

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Application of Southern California Gas Company (U904G) for Authority, Among Other Things, to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2024.

Application 22-05-015
(Filed May 16, 2022)

Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Update its Electric and Gas Revenue Requirement and Base Rates Effective on January 1, 2024.

Application 22-05-016
(Filed May 16, 2022)

**OPENING COMMENTS OF THE UTILITY REFORM NETWORK
ON THE PROPOSED DECISION OF ALJ JOHN LARSEN IN TRACK 2**



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OPENING COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED DECISION OF ALJ JOHN LARSEN IN TRACK 2

On November 14, 2025, the Commission served the Proposed Decision of Administrative Law Judge (ALJ) John Larsen for the “Track 2” issues in this General Rate Case (GRC) proceeding for San Diego Gas & Electric Company (SDG&E). This track of the GRC served as the reasonableness review for costs SDG&E recorded in its Wildfire Mitigation Plan Memorandum Account (WMPMA) from 2019 through the end of 2022. SDG&E requested recovery of approximately \$284 million of operations and maintenance (O&M) expense and the revenue requirement associated with \$1.188 billion of capital expenditures placed in service during this period. Pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure, The Utility Reform Network (TURN) submits these opening comments on the Proposed Decision.

I. The Proposed Decision Commits Legal Error In Its Failure to Adopt Further Disallowances or Other Consequences Clearly Tied to the Recognized Deficiencies in SDG&E’s Cost-Effectiveness Showing.

One of the relatively early sections of the Proposed Decision addresses the general topic of SDG&E’s showing on cost-effectiveness, the deficiencies intervenors identified with regard to that showing, and TURN’s recommendation that the utility be required to re-submit its application with testimony that adequately addresses this fundamental element of a reasonableness showing.¹ The discussion in this section acknowledges the shortcomings in SDG&E’s showing in this regard, but declines to adopt TURN’s recommended remedy. Instead, the Proposed Decision suggests that the discussions of specific initiatives that follow reflect a

¹ Proposed Decision, Section 1.4, pp. 20-24 (Cost-Effectiveness and Denial of Recommendation to Require Refiling of This Application).

consideration of a “general definition of cost-effectiveness” along with other factors applicable to a determination of the reasonableness of SDG&E’s requests and the appropriate disallowances.²

TURN submits that the Proposed Decision’s response to the utility’s deficient cost-effectiveness demonstration constitutes legal error. As the Proposed Decision notes, Section 451 of the Public Utilities Code requires that “all charges demanded or received by any public utility ... shall be just and reasonable.”³ The Commission has long and consistently recognized that in a reasonableness review such as this one, cost-effectiveness is a central element of the “good utility practices” that must be demonstrated as part of a successful a reasonableness showing.⁴

To be clear, TURN is not suggesting cost-effectiveness is the only element required for such a showing, but rather that it is an essential element. And as such, it is not enough for the Commission to rely on the general assertion that this essential element should be understood to be a tacit element of the PD’s analysis of each program or project addressed in later sections. Nor would it be appropriate to adopt no disallowance or other remedy specific to this deficiency in SDG&E’s showing due to the Commission choosing not to adopt TURN’s recommendation to require SDG&E to re-submit its application with a sufficient cost-effectiveness showing. The Commission has authority under Section 701 of the Public Utilities Code to craft a more appropriate remedy as needed if TURN’s specific recommendation is not deemed suitable for that purpose.⁵

² Proposed Decision, pp. 23-24.

³ Proposed Decision, p. 33, *quoting* Section 451.

⁴ *Id.*, p. 34, *citing* D.22-06-032 and D.17-11-033; *see also* D.25-09-008, pp. 6-7.

⁵ Section 701 states, “The commission may supervise and regulate every public utility in the State and may do all things, whether specifically designated in this part or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction.”

There are key points regarding elements of the reasonableness review analysis and the role of cost-effectiveness in that analysis that the Proposed Decision gets right, at least in its more general discussions. It correctly describes the “prudent manager standard” for reasonableness reviews such as this one as requiring the Commission “to evaluate whether SDG&E’s costs are just and reasonable.” And the Proposed Decision includes the Commission’s longstanding description of that standard, with “cost-effectiveness” one of the specified “[g]ood utility practices” that are key to the assessment of whether the utility acted in a “reasonable and prudent” manner.⁶

The Proposed Decision also correctly recognizes that SDG&E’s Wildfire Mitigation Plans (WMPs) submitted for the 2019-2022 period under review here, and the Office of Energy Infrastructure Safety (OEIS) and Commission review thereof do not serve to establish the reasonableness of SDG&E’s recorded costs “or their cost-effectiveness.”

“Rather, each utility must implement its approved WMP in the most cost-effective way possible, with utility management applying its judgment to determine the most resource effective and cost-efficient ways to accomplish WMP goals.”⁷

Where, as here, the utility seeks recovery of the costs of WMP implementation, “[i]t is then the Commission’s responsibility to approve only cost recovery from ratepayers of reasonably incurred costs and ‘disallow recovery of those costs the commission deems unreasonable.’ (Pub. Util. Code Section 8386.4(b)(1)).”⁸

Importantly, the Proposed Decision also gets it right in the section that contains the general discussion of cost-effectiveness, when it “agrees with intervenors, however, who show

⁶ Proposed Decision, p. 34, *citing* D.22-06-032 at 8, D.17-11-033 at 10, *quoting* D.87-06-021.

⁷ Proposed Decision, p. 19.

⁸ *Id.*, pp. 19-20.

that SDG&E continues to lag in specifically evaluating wildfire mitigation strategies for cost-effectiveness.”⁹

But TURN submits the Proposed Decision goes astray when it attempts to rationalize issuing a decision based on SDG&E’s application as presented, rather than requiring a re-submission with an adequate showing on cost-effectiveness. It first observes that reasonableness may be influenced by factors other than cost-effectiveness, followed by the suggestion that cost-effectiveness may not be a factor at all in some instances, such as where an initiative is mandated by regulation or required based on functional or operational considerations.¹⁰ The presence of additional factors and the possibility that cost-effectiveness is a much lesser factor for some initiatives does not adequately explain why an adequate showing of cost-effectiveness might be excused for other initiatives for which it is clearly a better fit.

The Proposed Decision then posits that a cost-effectiveness analysis requires consideration of “the general definition of cost-effectiveness in producing optimum results along with the nature of the cost, its context, and the availability of alternatives.”¹¹ After asserting that all of these factors were considered in determining the reasonableness of SDG&E’s requests here, the Proposed Decision closes the cost-effectiveness discussion with a directive that SDG&E provide Cost Benefit Ratios in future applications for cost recovery as a means of facilitating a more thorough and effective analysis of costs and benefits.¹²

The error of the general approach described in Section 1.4 becomes apparent in the sections that follow. The Proposed Decision’s discussion and analysis of specific initiatives

⁹ *Id.*, p. 23.

¹⁰ *Id.*

¹¹ *Id.*, pp. 23-24.

¹² *Id.*, p. 24.

might contain an allusion to cost-effectiveness, but in each case there is insufficient explanation of what constitutes SDG&E's cost-effectiveness showing, and a lack of analysis why that showing meets the cost-effectiveness element of the prudent manager standard.

In sum, the legal error of the Proposed Decision's approach is the failure to adopt any clear consequence associated with SDG&E's failure to present an adequate cost-effectiveness showing. TURN is not here seeking to revive the remedy proposed in our earlier-submitted testimony and briefs. But the Proposed Decision should be modified to clearly adopt an appropriate the consequence related to the inadequate cost-effectiveness showing. One candidate would include more clearly tying the denial of memorandum account interest costs the utility has recorded to the WMPMA to date to the inadequate showing on cost-effectiveness issues.¹³ Another would be adoption of a disallowance of the Strategic Undergrounding costs with some or all of the disallowance attributed to the inadequate showing on cost-effectiveness issues, as discussed further below. Again, Section 701 of the Public Utilities Code gives the Commission the authority to craft an appropriate remedy, and the Commission should determine that either of these remedies is more appropriate here than a generalized assertion that cost-effectiveness is part of the overall analysis applied to each initiative.

II. The Proposed Decision Commits Legal Error By Authorizing Nearly 100% of SDG&E's Costs of Strategic Undergrounding Despite The Deficient Showing on the Initiative's Cost-Effectiveness.

A primary example of the Proposed Decision's error in the analysis of cost-effectiveness and failure to adopt associate disallowances or other remedies is its discussion of SDG&E's

¹³ TURN Opening Brief, p. 20, *citing* Ex. TURN-1, p. 12. Table C-1 of the Proposed Decision shows an authorized interest cost of \$1.9 million, a figure TURN understands to be far below the memorandum account interest that would have been recorded through 2025 (TURN's testimony had estimated an interest cost of \$69.1 million for that period).

Strategic Undergrounding Initiative.¹⁴ The Proposed Decision would have the Commission authorize approximately \$290 million of direct and indirect costs for the initiative, representing reductions of approximately \$360,000 from the utility's request, meaning a disallowance that rounds to 0%.¹⁵ And it claims that this outcome takes into consideration the initiative's "cost-effectiveness" among other factors, but without sufficient explanation or citation to the evidentiary record for that assertion.¹⁶

The Proposed Decision fails to adequately address the Track 2 record material that parallels the information the Commission relied upon in Track 1 in adopting a 75% reduction to SDG&E's forecast for 2024-2027 spending on Strategic Undergrounding, as part of the overall 65% reduction to the combined forecast for that initiative and covered conductor.¹⁷ As the Commission recognized in adopting the substantial reduction in Track 1, SDG&E had failed to meet its burden to demonstrate that its proposal was just and reasonable.¹⁸ The decision cited its consideration of "possible deficiencies in SDG&E's risk analysis such as the limited number of tranches, an underestimation of the cost of undergrounding, an analytical bias toward undergrounding, and an underestimation of the risk reduction benefits of covered conductor."¹⁹ And the Commission noted that the adopted outcome is supported by the Office of Energy Infrastructure Safety (Energy Safety) decision approving SDG&E's 2023-2025 WMP, which had

¹⁴ Proposed Decision, pp. 50-57.

¹⁵ Proposed Decision, pp. 5 (Table 1, indicating \$290 million of direct and indirect capital costs, less the \$185,000 reduction) and 9 (Table 2, showing \$176,000 of O&M expense and a \$176,000 reduction authorized). \$185,000 plus \$176,000 equals \$361,000; \$361,000 divided by \$290 million indicates a reduction of 0.12%.

¹⁶ Proposed Decision, pp. 53-54.

¹⁷ D.24-11-074, pp. 472 (Tables 19.11 and 19.33) and 481.

¹⁸ *Id.*, p. 480.

¹⁹ *Id.*, p. 481.

found that “SDG&E is often prioritizing undergrounding compared to other mitigations through its mitigation decision-making process and does not provide justification for its undergrounding projects.”²⁰

The Commission has before it in Track 2 a record that contains very similar evidence of very similar concerns raised in the WMP decisions that are contemporaneous with SDG&E’s activities in 2019-2022, the period under review in this reasonableness review. The concerns raised by OEIS that Track 1 cites as support for a substantial forecast reduction were not newly raised in the 2023-2025 WMP decision but rather represent statements of ongoing concerns and criticisms raised in earlier decisions. As TURN’s opening brief describes more fully:²¹

- In 2020 the Commission raised concerns both about a general deficiency in the electric utilities’ showings and concerns specific to SDG&E. The latter included concerns focused on the utility’s Grid Design and System Hardening initiatives (of which Strategic Undergrounding is a subset), with the resolution stating SDG&E’s showing there “does not adequately identify and describe the details of its more costly planned investments, or of its decision-making process with respect to the various planned initiatives.”²² SDG&E’s 2020 WMP was deemed deficient in terms of the “detail [that] is particularly important for significant investments [specifying undergrounding as an example] in order to evaluate whether SDG&E is pursuing these very costly mitigations in the most efficient manner.”²³
- Similar concerns were raised in 2021 about the “[i]nadequate transparency associated with SDG&E’s decision-making process,” with particular focus the utility’s failure to “quantitatively justify the selection of undergrounding compared to other mitigation activities.” And in calling upon SDG&E to “demonstrate that its undergrounding projects are a reasonable and effective use of resources to achieve risk reduction compared to other mitigation alternatives,”

²⁰ *Id.*, p. 482, *quoting* the Energy Safety decision on SDG&E’s 2023-2025 WMP dated October 2023.

²¹ TURN Opening Brief, pp. 15-19.

²² Res. WSD-005, pp. 11 and 29.

²³ *Id.*, pp. 29-30.

the Commission made clear that in its view it had not received such a demonstration to date as of mid-2021.²⁴

- The 2022 review raised similar concerns regarding, among other things, SDG&E's plans for future undergrounding efforts "without adequately demonstrating cost-effectiveness on specific ignition risks."²⁵

As TURN's opening brief explained, this is not to suggest that these statements from the review of SDG&E's WMPs during the 2019-2022 period represent any final determination of issues for purposes of establishing the reasonableness or lack thereof for SDG&E's spending on the Strategic Undergrounding initiative.²⁶ But in light of the Track 1 decision and its citation of the 2023-2025 WMP decision as support for the very significant reduction to SDG&E's GRC forecast for this initiative,²⁷ it constitutes error to fail to address the deficiencies identified in the 2020, 2021 and 2022 WMP decisions that are directly relevant to a determination of reasonableness for the initiative during the period under review here.

The Proposed Decision's reference to the WiNGS-Planning tool and SDG&E's calculation of a risk spend efficiency (RSE) for the Strategic Undergrounding initiative²⁸ do not counter the general deficiency of the utility's showing. As SDG&E's 2022 WMP Update makes clear, the WiNGS-Planning model had limited if any relevance to the utility's choices regarding Strategic Undergrounding activities conducted through 2022 such that their costs would have

²⁴ Res. WSD-019, p. 25 of 44 in PDF file.

²⁵ Res. SPD-001, Appendix A (Energy Safety's Final Decision on SDG&E's 2022 WMP Update) (July 2022) p. 114.

²⁶ TURN Opening Brief, p. 19.

²⁷ D.24-12-074, pp. 481-482.

²⁸ Proposed Decision, p. 51.

been eligible for inclusion in the WMPMA before the end of that year.²⁹ And while the development and appropriate application of RSEs was an important step in the Commission's earlier efforts to ensure that utility wildfire mitigation programs would serve to accomplish the desired result at the lowest reasonable cost, calculation of an RSE does not establish cost-effectiveness of a particular mitigation measure, as the Commission has previously recognized.³⁰

TURN urges the Commission to adopt a further disallowance of the Strategic Undergrounding initiative costs of up to \$135 million due to the deficiencies in SDG&E's showing on cost-effectiveness for that initiative during the 2019-2022 period under review here. In Track 1 of this GRC, SDG&E's forecast had been to spend approximately six times as much on Strategic Undergrounding as it proposed to spend on Covered Conductor in the 2024-2027 period, an approach the Commission found "not cost-effective and [] not reasonable."³¹ The Commission instead authorized a forecast that was approximate 15% higher than the amount authorized for Covered Conductor.³² Achieving a similar ratio here would result in the authorization of recovery of approximately \$154 million for the Strategic Undergrounding initiatives, for a disallowance of approximately \$135 million as compared to the Proposed Decision's authorized amount of \$289 million.³³

²⁹ SDGE 2022 WMP Update, p. 121 ("The use of WiNGS-Planning to inform priorities in the WMP is limited to some of the covered conductor and undergrounding scope identified for 2022 as well as the Standby Power Program.")

³⁰ D.22-12-027, pp. 25-26 and Finding of Fact 3 ["While the RSE values produced by the [Multi-Attribute Value Function or MAVF] approach allow for comparison of the cost-effectiveness of various mitigation measures, they do not show whether the Benefits of a proposed measure outweigh the costs."]

³¹ D.24-12-074, Finding of Fact 172.

³² *Id.*, Finding of Fact 173. The Commission authorized \$82.6 million for undergrounding and \$71.9 million for covered conductor.

³³ The \$154 million figure for Strategic Undergrounding is calculated as a 15% increase to the Proposed Decision's authorized amount for Covered Conductor. The \$289 million figure is the

III. The Proposed Decision Fails to Consistently Apply the Adopted Standard for Demonstrating that a Cost is “Incremental.”

The Proposed Decision includes a general discussion of the standard of review that applies to the determination of whether SDG&E has demonstrated that the costs recorded in the WMPMA and under review here are “incremental.” The Proposed Decision correctly describes the approach taken in an earlier reasonableness review of PG&E wildfire mitigation spending. While the initial inquiry may start with “amounts previously authorized to be recovered in rates,” typically in a GRC, the inquiry does not end there:

The existence and completion of a new activity by itself does not prove the cost was incremental. [citing D.23-02-017] If a new activity is completed by redirecting existing resources in a related work category, for example, no incremental cost was incurred, despite the activity itself being “incremental.” [citing D.23-02-017]³⁴

However, in addressing incrementality for spending on specific initiatives, the Proposed Decision modifies the analysis to make it more binary and, therefore, incomplete as compared to the general standard it had described. As applied, the incrementality standard becomes a simple question of whether or not the costs and activities were foreseen at the time of the previous GRC. For example, the broad discussion of SDG&E’s Grid Design and System Hardening initiatives simply asserts that if the requested costs were “wholly unforeseen in SDG&E’s TY 2019 GRC,” they are by definition “incremental.”³⁵ Similarly, for Covered Conductor costs, the Proposed Decision states, “Since these amounts were not authorized in the last GRC, the Commission also finds them to be incremental.”³⁶ And for Strategic Undergrounding, the Proposed Decision

amount the Proposed Decision would authorize for Strategic Undergrounding. Proposed Decision, pp. 4 (for Covered Conductor figure) and 5 (for Strategic Undergrounding figure).

³⁴ Proposed Decision, p. 36.

³⁵ *Id.*, p. 40.

³⁶ *Id.*, p. 46.

would have the Commission find the costs reasonable because “SDG&E was not previously authorized specific funding for Strategic Undergrounding during this period.”³⁷

TURN submits it would constitute legal error for the Commission to adopt a decision that announces one incrementality standard but then repeatedly applies a different and less restrictive standard. Unfortunately, that appears to be the approach taken by the Proposed Decision.

IV. The Proposed Decision’s Ordering Paragraph on a Potential Future Securitization Application Warrants Clarification.

Section 15 of the Proposed Decision addresses undercollection financing and options for recovery of the undercollected revenue requirements associated with the authorized 2019-2022 capital expenditures here. The Proposed Decision reviews the different impacts of a 3-year and 6-year amortization and would adopt a 3-year amortization under the circumstances here. TURN does not take a position at this time as between a 3-year and 6-year amortization.

The Proposed Decision also addresses elements of a potential future securitization application as SDG&E had described in its testimony and briefs. TURN fully supports the inclusion of a requirement of certain calculations and comparisons that SDG&E would need to include in support of such application, particularly the comparison of costs and benefits of securitizing a revenue requirement amount versus securitizing capital expenditures. However, TURN believes that the associated Ordering Paragraph should be clarified.

The Ordering Paragraph includes a sentence that begins, “To the extent SDG&E proposes to securitize capital expense costs....”³⁸ TURN is not clear on what the term “capital expense costs” refers to and did not find that term anywhere in the record of this proceeding. TURN

³⁷ *Id.*, p. 52.

³⁸ Ordering Paragraph 10 [emphasis added].

believes the term is intended to refer to the “undercollected electric WMPMA balance,” which is the term used in the text of the Proposed Decision to describe SDG&E’s proposal,³⁹ and would refer to the revenue requirement associated with the authorized capital spending. However, this represents TURN’s best guess, and whether that guess is right or wrong, the term in the Ordering Paragraph should be clarified.

V. The Proposed Decision Should Be Modified to Remove and Replace All References to the Ernst & Young Review as an “Audit.”

SDG&E retained the firm Ernst & Young to review a sampling of the utility’s wildfire mitigation costs incurred in the 2019-2022 period.⁴⁰ The Proposed Decision repeatedly refers to that review as an “audit.”⁴¹ But the Ernst & Young review here was not an “audit,” as was made clear in the Ernst & Young-prepared material.⁴² The Commission should recognize that using the term “audit” instead of a more appropriate term such as “examination” is factually incorrect and potentially confusing or misleading. Therefore, the Proposed Decision should be modified to replace the word “audit” where it appears in the context of Ernst & Young’s work with a more accurate word such as “examination.”

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³⁹ Proposed Decision, p. 133.

⁴⁰ Proposed Decision, p. 124.

⁴¹ See, for example, heading 13.6 and Findings of Fact 13 and 24. The word “audit” is used to refer to Ernst & Young’s review in numerous other places in the body of the Proposed Decision.

⁴² SDG&E T2 Ex-02-R, Appendix 8, p. 3 (“Our procedures did not constitute an audit, review or compilation as those terms are defined by the American Institute of Certified Public Accountants.”)

Dated: December 4, 2025

Respectfully submitted,

By: _____/s/_____
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PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW
AND MODIFICATION TO ORDERING PARAGRAPH

Findings of Fact

4. San Diego Gas & Electric Company's Strategic Undergrounding cost recovery request of \$241.233 million in direct cost capital expenditures and \$0.176 million in Operations & Maintenance direct costs for the 2019–2022 period for 109.5 miles of Strategic Undergrounding is not reasonable in light of the utility's deficient showing on the initiative's cost-effectiveness. This decision authorizes recovery of \$154.0 million in direct cost capital expenditures and \$0.176 million in Operations & Maintenance direct costs for the 2019-2022 period. based on the degree to which Strategic Undergrounding can reduce ignitions and Public Safety Power Shutoff events in High Fire Threat Districts.

13. In its audit examination of a sample of San Diego Gas & Electric Company's costs incurred from May 30, 2019 through December 31, 2022, the accounting firm of Ernst & Young identified approximately \$0.8 million in costs that were not properly evidenced for inclusion in the Wildfire Mitigation Plan Memorandum Account. In this audit examination, Ernst & Young reasonably extrapolated the amount of improperly evidenced costs incurred during the audit examination period to be \$2.6 million.

Conclusions of Law

___ [To be inserted as first Conclusion of Law] SDG&E's showing on cost-effectiveness and, by extension, reasonableness was inadequate as a general matter. SDG&E's recovery of memorandum account interest recorded in the WMPMA for 2019-2022 costs through 2025 is denied as a consequence of the inadequacy of the reasonableness showing.

24. San Diego Gas & Electric Company should be denied cost recovery in the amount of \$2.6 million for costs identified by Ernst & Young in its examination ~~an audit~~ to have not been properly evidenced for inclusion in the Wildfire Mitigation Plan Memorandum Account and extrapolated.

Ordering Paragraph

10. San Diego Gas & Electric Company (SDG&E) may file an application for a financing order to securitize the balance of uncollected Wildfire Mitigation Plan Account costs in accordance with Public Utilities Section 850 et seq. To the extent SDG&E proposes to securitize ~~capital expense~~ undercollected WMPMA balance costs, the utility must include calculations of all relevant costs and benefits on both an unadjusted and present value basis. In particular, the utility must include a calculation of any additional costs to its customers of such an approach as compared to both traditional utility financing mechanisms and securitization of capital expenditures.