shall review the costs in the memorandum accounts and disallow recovery of those costs the commission deems unreasonable.

The three Wildfire Mitigation Memorandum Accounts in question were created at different times to track specific costs related to wildfire risks. The FHPMA was authorized in D.09-08-029 and via Advice Letter (AL) 387-E, with the purpose of recording incremental costs associated with expenditures to implement new programs or to augment existing programs to comply with revisions to General Order (GO) 95, Rule 35, which required modifications to PacifiCorp’s vegetation management programs, and to GO 165, including Rule 18, which required modifications to PacifiCorp’s asset management inspection programs. The costs recorded in the account are for vegetation management

² All references to the “Code” shall be to the California Public Utilities Code.

(\$3,052,856.55), line inspection interval changes due to GO 165 (\$101,477.78), and interest (\$27,226.39), for a total of \$3,181,560.72. During the discovery process, PacifiCorp identified \$254,701 that was incorrectly recorded in the FHPMA and removed that amount and the associated interest. The final requested total for the FHPMA is \$2,971,953.³

The FRMMA was established in 2019 via AL 574-E pursuant to Code Section 8386(j) to record incremental costs of fire risk mitigation work not otherwise recorded in PacifiCorp's adopted revenue requirement. Such costs include expense and capital expenditures for: advanced system hardening and resiliency; expanded automation and protection; improved wildfire detection; enhanced event response capacity; and vegetation management activities. Such costs were explicitly distinct from those in the FHPMA. PacificCorp requests \$383,164 for this account.⁴

The WMPMA was approved in D.19-05-040 and via AL 585-E to record incremental costs of fire risk mitigation work incurred to implement PacifiCorp's Commission-approved WMP that are not otherwise recovered in PacifiCorp's revenue requirement. Such costs include expense and capital expenditures for increased inspections and patrols, system hardening and resiliency, expanded automation and protection, improved situational awareness and wildfire detection, enhanced event response capacity, and vegetation management activities. Table 7 in Exhibit PAC/1200 provides a breakdown of the WMP costs recorded in the WMPMA, which totaled \$29,679,571.⁵ The recorded costs reflect critical fire risk mitigation work for key programs in PacifiCorp's approved

³ KPMG Audit, at 2.

⁴ KPMG Audit, at 2.

⁵ Exh. PAC/1200, at 27.

WMP, such as vegetation management asset inspections, public safety power shutoff (PSPS) implementation, enhancement of risk modeling capabilities, and development of a meteorology, emergency management, and plan monitoring department. The WMPMA included recorded costs through January 31, 2022, with forecasted costs for the remainder of 2022; the WMPMA costs were updated through December 31, 2022, in PacifiCorp's rebuttal testimony. The final requested total for the WMPMA through the end of 2022 is \$33,051,214.⁶ Such costs are explicitly distinct from those in the FHPMA and the FRMMA.

In sum, PacifiCorp proposes to amortize in rates the total \$36.406 million⁷ over six years.

5. Standard of Review

Code Section 451 requires that "all charges demanded or received by any public utility ... shall be just and reasonable."⁸ The statutes that established the FRMMA and WMPMA,⁹ as well as Code Section 8386.4, also state that the Commission shall review the costs in the memorandum accounts and disallow recovery for any costs deemed unreasonable.

6. PacifiCorp's Wildfire Mitigation Costs Recorded in the FRMMA, WMPMA, and FHPMA Are Reasonable

In order to determine whether the costs tracked in the three wildfire accounts are reasonable, the Assigned ALJ in a ruling on March 13, 2023 directed PacifiCorp to conduct an independent audit to determine whether the costs tracked in the Wildfire Mitigation Memorandum Accounts were appropriately

⁶ KPMG Audit, at 2.

⁷ Exh. PAC/1700, at 17:11-14.

⁸ Pub. Util. Code Section 451.

⁹ The statutes initially cited in the creation of the FRMMA and WMPMA have since been amended and replaced by Code Section 8386.4.

recorded, not duplicative, were incremental, and were consistent with PacifiCorp's approved WMPs. Pursuant to this direction, PacifiCorp contracted KPMG to conduct an independent audit of the expenses to examine these concerns. On January 26, 2024, PacifiCorp filed a PacifiCorp Memorandum Account Review in this proceeding, as conducted by KPMG.¹⁰ As discussed below, after reviewing the results of the audit as well as the record in this proceeding, we find that PacifiCorp's Wildfire Mitigation Costs recorded in the Wildfire Mitigation Memorandum Accounts through year end 2022 are reasonable.

6.1. Memorandum Accounts Audit

As directed by the assigned ALJ, PacifiCorp hired KPMG to conduct a review of the three Wildfire Mitigation Memorandum Accounts at issue.

KPMG's Audit reviewed the accounts for:¹¹

- Consistency with the Company's documented purpose of the respective memorandum accounts in which they are recorded;
- Documented support for the costs recorded in the account;
- Incrementality to costs previously authorized by the Commission or requested for recovery from the Commission, and
- Consistency with PacifiCorp's approved WMPs.

Below we discuss the audits' findings.

¹⁰ PacifiCorp Memorandum Account Review, January 26, 2024.

¹¹ KPMG Audit, at 1.

6.1.1. The KPMG Audit Found that the Costs Were Consistent with the Documented Purpose for the Respective Memorandum Accounts

As part of its review, KPMG first broke the recorded costs into categories, as each type of cost included different types of work orders or tracking procedures. The Operations, Maintenance, Administration, and General cost types included:¹²

- Contract Services Expenses, such as those paid to third parties, including vegetation management inspection, trimming, clearance, restoration of utility services, or repairing damaged facilities;
- Internal Labor, including time charged by PacifiCorp employees;
- Materials consumed out of inventory;
- Employee expenses, including travel and meals;
- and other administrative expenses.

KPMG notes that PacifiCorp has different processes and procedures for how costs are recorded, depending on whether they are non-vegetation costs or vegetation costs.¹³ Planned non-vegetation costs for the Wildfire Mitigation Memorandum Accounts are first loaded into an SAP tracking system and work orders are created. The line-item data is reviewed by the Finance Director and then the data is aggregated to create incremental monthly journal entries. Hours charged are reviewed and approved by PacifiCorp's local management for payroll processing.

Vegetation costs are separately tracked in the PacifiCorp Vegetation Management System (PVM) for costs recorded in the WMPMA and FHPMA.

¹² *Id.* at 9-10.

¹³ *Id.* at 10-11.

Costs are captured by work code and a finance team must compare invoices between SAP and the PVM to separate routine vegetation management costs as well as non-vegetation management costs. PacifiCorp states that all costs are reviewed either by the finance team or local management before being recorded into one of the Wildfire Mitigation Memorandum Accounts.¹⁴

Finally, KPMG took steps to sample the costs within the accounts. The first step taken was to validate whether the data set provided by PacifiCorp was complete. KPMG did this by first comparing transaction amounts in the memorandum accounts between SAP and the PVM, with figures provided in rebuttal testimony.¹⁵ KPMG found no issues in the total number of transactions between PacifiCorp's systems and the data provided to KPMG. KPMG then sampled the individual transactions based on the number, frequency, and dollar amounts of the transactions. KPMG selected the lesser of 25 or 10% of transactions per cost category in each memorandum account.¹⁶

After performing its sampling calculations, KPMG sampled 143 transactions out of a total of 12,296 in the three Wildfire Mitigation Memorandum Accounts, with internal labor in the WMPMA non-vegetation management account being by far the largest amount (9,975 total transactions).¹⁷ The bulk of the sampled transactions were related to contract services (61), followed by internal labor (30), materials and supplies (25), and employee expenses (2).

¹⁴ *Id.* at 11-12.

¹⁵ *Id.* at 12.

¹⁶ *Id.* at 13.

¹⁷ *Id.* at 15.

For selected transactions, KPMG conducted a process to verify that the costs were correctly charged to the memorandum accounts. In order to test consistency with purpose and support by documentation,¹⁸ KPMG would obtain the vendor invoice, review pertinent details, determine whether it was an eligible activity in that category, and assess whether the invoice described the activities and recorded the costs into the appropriate memorandum account. KPMG used slightly different testing methods for different cost categories depending on how the cost was recorded and whether there were other limits to be considered (for example, IRS per diem limits). After conducting this sampling, KPMG noted no exceptions – all of the costs were supported by documentation and were recorded into the appropriate memorandum account.¹⁹

6.1.2. The KPMG Audit Determined that the Costs Recorded in the Wildfire Mitigation Memorandum Accounts were Incremental and Consistent with the WMPs

For incrementality, KPMG determined that because PacifiCorp was not authorized to recover any money for wildfire mitigation in the previous general rate case (covering 2019-2022), and the Wildfire Mitigation Plan was not authorized until 2019, that all of the costs in the FRMMA and WMPMA accounts (covering the period through the end of 2022) were incremental.²⁰ For the FHPMA, KPMG determined that PacifiCorp overspent authorized routine California distribution and California-allocated transmission vegetation management amounts by \$10.4 million from 2018-2022. PacifiCorp stated that the costs were for additional maintenance requirements under GO 95. KPMG

¹⁸ *Id.* at 16-18.

¹⁹ *Id.* at 18-19.

²⁰ *Id.* at 20.

therefore found that because the total overspend is more than the \$2.9 million PacifiCorp seeks for recovery via the FHPMA, the amount is incremental.²¹

The KPMG Audit also reviewed whether the sampled transactions were consistent with the WMPs. KPMG determined that the sampled costs in the three Wildfire Mitigation Memorandum Accounts were consistent with activities approved in the WMPs. These costs included personnel monitoring of electric lines, labor related to PSPS, weather monitoring stations supplies, portable battery program support, pole clearing, and vegetation management inspections.²²

6.2. Party Comments on KPMG Audit

Parties did not provide significant comment on the specific findings presented in the KPMG Audit. Cal Advocates, in its Report on the Independent Auditor's Review of PacifiCorp's Wildfire Mitigation Memorandum Accounts, filed on April 3, 2024, raised a number of concerns regarding the completeness of the report. Specifically, Cal Advocates stated that the KPMG Audit was not an official audit, did not follow professional auditing standards, and did not provide a completed audit report as required by the Commission, all based on language in the KPMG Audit.²³

In response, PacifiCorp states that it served the Scope of Work to the parties on October 9, 2023, with language stating that the work to be done would be an advisory engagement, not intended to be an audit, and that no party objected to the scope of work. PacifiCorp also notes that KPMG has conducted

²¹ *Id.* at 25.

²² *Id.* at 20, 22-23, 25.

²³ Report on the Independent Auditor's Review of PacifiCorp's Wildfire Mitigation Memorandum Accounts, CA-6, at 5:1-6:4.

independent reviews of memorandum accounts in the same manner in other Commission proceedings,²⁴ and that this audit was conducted in accordance with AICPA Standards for Consulting Services.²⁵ PacifiCorp states that a more expensive, granular audit isn't necessary in this case, and that the KPMG Audit should be judged on the merits of its analysis rather than by the standard language that Cal Advocates cites to.²⁶ PacifiCorp states that the language cited to by Cal Advocates is standard for KPMG subject-specific compliance audits, as seen in other proceedings dating back at least ten years.²⁷

Cal Advocates also raised concerns with the incrementality findings in the KPMG Audit. Cal Advocates states that because the report only states that the costs "appear to be incremental" means insufficient evidence was provided to determine that the costs were in fact incremental.²⁸ Cal Advocates states that the KPMG Audit also did not conduct sufficient investigation into internal labor costs recorded, including whether the employee tasks were charged as overtime, whether they were charged in lieu of regularly assigned tasks, or whether the tasks were in excess of regular working hours.²⁹ In response, PacifiCorp continues to highlight the findings in the report that all costs are incremental, as no recovery for wildfire mitigation was authorized in rates from 2018-2022, the period for which PacifiCorp seeks recovery of costs.

²⁴ *Id.* at 3:8-17.

²⁵ *Id.* at 4:15-17.

²⁶ *Id.* at 6:9-7:12.

²⁷ *Id.* at 9:6-20.

²⁸ Exh. CA-6, at 6:18-7:12.

²⁹ Exh. CA-6, at 7:3-16.

6.2.1. KPMG Audit Party Comments

The KPMG Audit was conducted pursuant to Commission direction, in order to ensure that “PacifiCorp’s wildfire mitigation costs are properly recorded and reported in PacifiCorp’s application, supported by appropriate documents, incremental to costs previously authorized or requested for recovery, and are consistent with PacifiCorp’s approved Wildfire Mitigation Plans.”³⁰ Pursuant to that, the ruling required that “the auditor adhere to professional auditing standards. The audit report shall include an Executive Summary, a background section on the context for the audit, a section on audit objective and scope, a description of sampling methodology, a list of records examined, a summary of audit procedures applied to achieve audit objectives, findings based on auditor’s performance of the work, conclusion, and recommendations.”

Regarding the KPMG Audit’s findings on incrementality, Cal Advocates asks whether the time charged by PacifiCorp internal employees to the Wildfire Mitigation Memorandum Accounts is actually incremental if the tasks were conducted by staff already working at PacifiCorp (and presumably whose salary was already accounted for in the GRC), without the need for overtime. PacifiCorp relies on the argument that any time charged related to the WMPs must be incremental as no recovery was allocated in the previous general rate case decision for these costs.

6.3. Review of Questions Posed in Amended Scoping Memo

The Amended Scoping Memo provided a number of questions designed to determine whether the costs contained within the Wildfire Mitigation Memorandum Accounts are reasonable. Only PacifiCorp provided responses to

³⁰ March 13, 2023 ALJ Ruling.

most of the questions posed by the Amended Scoping Memo. With regards to Question 1, whether PacifiCorp's wildfire risk assessments and mitigation measures are reasonable, PacifiCorp states that the full record of the proceeding discusses PacifiCorp's wildfire risk methodology, including how it incorporates the Commission's Fire-Threat Map and High Fire Threat District mapping, topography, vegetation-based fuels data, climatology, demographics, historic fire weather days, live and dead fuel moisture estimates, and the presence of structures.³¹ It also evaluates risks of impact to people and property. PacifiCorp notes that it has developed a Localized Risk Assessment Model to help guide investment and prioritize mitigation activities.³² PacifiCorp also notes that it prioritizes deployment of mitigation measures based on where the locations of highest wildfire risk are. Similar analysis is utilized in determining whether and when to call a PSPS event.³³ PacifiCorp states that its wildfire mitigation initiatives, including installation of additional weather stations and development of forecasting models, as well as installation of covered conductors should reduce the need for PSPS events as well as reducing the size and areas of impact.³⁴

With regards to covered conductors, PacifiCorp states that it has experienced a 90 percent reduction in outage rates based on deployment of covered conductors beginning in 2007, and that other utilities have seen similar rates of PSPS activations on lines with covered conductors.³⁵

³¹ PacifiCorp Phase II Opening Brief, at 5-6.

³² PacifiCorp Phase II Opening Brief, at 6-7.

³³ *Id.* at 9.

³⁴ *Id.* at 13.

³⁵ *Id.* at 13-14.

PacifiCorp states that approval of the costs will not negatively impact Environmental and Social Justice (ESJ) communities, nor any of the goals in the ESJ Action Plan.³⁶ PacifiCorp states that approval of the costs will allow it to continue funding important wildfire mitigation activities that will promote the safety of PacifiCorp's customers and the general public.

6.4. Analysis

Despite Cal Advocates' claims to the contrary, the KPMG Audit satisfies the requirements laid out in the March 13, 2023 ALJ Ruling. Neither Cal Advocates nor the CFBF provided specific complaints about the way the KPMG Audit reviewed the sampled costs for consistency with the purpose of the respective memorandum accounts in which they are recorded, the invoices and other documents that support the costs recorded in the account, nor the consistency with PacifiCorp's approved WMPs. The KPMG Audit was performed to accounting industry standards, and such procedures have been followed in audits in other Commission proceedings. No party raised objections to the scope of work of the audit when it was issued. Accordingly, the findings in the audit can be relied upon to support the accuracy of PacifiCorp's recorded Wildfire Mitigation Memorandum Account costs.

Additionally, PacifiCorp provided sufficient support for the necessity and efficiency of the recorded activities, by explaining the process by which it determines how to implement mitigation measures. The use of risk modeling and high-threat fire maps helps ensure that funding is directed towards the areas with the highest mitigation needs. No intervenor has alleged specific reasons for finding that the costs recorded in the memorandum accounts are unreasonable or

³⁶ *Id.* at 22.

unrelated to implementation of the WMPs. Accordingly, PacifiCorp's application and the KPMG Audit together provide sufficient support to find that the costs were reasonable and in furtherance of the WMPs.

Regarding incrementality, given the expedited implementation required for the WMPs, it is reasonable to grant recovery for internal labor costs as requested in these Wildfire Mitigation Memorandum Accounts. Although some costs may have been absorbable by PacifiCorp's already existing staffing, the fact that PacifiCorp had no authorized recovery for WMPs is the controlling determinant in this case, as internal labor costs were approved in the previous general rate case presuming that such costs were dedicated to non-wildfire mitigation activities.

In reviewing SCE's 2020 operations and maintenance expenses recorded in wildfire mitigation memorandum accounts and other costs,³⁷ intervenors disputed the incrementality of certain costs based on alleged underspending in unrelated areas. D.22-06-032 first discusses that the Commission generally conducts ratemaking prospectively, and does not require the utility to refund costs to ratepayers if there are lower than expected expenditures, nor are ratepayers required to pay back utilities if expenditures exceed projections.³⁸ "Using costs recorded in a memorandum or balancing account to offset forecast variances for unrelated budget categories would be inconsistent with the prospective ratemaking principles outlined above and undermine the purpose of allowing utilities to establish memorandum and balancing accounts. Therefore in assessing the incrementality of SCE's Track 3 request, we compare SCE's Track

³⁷ D.22-06-032, at 9.

³⁸ *Id.* at 10-11.

3 costs to the relevant categories and types of authorized costs from the GSRP Settlement and SCE's 2018 GRC."³⁹

Here, because no costs were forecasted or authorized for wildfire mitigation or WMP costs in the previous GRC, there are no analogous costs to consider incrementality against, and it is therefore reasonable to find that the costs recorded in the WMPMA, FHPMA, and FRMMA are incremental. However, as discussed below, in future wildfire mitigation memorandum account recovery proceedings PacifiCorp must provide additional information to ensure that the Commission has a more specific and descriptive understanding of wildfire mitigation costs.

6.5. Conclusion

PacifiCorp's costs recorded in the WMPMA, FRMMA, and FHPMA are reasonable and incremental. PacifiCorp is authorized to recover \$36.4 million, recorded through December 31, 2022 in the WMPMA, FRMMA, and FHPMA.

7. Cost Recovery

PacifiCorp states that recovery should be over a six-year period, to spread the cost over two general rate case cycles.⁴⁰ Cal Advocates states that any recovery of the Wildfire Mitigation Memorandum Accounts should be on an equal-cents-per-kwh basis, from all customer classes over a five-year amortization period.⁴¹ We find that given the large amounts that need to be recovered, the extended six-year recovery period presented by PacifiCorp is reasonable and approved. CFBF states that we should continue to utilize the cost allocation methodology utilized in Track 1 of the proceeding, which was chosen

³⁹ *Id.* at 11.

⁴⁰ PacifiCorp Opening Brief, July 22, 2024, at 22.

⁴¹ Cal Advocates Opening Brief, July 23, 2024, at 8.

in order to “mitigate the potential adverse impacts to larger customer classes while still maintaining a relatively equal cost-of-service burden on its smaller customer classes.”⁴² CFBF also notes that Cal Advocates has not done any calculations to determine the ramifications of its proposed cost allocation. CFBF also recommends that any interest accrued during the delay in issuance of the KPMG Audit be excluded from recovery.⁴³

We agree that there is no compelling argument to use a cost allocation methodology different from that approved in Phase I of this proceeding, based on Equal Percentage Marginal Costs. We also agree with CFBF that customers should not be responsible for any interest accrued during the delay in issuance of the KPMG Audit, and therefore PacifiCorp may not recover interest on the balances from July 7, 2023 to January 26, 2024. PacifiCorp is authorized to recover \$36,406,332, plus interest, over six years, utilizing the same allocation methodology approved in D.23-12-016. No interest shall be recovered for the period from July 7, 2023, to January 26, 2024. PacifiCorp shall file a Tier 2 Advice Letter within 30 days after the effective date of this decision implementing the rate increase.

8. Future Reporting Requirements

Although PacifiCorp’s full recovery is approved in this decision, that does not mean its process for recording Wildfire Mitigation costs cannot be improved. Earlier in this proceeding, the Commission required PacifiCorp to include more specific revenue requirement forecasts for each program authorized in its most recent WMP, in its next GRC, as PacifiCorp’s application could have used more

⁴² CFBF Reply Brief, August 23, 2024, at 2, citing D.23-12-016.

⁴³ CFBF Reply Brief, at 2.

detailed consideration of historical costs.⁴⁴ Recent Commission proceedings on other utilities' wildfire-mitigation spending have approved additional accountability measures. In D.24-03-008, approving Southern California Edison Company's (SCE) 2021 wildfire mitigation spending, the Commission required that when seeking recovery for future wildfire mitigation memorandum account costs SCE provide:⁴⁵

- One or more tables summarizing program and activity costs authorized in the relevant general rate case (GRC) (or other relevant application) decision, with page numbers, compared to actual expenditures and expenses, at the program and activity level, including, for WMPMA applications, references with page numbers to the inclusion of the program and activity in the relevant Wildfire Mitigation Plan;
- A Risk-Spend Efficiency ratio⁴⁶ or Cost-Benefit Ratio reflecting the total costs and benefits of a given program and activity, to the extent feasible, with total costs reflecting the costs authorized in the relevant GRC decision and costs requested for recovery in the application; and
- A detailed explanation for each program and activity of why the relevant GRC forecast did not foresee the incremental costs for which reasonableness review and authorization for recovery is requested."

These requirements were implemented to assist the Commission in review of future wildfire mitigation memorandum account recovery proceedings. We require PacifiCorp to implement the same requirements in its next application for recovery of costs recorded in the WMPMA, FRMMA, and/or FHPMA. These

⁴⁴ D.23-12-016, at 26, 44.

⁴⁵ D.24-03-008, at 70.

⁴⁶ D.21-08-036, at 31-32.

requirements are especially important given the high costs sought for recovery in these wildfire mitigation memorandum accounts as well as the relatively new WMPs they implement. Such tracking will aid the Commission in ensuring that it has a fuller picture of what types of activities and costs are being underestimated and in better determining whether costs recorded in the Wildfire Mitigation Memorandum Accounts should be eligible for recovery. By focusing on individual activities or program area budgets, we will also increase the incentives to prevent costs from overrunning, as any overruns will be better highlighted.⁴⁷

9. Conclusion

The Commission finds reasonable PacifiCorp's expenditures of \$36.4 million in wildfire mitigation costs recorded in the WMPMA, FRMMA, and FHPMA through December 31, 2022. PacifiCorp is authorized to recover the cost in rates over six years. In future applications for recovery of these Wildfire Mitigation Memorandum Accounts, PacifiCorp shall follow the reporting requirements described in this decision.

10. Summary of Public Comment

No relevant public comments have been received since the issuance of the Phase I GRC decision in this proceeding. Public comments generally discuss the impacts to consumers due to PacifiCorp's rate increases.

11. Comments on Proposed Decision

The proposed decision of ALJ Garrett Toy in this matter was mailed to the parties in accordance with Pub. Util. Code Section 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure.

⁴⁷ D.24-03-008, at 75-77.

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

12. Assignment of Proceeding

President Alice Reynolds is the assigned Commissioner and Garrett Toy is the assigned ALJ in this proceeding.

Findings of Fact

1. PacifiCorp's costs recorded in the WMPMA were spent on activities including expense and capital expenditures for increased inspections and patrols, system hardening and resiliency, expanded automation and protection, improved situational awareness and wildfire detection, enhanced event response capacity, and vegetation management activities.

2. PacifiCorp's costs recorded in the FRMMA include expense and capital expenditures for: advanced system hardening and resiliency; expanded automation and protection; improved wildfire detection; enhanced event response capacity; and vegetation management activities.

3. PacifiCorp's costs recorded in the FHPMA include implementing new programs or augmentation of existing programs to comply with revisions to GO 95, Rule 35, which required modifications to PacifiCorp's vegetation management programs, and to GO 165, including Rule 18, which required modifications to PacifiCorp's asset management inspection programs.

4. PacifiCorp was not authorized to recover revenue requirement for wildfire mitigation in its 2018 GRC.

5. The WMPMA and FRMMA were not established until 2019, after the last PacifiCorp GRC decision was approved.

6. PacifiCorp contracted with KPMG to conduct an audit of its WMPMA, FRMMA, and FHPMA accounts, as directed by the Commission.

7. The KPMG Audit was conducted pursuant to standard accounting practices.
8. The standards and procedures used in the KPMG Audit have been used in other Commission directed audits.
9. The KPMG Audit satisfied the requirements of the March 13, 2023 ALJ Ruling.
10. The KPMG Audit found that costs in the WMPMA, FRMMA, and FHPMA were consistent with the purpose of those memorandum accounts, sufficiently documented, and were incremental to costs previously authorized by the Commission.
11. Delays in the issuance of the KPMG Audit were due to PacifiCorp's inability to complete the audit on time.
12. Recent Commission decisions have required increased documentation and reporting requirements for recovery of wildfire mitigation memorandum account costs.
13. Increased reporting and documentation requirements for wildfire mitigation memorandum accounts will improve Commission confidence that costs are reasonable and incremental.
14. PacifiCorp seeks to recover \$33,051,214 in the WMPMA through December 31, 2022.
15. PacifiCorp seeks to recover \$383,164 in the FRMMA through December 31, 2022.
16. PacifiCorp seeks to recover \$2,971,953 in the FHPMA through December 31, 2022.
17. Amortizing recovery over six years will reduce rate shock for ratepayers.

Conclusions of Law

1. The 2018-2022 wildfire mitigation costs recorded by PacifiCorp in the WMPMA, FHPMA, and FRMMA are reasonable and related to the purpose of the memorandum accounts.
2. Cost recovery of the Wildfire Mitigation Memorandum Account costs in the same manner as Phase I is reasonable.
3. In determining whether costs are incremental, it is reasonable to find that PacifiCorp's wildfire mitigation activities are all incremental where no recovery for wildfire mitigation costs was previously approved.
4. PacifiCorp's costs recorded in the WMPMA, FRMMA, and FHPMA through December 31, 2022 are incremental.
5. PacifiCorp should be authorized to recover \$33,051,214 in the WMPMA through December 31, 2022.
6. PacifiCorp should be authorized to recover \$383,164 in the FRMMA through December 31, 2022.
7. PacifiCorp should be authorized to recover \$2,971,953 in the FHPMA through December 31, 2022.
8. PacifiCorp should be required to implement increased documentation and reporting requirements in future applications to recover wildfire mitigation memorandum accounts.
9. PacifiCorp's proposal to recover the WMPMA, FRMMA, and FHPMA costs over six years is reasonable.
10. PacifiCorp should not recover interest for the period from July 7, 2023, to January 26, 2024 because of the delay in issuance of the KPMG Audit.

11. PacifiCorp's \$36,404,331 in WMPMA, FRMMA, and FHPMA wildfire mitigation costs, incurred through December 31, 2022, are incremental, reasonable, and recoverable.

12. PacifiCorp should recover from ratepayers the WMPMA, FRMMA, and FHPMA costs approved here based on the Equal Percentage Marginal Costs method approved in D.23-12-016.

13. We should change our preliminary and Scoping Memo determination regarding hearings to no hearings are necessary for Phase II.

14. PacifiCorp Exhibits PAC/2300, PAC/2301, PAC/2302, and PAC-2303, and Cal Advocates' Exhibit CA-6 should be received into evidence.

15. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. PacifiCorp is authorized to recover revenue requirements associated with PacifiCorp's reasonably incurred incremental expenses associated with its wildfire mitigation activities:

- (a) Incremental expenses of \$33,051,214, plus interest, in the Wildfire Mitigation Plan Memorandum Account through December 31, 2022;
- (b) Incremental expenses of \$383,164, plus interest, in the Fire Risk Mitigation Memorandum Account through December 31, 2022; and
- (c) Incremental expenses of \$2,971,953, plus interest, in the Fire Hazard Prevention Memorandum Account through December 31, 2022.

2. PacifiCorp is authorized to recover costs recorded in the Wildfire Mitigation Plan Memorandum Account, Fire Risk Mitigation Memorandum Account, and Fire Hazard Prevention Memorandum Account through

December 31, 2022 over six years, plus interest. PacifiCorp shall file a Tier 2 Advice Letter within 30 days of the effective date of this decision implementing these changes.

3. The prepared Testimony of PacifiCorp and the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), consisting of Exhibits PAC/2300, PAC/2301, PAC/2302, and PAC-2303, and Cal Advocates' Exhibit CA-6, are received into evidence.

4. In its next application for recovery of costs recorded in the Wildfire Mitigation Plan Memorandum Account (WMPMA), Fire Risk Mitigation Memorandum Account, and Fire Hazard Prevention Memorandum Account, PacifiCorp shall provide:

- (a) One or more tables summarizing program and activity costs authorized in the relevant general rate case (GRC) (or other relevant application) decision, with page numbers, compared to actual expenditures and expenses, at the program and activity level, including, for WMPMA applications, references with page numbers to the inclusion of the program and activity in the relevant Wildfire Mitigation Plan;
- (b) A Risk-Spend Efficiency ratio or Cost-Benefit Ratio reflecting the total costs and benefits of a given program and activity, to the extent feasible, with total costs reflecting the costs authorized in the relevant GRC decision and costs requested for recovery in the application; and
- (c) A detailed explanation for each program and activity of why the relevant GRC forecast did not foresee the incremental costs for which reasonableness review and authorization for recovery is requested.

5. This proceeding is closed.

This order is effective today.

Dated _____, at Sacramento, California