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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE

STATE OF CALIFORNIA

In Attendance: PRESIDENT ALICE REYNOLDS
COMMISSIONER DARCIE L. HOUCK
COMMISSIONER JOHN REYNOLDS
COMMISSIONER KAREN DOUGLAS

ADMINISTRATIVE LAW JUDGE JOHN LARSEN, presiding

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.	ORAL ARGUMENT Application 22-05-015
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 (Consolidated)

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Reported by: Shannon Ross Winters, CSR No. 8916
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PUBLIC UTILITIES COMMISSION, STATE OF CALIFORNIA
SAN FRANCISCO, CALIFORNIA

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SAN FRANCISCO, CALIFORNIA

DECEMBER 15, 2025 - 1:00 P.M.

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ADMINISTRATIVE LAW JUDGE LARSEN: We are on the record.

This is the time and place for the oral arguments in Applications A.22-05-015 and A.22-05-016, the consolidated general rate case proceeding for Southern California Gas Company and San Diego Gas & Electric Company.

Good afternoon, Commissioners, and good afternoon to all the parties that are participating today. The November 18th, 2025, ruling outlines the process and agenda for this oral argument. We will begin with opening statements followed by responses and then time for the commissioners to ask questions of the applicants and the parties.

So when your name -- we have four speakers. When your name is called, or the party is called, please step up to this podium here, and we will get started shortly. Starting with San Diego Gas & Electric followed by Cal Advocates, TURN and then Protective Communities Foundation.

All right. Without further ado, let's start with San Diego Gas & Electric. And you have your opening statement.

ARGUMENT BY MR. GERAGHTY

Thank you for your time today. I come to humbly ask for your consideration -- or reconsideration of the current SDG&E GRC Track 2 proposed decision set for this Thursday, December 18th.

We recognize that this proceeding is an after-the-fact reasonableness review. Because of that, I want to spend some time reminding everybody of the timeframe that these costs were incurred, these activities that were at the heart of this matter for which we are seeking recovery. The timeframe is 2019 through 2022. California was literally burning. Record-breaking fires were the norm, and costs associated with utility-caused wildfires in the 2017 through 2022 period are estimated around $47 billion, and 198 lives were lost because of the wildfires around that time. And SDG&E was responsible for exactly zero of those wildfire dollars and none of those fatalities.

On a NARUC podcast in May of this year called Tech Talk for Regulators on the subject of wildfire mitigation, director Caroline Thomas Jacobs of OEIS and Commissioner Houck discussed the spirit of this timeframe, and director Jacobs stated:

What was recognized to incentivize the

California Electric Corporations to invest in specific wildfire safety improvements at that rate and breadth, the comprehensiveness that was required to meet the very emerging and escalating wildfire risk.

I think that captures that timeframe really well. It's a little bit different than today's timeframe, but I do recommend listen to that podcast. I only have 10 minutes. I think -- in that 30 minutes, the exploration of where we were and where we are, I think, is very well done and why the challenges we face today are a little bit different than the challenges we faced at that time.

At a recent PUC voting meeting, Commissioner John Reynolds also noted the gravity of this situation. Right? We've experienced our nine largest wildfires. It says, quote:

We've experienced our 9 largest wildfires as a state and 6 of our 10 most destructive wildfires since 2017. The whiplash between wet and dry conditions grows massive amounts of vegetation that becomes tender in our Mediterranean summers.

I've actually been in front of this Commission a couple different times (unintelligible) 1054s and making that exact point. And speaking from that experience, I believe I am the only utility executive that has made every 1054 hearing and en bancs in front OEIS and Cal Fire and CPUC, and I can remember the tone of each and every one of them. And the tones -- when this -- when these costs were experienced -- when these costs were being examined was dramatically different to what we face today.

Back then it was, Do more. Go faster. What will it take to move faster? What barriers can we remove for you to accelerate it and get the items done in your WMP that you're describing? How can you reduce PSPS? How can you communicate with customers faster? You know, there was a governor's strike force at that time. We had at least one letter from a commissioner -- president of this Commission to the CEO compelling, "What more can you do to stop these fires?"

SDG&E took immediate action complying with increased and annually evolving wildfire planning requirements while engaging in four years of unanticipated investment to implement authorized WMPs and reduce the chance of wildfires. But as with anything else we do that touches our operations, we work in the best interest of our customers and considered cost efficiency and affordability at every turn, and that includes developing sophisticated risk models so we could harden our system in the most risk-informed and cost-effective way possible at that time.

We were clearly ahead, and we're the lone utility not starting extreme wildfires in the state and the country recognized us. Our industry recognized us. The governor paid a visit to SDG&E to find out what we were doing different and why we are not starting wildfires, and we were recognized by this body as well. And that's still true today. For the 18th consecutive year, SDG&E has not caused a utility-induced wildfire.

In many of those areas that we're gonna -- that we were getting recognized for in that period of time, whether it was 1054s, whether it was PSPS, whether it was by the visits, by the -- and the accolades we received are just disallowed in this order. Just outright disallowed. We just -- we just don't understand this outcome.

The PD looks at all our actions from the wrong vantage point, applying the wrong standard of review by looking at these programs with hindsight instead of applying the right standard of what we knew or should have known at the time, and while this is my first time really going through issues like this here in California -- I have nearly 40 years with regulated utilities -- that is the standard of looking at costs that have been experienced. This is not a GRC where we're looking forward. These are actually costs that were incurred. And I think it's wrong to compare our costs in 2019 to 2022 to other utilities' costs in 2023 or even now.

That is not the right standard to assess cost-effectiveness. The PD uses apples and oranges comparisons that don't even compare to the same activities. This is particularly true when we talk about drones in a minute.

And I urge you to examine the regulatory agency conflict that this PD creates. It surely just cannot be the precedent that we're looking to set. The PD fails to recognize that WMP approval creates utility-compliant obligations, and that failure to comply carries significant consequences in three important areas:

First, safety certificate. I think we all know the criticality of the utility receiving that safety certificate. If we do not comply with our WMP, we cannot get that certificate.

Second, fines. Right? The Commission has recently issued a proposed $27 million fine to a utility for not complying with its 2020 WMP target.

And third, I can only imagine if SDG&E ever were to have an extreme wildfire, and -- the wolves out there that would learn that we had not complied with some part our of WMP, that would be used against us. I think we all know that.

I do want to get into the specific disallowances. And I'm going to talk about certain areas of cost in this PD but not all of them. I want you to know that this same Commission approved a majority or almost all of the future funding for these categories I'm going to discuss on a forecasted basis about a year ago in our 2024 GRC rate case, yet many of these activities in the PD were zeroed out, 100 percent removed, all historical spending disallowed as though they did not exist, did not produce value and were not required.

Today I'm going to address only three of the specific disallowances that were the most egregious: Drones, data governance and community engagement. First of all, with drones, the system just gets the math wrong in comparing us to PG&E and comparing an inspection only per inspection unit cost to our total cost of our program that is doing the inspections, making the repairs, investing the capital and creating an AI program and database that will take our utility and, quite frankly, other utilities into the future in a recognizable way. And that's where the decision also fails is not only just that value at that time we did not start an extreme wildfire but that program to go forward and the value forward.

If I were to be asked what is the one thing that we did in this timeframe that kept SDG&E from adding to the extreme wildfires that was going on, it is this program. Because what I can tell you is I think what was really very prudent -- it became obvious that our ground-based inspections, while compliant and meeting all the obligations of the state and our professional qualified electric workers, they weren't finding the things that the drones could find. And so sitting there knowing with extreme conditions we had at the time and knowing that our inspection programs that we rely on cannot find these things, we got to work.

And I think it was very prudent to make the investment to look at every single structure we had in the air at SDG&E. And we wanted to make sure that we just did not start a fire. Because, if you remember, at that time, we were talking about the infrastructure we could build, right? But we couldn't build it fast enough. And I will tell you, as a prudent operator, the number one thing you should make sure is the equipment that you have, the things that you have are ready for prime time and they're fixed and they are working.

We found a huge list of issues through this program, and none of it was redundant. Because none of the things that we found could be found in our ground-based programs. And many of these findings individually could have created 800 million or more incident, you know, in a larger scale, combined a few of them, over 5 billion. So the program produced benefits.

And while there were startup costs with the drones, most of those around safety, they are flying around with a lithium battery in high-fire threat area with extra costs for safety personnel and a ton of extra requirements communicating with our customers. Because, as you can imagine, especially in this timeframe, during COVID, drones flying over people's homes was not really what they were super interested in and would spend a lot of time making sure we got it right from the very beginning on our drone program.

And we will look back at this in a few years because not only have we received all of this value then and now -- because to this day I personally use that data, those pictures, those videos of things that we captured in this timeframe, but it's going to go beyond that. Because I believe we'll have a future state to where even with fixed wing, much larger aircraft, we will be able to snapshot our territory, rapidly file it through AI engines -- right? -- that will use the very models we created to find these defects and now we will find things and fix them rapidly. And that will be the most cost-effective thing we could possibly imagine here in California.

But lastly, being compared to PG&E -- and this one is really very difficult -- their program is not comparable with ours. We remain, subject to check, the only utility that has actually flown a drone over every single one of its overhead assets. We know where everything is and what its conditions were, and we have a detailed record of it that we can rely on at any time.

We reviewed our entire HFTD within 30 months rapidly showing how important it was to get this done as fast as possible. Our costs, as I reported earlier, include all of our costs, the O&M, the capital, developing the AI models, developing the programs that recognize the flaws. PG&E's just don't. But if we are going to be compared to them, we'd like to be compared on the recovery of their costs. Because they recovered their drone program cost. We virtually recover almost none.

I'd like to go to data governance. This one's really very challenging to understand. It is completely zeroed out, and it's something that we're compelled to do. We don't have a choice. We have to do this. And in fact, the $27 million fine I referenced just a minute ago, that was specifically for not meeting data governance requirements in the WMP targets. So at that time, we had to create tools to gather the data that the state was demanding in order to properly provide oversight, and I completely understand that.

Data governance was a game changer for regulators, and it allowed them to understand the progress we were making in wildfire mitigation. We were actively talking about that in our 1054s at that timeframe. "How are you doing?" "Can you do it faster?" "It's September. You're only at 30 percent of this completion item. Will you get to the next area?" I mean, we were building -- building the plane that we're flying today at that time timeframe.

And the primary driver of our data governance costs are the incremental requirements in OIS -- OEIS guidelines that require to use data schema that they have revised every year since 2020. And the PD challenges the costs we spent on data governance arguing that it was not incremental, but nowhere else in our business, in our utility work do we have to produce over 2,000 metrics and geospatial reports on a quarterly basis for regulators but in the WMP space and those requirements all came after our 2019 GRC.

And finally, community engagement. The last specific disallowance is another area where zero cost recovery is -- is -- is just bewildering. The stakeholder community engagement activities were driven by the PSPS OIR and strong directives from singer -- senior regulators and policy makers during this timeframe.

Again, I sat in this room or online or -- and other places as when went through this and never once in anything with customers were we ever asked, "Slow down." "Pump the brakes." "That's too much." It was always -- because we understood while PSPS was going to be the last-resort decision, if we had to pull that pin, we had to take care of customers -- and I'm really very proud at every event we ever came up through here we found a way to do more, get more done and be a better -- better advocate for our customers.

And the CPUC has issues in this space, millions of dollars in fines to all three utilities, millions of dollars in fines. In fact, the other two utilities received almost $10 million each in fines or more. SDG&E received 100,000. And I think that's a direct result of -- of being efficient, making sure that we put our customers first and listening to the guidance we were getting from regulators on where to invest and what problems to solve.

But these costs are not just -- are just not an app. And that's kind of the way it was kind of characterized. And it's a little frustrating. The app is a small portion of the cost that we experienced in this bucket of dollars, right? This is where we're doing everything for our customers, right? This is where we're doing our community resource centers, our outreach to our tribal communities, our work with our emergency service providers, our notification system to our customers alerting them that there's concerns and making sure we're communicating with them in the best possible ways, right? It is working with our CBOs and our partners during the PSPS.

But, again, lastly, if you are to compare us with the other utilities, we think we are doing the best in the space, but we'd sure like to have the recovery that they've experienced for this cost. Because they recovered something. We're recovering nothing in an area where I think we're generally regarded as having moved the ball down the field and finding new ways to do great things with customers.

And in close, I hope you'll leave the hearing understanding the significance of the disallowance made to the key wildfire risk mitigation programs that we're talking about, and I can understand the temptation to look back at costs incurred six years ago and deem them improper through today's lens. Again, I think that podcast captured this extremely, extremely fairly. We must resist that hindsight -- right? -- and remember that the time period within which these cost were incurred it was an extremely high-risk period where everybody was doing anything they could to stop fires from happening.

Quite frankly, that foundation that we built are the things that enable us today to go look at how we want to approach this going forward. But that foundation was at a cost at SDG&E. We have not started a fire in 18 years, yet we're being severely punished --

ALJ LARSEN: You're at -- you're at 15 minutes. I let you go --

MR. GERAGHTY: Oh, I'm sorry.

ALJ LARSEN: I'm going to give everyone 15 minutes. But --

MR. GERAGHTY: Step away then?

ALJ LARSEN: Yeah. I think we should cut it off.

MR. GERAGHTY: Okay. Thank you.

ALJ LARSEN: Thank you.]

Okay. Next up is Cal Advocates.

Thank you.

ARGUMENT BY MR. CAMPBELL

Good afternoon, President Reynolds, Commissioners, ALJ Houck -- oh, ALJ. Thinking of the word "Houck" and trying to speak at the same time, that will get ya. ALJ Larsen.

My name is Mike Campbell, Deputy Director of Energy at Public Advocates Office.

Before diving into a few aspects of the proposed decision, I am just going to take a couple of minutes to talk a little bit about what SDG&E just went over and were in written comments that were out there at the beginning.

And I couldn't ask for a better segue, because I was going to talk about the differences between SDG&E and the other utilities and that timeframe in 2019.

As was described, that was a -- a time of crisis in California, and there were a number of fires, and there's some fresh legislation but SDG&E really made its major -- learned its -- a lot of its lessons and became the leader because of the fires that it had in 2007.

And so, by -- and then in 2010, yes, they were

-- were sanctioned. Part of the settlement. But let's keep in mind that, you know, a big part of what the legislation that came out in 2019 and other things, there was recognition that this new WMP requirements may have some costs that weren't general rate cases. There might be new. There might need to be an opportunity for that. And when those costs that were outside of the general rate case that nobody could have anticipated that they would take a high degree of scrutiny from the Commission, in terms of looking at those costs after the fact. But as I mentioned at the outset, SDG&E is already well ahead.

So, in terms of things that were -- they were already putting in practice a lot of these -- these things, and I would agree that they were and remain a leader in this space. So, I think they deserve kudos for that but painting them with the same broad brush as the other utilities in 2019 is just, I think, picking and choosing history a little bit there.

So -- so, let's talk a little bit about what it means to be an unreasonable distributor and -- and why we are here, and what these things are all about.

So, that created an opportunity for utilities to track costs in memorandum accounts related to wildfire mitigation. They are specifically supposed to be other things that weren't, you know, thought about in the -- in the prospective GRC budget vetting process and to be recovered, they had to be incremental to the GRC and they had to be reasonable, not just incremental, but they had to be reasonable to have ratepayers paying more.

So, in the slides that SDG&E provided in advance, I was a bit troubled that it expresses and emphasizes this feeling about the memo accounts that if it doesn't get the costs -- get customers' bills raised to cover the costs that it recorded in these memo accounts that that is tantamount to a penalty, and that you would be providing a penalty. That's -- I -- that's just the wrong framing, frankly.

So, as I mentioned, in establishing the memo accounts the legislation was very clear that what you're -- as commissioners and as an ALJ, what you're having to look at is whether those costs are actually appropriate to put into rates. The time of an affordability is inappropriate to raise customers' bills for this.

I am sorry, it's not usually my -- my style to -- I'm not a lawyer. It's not my style to cite to PU Code but I am going do so here. So, specifically PU Code Section 8386.4 -- I will spare all the letters and numbers -- you know, that -- that allows the Commission to, you know, set up the memo accounts, and it says those are to cover costs that are unforeseen and incremental to the wildfire risk mitigation programs and the activities authorized in the electrical corporation's revenue requirements. And it also continues to say:

> The Commission shall review the costs in the memorandum accounts and disallow recovery of those costs the Commission deems unreasonable.

That's why we are here. That is not a penalty. That's -- unfortunately, that's -- that's a tough job, but that's your job, and that's what we are all here to try and help with.

So, at a time when affordability is front and center, and from this dais, you all have made eloquent comments repeatedly, at voting meetings and elsewhere, about the need to carefully scrutinize the costs. The nature of these requests.

This is not a budget setting exercise like a GRC. This is an opportunity for the utilities, for SDG&E in this case, to go beyond the GRC budget and directly increase customer bills.

So, saying this is a penalty, again, no, this is the life of the regulated utility. They have the obligation, and as the -- and the PD appropriately highlights this, the utility has the obligation and responsibility to make its case that these costs are just and reasonable for you to make ratepayers pay more. It's not for parties like us. It's not for you to define. It's not for us to argue what they put in there. We're not -- it's for them to make that case, and the PD does get that language right. We do have a couple -- and I am going to criticize the PD in a couple of places, and I'll get to that just next, but I think that's a really important framing of why we are here.

So, the next thing I want to touch on about in the PD has to do with incrementality and reasonableness.

So, specifically, in the elements that, of course, the PD did not agree with arguments we were making about the -- SDG&E's labors cost, to have it be reasonable to -- for recovery, SDG&E really needed to provide documentation and to substantiate that those costs were not already embedded in the existing rates.

SDG&E did not provide analysis to establish whether its recorded labor activities were reflected in its revenue requirement, and this constitutes a failure by SDG&E to make -- meet its burden of proof on this matter.

Again, the burden of proof, I think, is well articulated in the PD just misapplied in this case.

So, when we were looking at this, SDG&E stated it was unable to identify any new specific employees or hiring dates outside of the wildfire and climate science division, which it can document only a few new hires. It was not able, in this case, to provide a record of timesheets. Employees record their time, apparently, on an allocation basis without any other documentation or substantiation that they are performing WMP-related activities. They didn't provide any documentation to show that any of those activities -- those employees working the wildfire mitigation were not already previously funded by the GRC.

So, how can SDG&E claim that all its labor is incremental when it can't identify whether the employees were already working on wildfire or wildfire mitigation from the GRC? And there is no contemporaneous time records for this to help us sort that out.

Again, we want above and beyond. We tried. We tried to take it in good faith. We -- we couldn't substantiate -- that -- that just fundamentally fails that burden of proof.

And -- and why is this really important? Why does -- why do Cal Advocates -- why do I keep harping on this here and in other cases? Well, without this review to make sure that the costs are reasonable and to add to increasingly burdening customer bills, this creates an unmitigated loophole for -- where the utility can simply reallocate personnel and materials to one of these memo accounts and instantly boost its profits one-for-one.

So, a hypothetical way you could do it, if the utility were to reallocate its work on some scheduled maintenance and spend that -- and spend those resources and personnel WMP work, they -- they were funded for it. The funding was there. It was already in rates, so should customers be charged for this maintenance work that is no longer being done? Should they be required to pay extra for the WMP work that was being done? So, that is the proper test of reasonableness that really, you know, goes beyond just incrementality. There are no meaningful guardrails, and we can have a very perverse outcome.

The last area I want to touch base on has to do with the unfortunate use of the word "de minimis" in terms of talking about costs that were authorized outside of the high fire threat districts.

So, as I highlighted at the start, these cases really require a high level of scrutiny because they are a release valve for utilities to go beyond the budgets established in the GRCs, so we're -- when we read the PD, we were really concerned about the language that disregarded the costs for work outside of the high fire threat districts as just de minimis, and then downplays the need for scrutiny there. There is nothing small or trifling these days in terms of rates. $68 million should not be considered small or trifling, and I recognize there's a percentage, sure, but it's -- it's really incumbent upon all of us, especially the Commission, to really scrutinize this closely.

We would like to see the PD revised to apply scrutiny to each one of those projects included in SDG&E's request and determine if it really is justified and under the framework of incrementality and reasonableness should it be added to ratepayer bills. The relative percentage of the amount of the work done should not be the basis for that decision.

And just a quick example, as we -- as we did our review of the work that SDG&E submitted that it did outside to have Tier 2 and Tier 3 high fire threat areas, of the 17 that included work within the grid design system hardening, 11 of those costs -- included costs of work that was performed outside of those threat districts; and 4 of those 11, the percentage of work performed outside was between 20 and 40 percent. That's starting to be a pretty large fraction, again. And we are concerned that that could have led to prioritizing work outside the -- the highest risk areas. Of course, it would reduce risk but they -- the consequence of this is not de minimis.

I thank you for your time this afternoon and look forward to the discussion.

ALJ LARSEN: All right. Thank you. Next up is TURN.

Mr. Finkelstein?

ARGUMENT BY MR. FINKELSTEIN

Thank you, Judge Larsen. Commissioners, I am Robert Finkelstein appearing on behalf of TURN.

Let me start by saying it's hard to overstate how inadequate San Diego's cost-effectiveness, cost reasonableness showing was in this proceeding. The record actually supports a far greater disallowance than what the PD would have you adopt. The -- this -- you need to reject across the board San Diego's calls for shifts in its favor in the proposed decision.

Based on the record, there's nothing that would support their -- their claims about the drone program, you know, the -- the need to give them more money for that now. Certainly, there's nothing that would support awarding them memorandum account interest. That's -- it ought to be a disallowance specifically tied to how poor their showing was in this proceeding.

What you should do is look again at the strategic undergrounding spending and realize that there's been repeated references to the lack of support for that in all the reviews of it during the timeframe in question. During this period of what San Diego knew or should have known at the time it was making decisions.

If you look at the full record on that, we are confident that you would agree that a disallowance of some portion of the costs of that program is also warranted here.

I am going to overlap a little bit with my colleague from Cal Advocates. There is a certain amount of discussion of the framework for reasonable reviews generally and what applies specifically to the review of wildfire mitigation plan spending.

A memorandum account gives San Diego an opportunity to recover costs that it wouldn't otherwise cost -- I'm sorry -- recover costs that it wouldn't otherwise recover. It is an opportunity for the utility to get more, and it comes with a clear responsibility to the utility. It has to demonstrate that the costs that it's going to recover through that memorandum account are reasonable. That has got to be the balance that the Commission recognizes and enforces here.

If ratepayers are going to be made to pay these extraordinary costs, at the very least ratepayers are entitled to assurance that we're only paying for the reasonable costs that were recorded.

What we have here is a failure of a magnitude that still boggles my mind. I mean, I have got a number of years of dealing with these matters in Commission proceedings and San Diego's insistence that it only needed to show the wildfire mitigation plans, and it only needed to show cost information at just the highest level, still, I am not sure what to do with.

TURN had taken the step of calling for unusual relief of kick this out and tell them to start all over again. Tell them to do it better. I understand that's a -- a hard recommendation to get a lot of traction with. Nobody wants to go through these proceedings once. The notion of going through it twice is less than appealing, shall I say, yet it seemed the only way to really remedy the deficiencies of the utility's showing, otherwise the right answer, according to regulatory law and regulatory practices, is they ought to recover nothing or very close to it.

The lack of showing of cost reasonableness, cost-effectiveness, it -- it was really that deep throughout their -- their showing.

It is -- San Diego's representative was correct. It is the prudent manager standard that gets applied here, and the prudent manager standard is based on what San Diego knew or should have known at the time that it was making decisions but it has to demonstrate reasonableness not just of, "We had to do everything we could to respond to wildfire risk." It has to be there are tradeoffs in terms of the cost that we can incur and the improvements that we could achieve and we fully consider those tradeoffs, and we fully reflected them in our decision making and that showing just wasn't made here.

So, the proposed decision takes the right approach of saying if you don't make a showing of cost reasonableness, you don't get recovery and applies it to a couple of San Diego's initiatives here. That happened with covered conductor. It happens with the drone inspections that you've heard so much about, but it -- it fails to do it with other large initiatives. Again, the strategic undergrounding program. It -- it -- if anything happens in terms of modifying the PD, it really ought to be a close look at that program and a substantial disallowance tied to that.

Specifically to the review of wildfire mitigation spending, you also need to stick with your longstanding recognition that what happens in terms of presentation and review of the wildfire mitigation plan is separate from your review and determination of cost reasonableness.

That is what you've said since the very first decision in 2019 when wildfire mitigation plans became a thing, and you said it as recently as the Track 1 decision in San Diego's general rate case decision.

The vast majority of San Diego's showing here was to just attach its wildfire mitigation plans to its testimony and say the cost information is in there. In each one of those wildfire mitigation plans, the cost information about these initiatives appears in -- I mean, each of these plans is hundreds of pages long. In each one of them, the cost information is a single table buried at the back of the document. And for each initiative, it is a single line of information in that table. So, $240 million of direct costs for strategic undergrounding; one line, one table. $136 million for covered conductor. Again, one line, one table. The $137 million for drone inspections -- and we will get back to this in a second -- it's one and one table without any distinction that there are costs beyond inspections that are being covered. That never comes up.

Simply put, the wildfire mitigation plant materials don't have the kind of information that is needed for a demonstration of cost reasonableness, yet that is what San Diego relied upon to make its showing here.

And it's important to recognize that it's not just TURN saying this. It's also the entities that reviewed the wildfire mitigation plans. It -- it's -- the review for the 2020, 2021 and 2022 WMP materials that San Diego submitted that was performed by first SPD and then for the last one, Energy Safety.

So, in the 2020 WSD review, they said that San Diego's WMP was not providing the information needed:

> In order to evaluate whether San Diego Gas & Electric is pursuing those very costs and mitigations in the most cost-effective manner.

That was specific to the discussion of overhead distribution work and undergrounding.

For the 2021 WMP:

> SDG&E does not demonstrate that its undergrounding and covered conductor mitigation efforts are focused on efficiently reducing

wildfire risk and PSPS events. It also does not demonstrate that its undergrounding plans are an efficient use of resources.

If you're getting feedback like that on your WMP as submitted to the entities that aren't even charged with reviewing cost reasonableness, it should have been a signal to San Diego that it needed more in order to demonstrate cost reasonableness here, and San Diego chose to go otherwise. San Diego chose to rely -- stand pat on its WMPs; and as a result, they just didn't show cost reasonableness.]

Let me turn briefly to San Diego's handout for this oral argument. It's certainly an attempt to make their evidentiary showing after the evidentiary record has closed. It's similar to the materials that they've had to produce, that they've also been using for their ex parte meetings at your offices.

Page 2 of the five-page document compares disallowances here with the amounts that were authorized in the GRC. What San Diego fails to mention is that in the GRC these particular categories that they selected were uncontested. In the GRC that addresses scores of contested matters, issues that are uncontested get far less scrutiny. They pretty much slide right through, and that's what happened here.

For purposes of this reasonableness review, the more relevant comparison would be an initiative where the costs were actually contested in both proceedings such as strategic undergrounding. You adopted a substantial disallowance to strategic undergrounding in the 2024 GRC and virtually no disallowance here, and that we think needs to be remedied in the proposed decision.

Page 3 of the handout, San Diego compares itself with being unfairly treated when you look at what's happened with PG&E and Edison. It's not at all clear to me why San Diego thinks this is a valid, illuminating comparison. I mean, it's just math. Given the relative sizes of the utilities, a dollar of disallowance to San Diego is going to be a higher percentage than a dollar of disallowance to either Edison or PG&E if you compare it based on a revenue-requirement basis. That doesn't show anything.

I think the far more likely explanation for this pattern that San Diego is tracking is that however deficient the showing was that Edison or PG&E made -- and it likely was deficient; there were disallowances that were adopted -- however deficient it was for those utilities, San Diego's is worse. That's actually what we're dealing with here. So it shouldn't be they are allowed to somehow bootstrap their showing by saying you gave the money to PG&E and Edison. It's a far different set of circumstances.

Finally, on drones: Let me start with a personal observation that I suspect is consistent with your shared experience. Whenever a utility decides it needs to try to bolster its position by resorting to material that's not in the record, it's a sign that the material that is in the record is not adequate, and that's what we have here.

If you look at the material -- well, San Diego's largely emphasizing this distinction that they say the proposed decision missed between the inspection cost tied to the drone program and the subsequent repair or replacement cost that it incurred because of problems identified through the drone program, and I agree there's a certain logic to that.

It is also completely missing from the record. They've not cited anything to the record for this distinction. They've not cited anything in the record for this cost figure they've come up with now that's supposed to be just the repair and replacement cost.

I spent some time going back through the materials on this. I found nothing that's a reference to the drone program being anything other than inspections. Nothing that suggested there were also cost of repairs and replacements here.

So whatever you think of San Diego's current logic, current explanation, you have to understand it's not supported by the record as San Diego created the record in support of its cost-recovery request.

One other point, San Diego's representative referred to a sophisticated rate model that's underlying its development of its Wildfire Mitigation Plan initiatives. The only such program that I've heard referred to is its WiNGS, and I'm not going to remember what the acronym stands for, but it is a program that only applies, if at all, around the very fringes of the spending that's at issue here.

It was implemented in 2022 to only a limited portion of the initiatives. And to those, it only would have applied to those -- to the work that was planned in 2022 and added to rate base, put in service before the end of 2022, and for covered conductor and strategic undergrounding, which was the limited area that they applied it to. It's highly unlikely that many, if any, programs got through those steps in the one-year period.

So it's true they've got some new analytical tools that they started to use in 2022. They didn't affect the spending. At least to the extent that they're referring to in WiNGS, it did not affect the spending in any substantial way that's at issue in this proceeding.

Thank you for your time.

ALJ LARSEN: Next is PCF Foundation.

ARGUMENT BY MS. WHITE

Good afternoon, Commissioners and ALJ Larsen.

Before I start, does President Alice Reynolds have my written document?

PRESIDENT REYNOLDS: No, I don't.

(Document brought to President Reynolds.)

MS. WHITE: SDG&E customers pay some of the highest rates in the nation. By approving 1.035 billion of SDG&E's spending, the PD will needlessly contribute to higher rates for San Diego's businesses and families unless it addresses SDG&E's failure to prove its costs in four major areas: Undergrounding; 2023 to 2027 costs; spending discrepancies; and the lack of support for prior SDG&E WMP spending found by the OEIS audit, which could result in over-recovery.

As a threshold issue, under Section 463(b), the Commission must disallow costs for which SDG&E, quote, "fails to prepare or maintain records sufficient to enable the Commission to completely evaluate," end quote, the reasonableness of the cost.

The PD does deny some of the costs for which SDG&E failed to establish reasonableness, for example, for fuel management costs, but for many other cost categories, the PD instructs SDG&E that it must do better next time, but then does not hold SDG&E accountable for failing to demonstrate the reasonableness of its costs. For example, the PD acknowledges that SDG&E failed to provide the risk analysis the Commission required for undergrounding, but the PD does not reduce any of SDG&E's costs or otherwise hold SDG&E accountable now.

In every place where the PD acknowledges that SDG&E failed to comply with Commission standards, the PD must be revised to also deny SDG&E costs.

Now, I will turn to the four major areas where SDG&E failed to prove its costs. First, the Commission should not authorize any of SDG&E's undergrounding costs because SDG&E failed to establish cost-effectiveness; the 241 million in undergrounding spending, which the PD approved, constitutes 23 percent of the total costs approved. SDG&E found that undergrounding only reduced 0.67 ignitions between 2019 and 2022. This amounts to 360 million per ignition avoided.

In contrast, patrol inspections of distribution equipment cost 500,000 per ignition avoided or were 700 times less costly per ignition reduction than undergrounding and just as effective at reducing ignitions.

SDG&E did not explain in testimony why it spent 241 million on undergrounding. SDG&E also did not evaluate whether other alternatives to undergrounding could have been more cost-effective, such as the combination of additional inspections and the installation of solar plus storage.

The PD compounds the failures to assess the cost-effectiveness of SDG&E's undergrounding by not considering any of the more effective alternatives that are in the record here.

PCF established in testimony that it would be cheaper to provide solar plus storage to every customer in the Tier 3 high-fire-threat district than the amount SDG&E spent on its major capital projects: Undergrounding, covered conductor, distribution overhead system hardening, and drone inspections.

The PD only acknowledges that solar plus storage may have increasing merit, but then it fails to consider solar plus storage as an alternative to undergrounding as it is required to do under United States Steel Corp versus PUC.

Second, the Commission should not authorize any requested 2023 to 2027 costs because the scoping memo did not include any consideration of those costs. Just last year in Golden State Water Company versus PUC, the California Supreme Court ruled that if a topic is not included in the scoping memo, it is out of scope.

Here, in Track 2, the scoping memo clearly states that the cost to be addressed in this proceeding only involves SDG&E's recorded amounts in its Wildfire Mitigation Plan Memorandum Account for the period of 2019 to 2022. Plus, pursuant to Golden State Water's mandate, the PD must be revised to reject the 576 million requested for 2023 to 2027 because those costs were out of scope and cannot lawfully be authorized given the scoping memo in this proceeding.

Third, the PD must be revised to address the numerous discrepancies between costs that SDG&E recorded in testimony in this proceeding and costs that SDG&E reported to OEIS.

PCF identified 19 different programs with spending discrepancies between the WMPs and testimony. These discrepancies are listed on pages two and three of the handout I provided. SDG&E has offered no specific rebuttal for these discrepancies.

The PD acknowledges that numerous spending discrepancies exist, but then would wave the problem away by stating that it grants more weight to the cost in the testimony than the WMP, but the PD does not resolve the fundamental problem that SDG&E provided different amounts for its purported costs to OEIS and to the Commission. The widespread, large variability between costs in the WMPs and in the testimony eliminates any confidence in SDG&E's recordkeeping and cost documentation.

The PD must be revised to analyze why SDG&E provided conflicting information to OEIS and to the Commission. The Commission should require SDG&E under oath to specify which amount is the correct number and why.

Hereto, pursuant to Section 463(b), the PD should be revised to disallow any cost for which SDG&E cannot explain the discrepancies in the spending it reported to two different government agencies for the same programs.

Fourth, the 240 million that the CPUC/OEIS Crowe audit identified as "underspent" should be returned to ratepayers. The PD fails to adequately address the audit's findings, which are on page one of the handout I provided. The PD holds back SDG&E avoided the concerns in the audit of underspending in the electric distribution capital and over-recover by overspending in unrelated cost categories in subsequent years.

The PD concludes that the 240 million in underspending in electric distribution capital does not matter because SDG&E overspent overall by 180 million for its safety, reliability and maintenance categories, but SDG&E fails to establish that it had the authority to reprioritize any of its funds, which were only intended to be authorized for specific programs in the 2019 GRC.

The PD cites SDG&E's reply briefs as evidence that SDG&E is allowed to reprioritize funds. D.11-05-018, which SDG&E relies on, originates from before any wildfire mitigation claims were first required in 2019 in SB 901.

In D.11-05-018, the Commission asserted that reprioritized costs must still be determined to be just and reasonable and warned that reprioritization can undermine the Commission's reasonableness review.

Here, SDG&E cannot prove that its diverted costs were just and reasonable because SDG&E in its testimony in supplemental exhibits never explained which funds were diverted where nor explains why its costs were diverted. Thus the PD must be revised to deny the 240 million in reprioritized funds.

Additionally, the audit found that SDG&E's WMP cost categorization did not align with the GRC adopted cost categories making it difficult to determine whether SDG&E's costs were incremental. The PD relies solely on SDG&E's supplemental evidence to conclude that SDG&E's costs were incremental, but the supplemental evidence is not sufficient to track the spending over time in programs.

The PD fails to ensure that SDG&E's admitted prior diversion of 2019 spending has not already paid for programs which are requested here in this GRC; therefore, the PD should be revised to track the diverted spending to ensure it does not result in double recovery here.

Finally, the PD should also be revised to reduce the amount of spending authorized for covered conductor. The PD reduces the amount of spending to SD- -- or to PG&E's unit costs up from 1.6 million per mile to PG&E's unit cost of 1.3 million per mile, but PG&E's unit costs were not reasonable either. The Joint IOU's covered conductor working group report found that PG&E's estimated unit cost was actually 826,000 per mile.

And the Commission's own website estimates covered conductor cost at 480,000 per mile; so, therefore, the PD should be revised to further deny and reduce covered conductor costs.

So in conclusion, the PD should be revised to deny each and every unjustified cost under Section 463(b). It should also deny undergrounding costs and evaluate whether solar plus storage comprises the better and more cost-effective alternative to SDG&E's expensive choice of spending. It should reject 2023 to 2027 costs as out of scope. It should reject any unexplained cost discrepancies.

And the PD should be revised to account for the 240 million authorized by the 2019 GRC for WMP programs which the audit concluded could not be tracked or accounted for in SDG&E's recordkeeping information.

Thank you.

ALJ LARSEN: All right. Thank you.

That concludes the opening statements.

We'll now move on to rebuttal. We're going back to the same order, starting with SDG&E. We had 10 minutes and five minutes. We did go over in the opening statement, but we'll try to stick to five minutes.

REBUTTAL ARGUMENT BY MR. GERAGHTY

Thank you. I'll be really brief as I'm going to have Laura Fulton address some of the detailed analysis of some of the records.

First of all, SDG&E's success between 2007 and 2019 is not part of this examination, and I think the establishment of the memo accounts clearly shows the rapid onset of the risk we're facing at this time; for example, the drones they talked about earlier were not in any previous timeframe, and the overwhelming amount of those costs were for repairs and fixes and are in the record.

The program itself is dire. Drone inspection, assessment and repair, we think the record is clear on that. Regarding labor, SDG&E hired approximately 40 people in the WMP programs. We think the PD and the record clearly reflects incrementality; our Ernst & Young report clearly demonstrates incrementality, and we believe the record demonstrates incrementality.

We did do everything -- we did not do everything we wanted to do in this timeframe. It was impossible. What I can assure you is regardless of what anybody would think about our risk model, it was the best on the planet.

I started at SDG&E; three days later I was in a meeting; we were actually detailed looking at segment by segment.

And it's not as easy as, "What's the most extreme circuit and are you addressing it today?" It's some things like, "Can you keep a community in power?"

So let's do that strategic undergrounding in that location so that the small town can have a hospital, police station, water, et cetera.

So it's not just as simple as that. We carefully considered that in this timeframe. So our tools today may be better. I think our decisions will be better going forward, but in this timeframe, we were still working with the best tool, but that tool has evolved over time.]

And I'd like to turn it over to Laura for the balance.

REBUTTAL ARGUMENT BY MS. FULTON

Thank you. My name is Laura Fulton representing SDG&E. I want to address -- TURN talks about how the Commission is -- that SDG&E cites the right standard of review in a proceeding like this, but as they started off their comments -- he emphasized like sort of a higher responsibility in some -- in a reasonableness review. And, again, that shows their constant effort throughout this case to apply a higher standard of review for a reasonableness review after the fact beyond the prudent mandatory standard. That -- and, again, also that cost-effectiveness should take priority over things like safety and expediency, which were key countervailing factors at this time that the Commission really needs to consider and I think properly does consider in its -- in its analysis of some of our programs.

And Mr. Finkelstein keeps citing to a failure to meet standards and that SDG&E should have done more to prove its case. And I will say there are thousands of pages of evidence in the record in this proceeding and -- but what Mr. Finkelstein advocates for is application of today's standard on cost-effectiveness, like CBRs and multiple -- multiple cost-alternative analyses as opposed to what was in effect at the time, which were the use of RSEs. And the fact of the matter is -- is that SDG&E's WMPs contain references to the RSEs of each and every applicable program that had an RSE at the time. And those were used by both -- by Energy Safety to asses both the effectiveness of the program at reducing miti -- reducing wildfires but also the overall cost-effectiveness. That was one part of their analysis as well.

And so to -- and I'll -- but on top of that, the record does contain alternatives analysis. On drones, in particular, I'll point you to Exhibit SDG&E-T2-ALJ-05 in which -- which is SDG&E's 2023 to 2025 WMP, which talks about the effectiveness of drones versus ground-based inspections and the disadvantages of that, and those are addressed in our comments as well. And so SDG&E was providing and did provide in this case significant analyses of the cost-effectiveness of each and every one of its programs.

And on the Crowe audit, in particular, I think -- you know, there was extensive discussion during the hearings in this case and during the briefing in this case about the Crowe audit and what it really looked at, which was a point in time in 2020 in which Crowe, who performed a performance audit, which is not like a financial audit -- there's a -- it does a performance audit of certain things to say that ultimately the Commission should, when SDG&E comes and asks for review -- or recovery of costs the Commission should hold them to the -- to a standard to prove incrementality, to prove reasonableness, to prove that there is no double-recovery.

And throughout this proceeding, that is exactly what SDG&E has done through a comprehensive exhibit, as requested by ALJ Larsen, to show at the initiative level the incrementality of each and every -- of each and every spend by WMP initiative and mapping that back to our au -- to our GRC-authorized and also by providing, at least through data requests, the entirety of our line item detail on these issues.

And so to that end, SDG&E embraced that challenge, and they have provided that and also through the Ernst & Young, which is also in the record of this case, which found that almost all of SDG&E's costs were reasonable and incremental, more important for that, for this purpose incremental and that SDG&E agreed that the extrapolated amount that was not incremental should be removed. So for that reason -- and so SDG&E removed that from its request.

And with that, thank you, your Honor. If there are any questions, we'll be happy to address them.

ALJ LARSEN: All right. Thank you.

All right back up is Cal Advocates.

REBUTTAL ARGUMENT BY MR. CAMPBELL

Thank you. I'll be even more brief. So in terms of the initial comments there and focusing on incremental, again, that misses the point of what I was trying to say. Just booking it into a memo account and saying, This is a thing we didn't do, that still isn't enough to force ratepayers to pay more. They need to show that that was reasonable for additional rate recovery. And those were the points that I was making before. So I feel like -- actually, appreciate it, but it didn't -- it didn't talk about reasonableness. I feel like they are helping me.

The other point I would just emphasize, what my colleagues were highlighting, which is just pointing to and making this case -- SDG&E keeps pointing to, you know, Hey, look at our WMP. We did stuff in the WMP. Give us the money. That's not what we're supposed to be doing in a reasonableness review. You are supposed to be doing a very clear review of what the activities were, how they may or may not have been different from what was already approved in the budget, you set in the general rate case. That's the incremental part and then is it reasonable for rate recovery. And they have to be able to document and demonstrate that, and I think the record is very clear here that -- and here is where the -- that -- highlighted here that that was inadequate and the disallowances are appropriate.

And it's -- it's not a -- I'll just -- I'm sorry. I can't -- I was going to be done now, but I can't resist it. I would just point out that at the same time that this legislation was being passed in that same legislation there was an opportunity for penalties that the legislature put forward because they were concerned about the consideration of double-recovery.

And that's in 451.3 that says that if a -- if the Commission were to find the utilities requesting costs already authorized up to three times that request, as prescribed in PU Code 451.3, was authorized in terms of being a penalty, if you were to find that those costs were -- if they're seeking double-recovery here. So I -- so that's what a penalty looks like, not disallowance.

ALJ LARSEN: All right. Thank you.

TURN.

REBUTTAL ARGUMENT BY MR. FINKELSTEIN

Thank you, your Honor. A couple of points. First, San Diego's claim that TURN's been trying to hold the utilities to a higher standard then is warranted. TURN long ago gave up on holding the utilities to a higher standard. It doesn't get you anywhere. We're -- we're trying to hold them to the standard -- the prudent manager standard as it has existed for a long time as the Commission's been describing it in decisions since, I think, 1989, at least 1992. This notion that it's a new thing for the utility to have to think about cost-effectiveness or cost minimalization, those are all things that have long departed the standard. And that's the standard that we're applying here.

San Diego is not some unsophisticated utility that in 2019 started spending on wildfire mitigation work and later came to the realization, Oh, we need to demonstrate reasonableness. They had to have known that from the very beginning, and they failed to make a showing that that part of their decision making was itself reasonable. It's just not in here. So this notion that, "We did everything right," "We've avoided wildfires," true, great. That's not a substitute for a cost reasonableness showing, and that's part of the prudent manager standard as it has existed for a long, long time.

San Diego's point that they calculated a risk spend efficiency number for all of its initiatives, as the Commission has recognized -- as we've addressed in brief, as the Commission has recognized, the calculation of an RSE value for a single initiative tells you nothing about the cost-effectiveness of that initiative. It's only when you start to compare things to each other. It's only when you take a potential for undergrounding and compare it to what the cost would be and what the risk reduction would be if you did covered conductor instead. That kind of comparison was enabled through calculating an RSE for each of them and comparing them. There's nothing in the record to show that San Diego did that. It just doesn't show up.

So calculation of an RSE, we don't dispute that. It's not a demonstration of cost-effectiveness that would satisfy their burden here. I don't quite understand how what PG&E's said in a 2023 to 2025 Wildfire Mitigation Plan document demonstrates what the utility knew or should have known or told anyone for the 2019 to 2022 period that we're dealing with here.

So the notion that PG&E has done better with its explanation on the drone program starting in 2023, you know, I don't have a basis for challenging that. It's just highly irrelevant to what's before the Commission in this proceeding.

Do not call the Ernst & Young review an audit. It was not an audit. We have it in pleadings. We have it in our comments. I'm not going to belabor it here. There is -- I will belabor one thing. The risk that if you call it an audit in the future someone is going to point to this kind of review -- this kind of analysis and say, See, that's an audit. And we're going to be stuck with it. So you need to be very, very careful about your nomenclature in this instance.

And on the question of incrementality, I would just urge you to remember that it is at least a two-step process. It's not just whether or not it's a new activity that wasn't contemplated in a general rate case decision. It's not doing more of that activity that then was contemplated in the GRC decision. It's also got to be that the utility was required to devote new incremental resources in order to get the additional activity done, and that part of it is cited correctly in the introductory portions of the proposed decision.

In our view, the proposed decision dropped the ball and needs to be clarified as it applies that standard to a couple of specific initiatives, but its incrementality is going to be with the Commission for a while longer. And you've got to get it right. So it's really important to remember that it is at least a two-step process. It's not just simply was it in the GRC? If not, it's therefore incremental. That's -- that's not right. Thank you.

ALJ LARSEN: All right. Thank you.

PCF.

REBUTTAL ARGUMENT BY MS. WHITE

SDG&E uses the threat of wildfires to argue for unjust and unreasonable costs. Everyone agrees wildfires should be prevented, but how cost efficiently SDG&E does so is an essential consideration. SDG&E is not entitled to cost recovery merely because it possesses an approved WMP. The Commission stated in D.19-05-036 that Senate Bill 901 is explicit that approval of wildfire mitigation plans does not constitute approval of the costs associated with the actions in the plan, rather cost recovery is a separate matter addressed in each utility -- each utility's general rate case.

Since its implementation in 2019, Section 8386.4 has required that the Commission only implement costs which it determines are just and reasonable. Therefore, the Commission is obligated to deny any unjust and unreasonable costs regardless of whether they were included in the WMP. The PD correctly denies most of SDG&E's drone inspection costs. The PD correctly found that SDG&E hastily implemented an expensive and untested technology without determining how to use the technology cost effectively. SDG&E did not establish that its drone costs were not redundant of other inspection programs.

The PD correctly found that much of SDG&E's drone inspection costs appear to be for processing of the data collected by drones. As TURN points out, SDG&E only asserts in its opening comments to this PD that the costs are for repairs but does not provide any source.

The PD correctly denies SDG&E's drone inspection costs because SDG&E's failure to provide any documentation or evidence to establish their drone costs are related to repairs, and its last-minute assertions in its opening comments do not constitute evidence.

The Commission also found that SDG&E's testimony and application was so deficient that it required SDG&E to file supplemental exhibits twice. SDG&E's first supplemental exhibit failed to show which funds were diverted to which programs and why. The Commission cannot evaluate the reasonableness of why SDG&E overspent and underspent because SDG&E never explained why, and therefore, the concerns of the audit were not satisfied.

The second set of supplemental exhibits filed six months after the close of evidentiary hearings failed to establish that SDG&E had addressed the concerns identified by the Commission in OEIS. Further, PCF's request to examine witnesses about that supplemental exhibit was denied. The PD fails to account for the numerous deficiencies in SDG&E's showing. The PD must be revised to hold SDG&E accountable for the deficiencies which the PD and OEIS found. There's no reason to rush the authorization of the 1.035 billion in spending before the Commission can ensure that each and every cost is just and reasonable. Thank you.

ALJ LARSEN: All right. Thank you.

We will now turn to questions from the Commissioners, and who would like to start?

Commissioner Houck? Okay. Go ahead.

COMMISSIONER HOUCK: Thank you, Judge Larsen. So first I want to address SDG&E, and then the other parties can also respond. But I do think, you know, it's almost like we're kind of talking past each other here as to what we're talking about. I don't think anyone's questioning that legitimate and safety costs should be recovered, but you know, this is a reasonableness review. And we are looking at costs that have gone over what was previously authorized or that are set out in the memorandum account. And I do think the parties have raised some real concerns that are reflected in the PD regarding how these costs are broken out. Just a flat dollar amount for each line item from the WMP really isn't sufficient for us to do our prudency review. And the burden is on SDG&E to show that these are reasonable costs.

And so, you know, in the comments to the proposed decision, SDG&E stated -- and I believe it was for the first time in the proceeding -- that its drone program cost increased because its inspection cost included remediation. And so there was no breakout of the remediation and repairs from the actual inspection cost. The information was provided without a citation or a calculation.

So I don't know where, if at all -- it doesn't appear to be information that's actually in the record, and I'm concerned that, you know -- this is just an example. I know in the Phase 1 -- and I understand it wasn't SDG&E. It was SoCal Gas -- we dealt with a similar issue with the Adelaide pipe -- gas pipe replacement.

And so in the comments to the PD -- again, not on the record but in comments on the PD, SDG&E stated that 66 point million -- $66.6 million in capital costs and 69.5 million in O&M are, quote, "entirely related to necessary repairs resulting from the inspections." So this amounts to roughly $136.1 million or 62 percent of the drone cost recovery requests.

So I guess one of my questions is why weren't these costs broken out in a way that, in the record, prior to getting to the decision that could be analyzed to demonstrate whether -- and for other parties to respond as to whether these were prudent costs or not?

And so I guess I'm just trying to understand how the application and the testimony were prepared that it didn't break out the costs so that we could do a proper analysis given the burden is on SDG&E here?

MR. GERAGHTY: I'm going to tag-team with Ms. Fulton on this one. To the extent any application we made didn't include a breakout to where those could be discovered without back-and-forth DRs or discovery on the record, I think that's a lesson to be learned, but I think throughout the course of the examination of this cost and thousands and thousands of pages of information that our drone programs did include repair costs associated with them. If the record does not speak to that, we think -- I should say if the application didn't, we think the record does speak to that. Right?

And I would say that if there's something that we've learned, obviously a significant line item -- an expense like that should not come in a single line item, but I've been in utility proceedings for a long time, and often discovery in this process is what leads to more details about the cost and that we're being questioned about those at this point is certainly a lesson learned for us to think about how we file that going forward.

For any further detail, Laura, do you want to add something?

MS. FULTON: Thank you. Just briefly, I think, in the description of the DIAR Program, I mean, it's in the name. Drone Inspection and Repair?

MR. GERAGHTY: Assessment.

MS. FULTON: Drone Assessment and -- Drone --

Whatever. Repair's in there. And the -- I think the point of that is, you know, throughout the description of the programs, which are in the record, extensively we're talking -- SDG&E discusses the repair work including the number of findings. You know, I think in -- in the record is that there were exponential number of findings from the DIAR Program over the -- over the -- over ground-based inspections and alternatives.

But in -- the way that SDG&E budgets, it has one budget code for this program that includes assessment and repairs. That is also how it was forecasted in SDG&E's 2024 rate case.]

And so, it's consistent with how it was provided, you know, in the -- throughout the WMP cycle but the Commission approved it with -- together, inspections and repairs not broken down in the -- in the GRC forecast.

So, I think Mr. Geraghty is right. It's a lesson learned perhaps that, you know, in future cases, but the -- it wasn't hidden from anyone, and it is clear in the record that this included repairs and this is just SDG&E's accounting practices reflecting the total cost of the program. That may be different from how PG&E or how -- how PG&E records their costs, but that doesn't make it unreasonable; and so, if the Commission wants -- wants to see that going forward, that's -- that's a reasonable thing to ask for to break those accounting practices down in the future, but again, this is how -- this was consistent with how our programs were authorized in 2019; and so, we -- we maintain those practices based on what we knew or should have known at the time.

COMMISSIONER HOUCK: So, I -- I guess, do you see a difference between, you know, the analysis you described in looking at a future forecast and looking at those costs versus an after-the-fact looking back reasonableness review where you know how you spent those dollars, why it would be reasonable for us to expect that there would have been a better breakdown of that when we're looking at whether the costs actually incurred were prudent as opposed to you providing a description of your program with what the estimated dollars are for a future-looking forecast?

MS. FULTON: I -- I think -- I think with -- again, with hindsight, it's great to have the benefit of that to understand what -- what we should have shown and, you know, some of this is available in the line item detail that -- that we provided in discovery for -- for every budget code -- every single cost for every budget code.

The question is these -- the way SDG&E tracked its accounting progress, so it's a question of from an accounting perspective. At the time, we did it according to how it was authorized track -- tracking alongside the rate case; and so, is it -- when you're looking at that, we -- we presented costs by budget code, which is -- and those budget codes are associated with WMP initiatives, and because of that, that -- I think the break -- further breaking down those costs is possible but the one, I -- I know Commission Houck, you referred to it as one line, but it is -- it is reflecting the total cost, and -- and the description of everything including in those costs. I think the question is, it's clear that it's an apples and oranges comparison when you look at the -- at the description of the program. And so, I -- that's why I think from -- it's a question of we -- SDG&E did this based on its practices at the time and accounting codes to make sure that it was aligned with its WMP initiatives.

I -- I think looking -- that's why, you know, all three utilities have slightly different practices on how they record -- record projects and -- and make their forecasts. This is how SDG&E did it at the time and this is also, again, how it is -- how it's reflected in the forecast.

More transparency is probably always a good thing, right, more -- more clarity, but it gets to a point also where there's probably a -- a -- an unreasonable burden on providing everybody single receipt, but it -- I mean, that -- that is true in this case, and parties had the opportunity to review every single cost, line item by line item and -- and assess those individually.

COMMISSIONER HOUCK: Yeah, but the burden, I -- I think, was still yours, and even getting to point of not having it broken down between O&M and capital expenses, I -- I think, was it --

MS. FULTON: It -- it was broken down by O&M and capital.

COMMISSIONER HOUCK: But regardless, I think the burden is on SDG&E, so it would have -- I am not going to belabor it, but I --

MS. FULTON: If I can have one point, I -- I just -- there have been a number of reasonableness reviews of incremental wildfire costs for all of the utilities at this point, and the Commission has recognized that -- that use of -- of -- it is not -- I don't -- I think that is a standard, honestly, that is -- that is beyond what has been applied in any other reasonableness review to date.

I mean, I -- I embrace the burden and SDG&E embraces the burden that we do have to prove, especially given this is a -- there's a large magnitude of costs at issue here, and we do not -- we take that very seriously; and in embracing that burden, I think we have met that consistent with any other standard that's been previously applied, and that includes using the incrementality analysis exactly the same that was cited to approve PG&E's costs by -- by retaining a firm to perform the same type of audit, the -- the exact same review that was done in PG&E's case that the Commission cited to in support of approving PG&E's incremental wildfire costs.

COMMISSIONER REYNOLDS: In listening to your answer, I just was -- was contemplating, I think, much the same, again, as Commissioner Houck was indicating in her question that I don't think the question here is simply about the accounting practices. It's about whether or not you've demonstrated the reasonableness of these specific costs that have been incurred and that you're seeking recovery for through this memorandum account; and I think, you know, I appreciate acknowledgement of lessons learned through this process.

As -- as a energy utility, you've been through this process many different times for many different memo accounts, and I appreciate that every litigation is a little bit different; nonetheless, I think when parties raise concerns about whether or not certain categories of costs are reasonable, and we don't get a complete demonstration of why those -- those costs are reasonable until comments on the PD is certainly -- certainly concerning.

I am happy to hear any response to that.

MS. FULTON: I appreciate your -- your position, Commissioner, I think that's reasonable. I -- I do think there's a -- a fair bit in the comments that is all within the record. I understand that the breakdown of the drone -- the specific breakdown of the inspection and repairs may not be entirely reflected and -- and maybe we could have done better on that front.

But at this point, there's no -- I think the burd -- the concern for SDG&E is that the burden on a reasonableness-like review -- and we have followed other proceedings that have -- that have occurred for the other utilities, I think this is a higher standard to provide this level of detail, exact figures.

I know SCE -- SCE in their review has a -- a much, like, larger, I think it was like a bulk acc -- a bulk account demonstration of incrementality that the

Commission found reasonable in many instances; and so, I think that it is -- it would be setting new precedent in a new -- in -- in this wildfire mitigation recovery proceeding to go a step further. And -- and that's what we have said that TURN has been asking from the beginning of this case is -- is -- we -- SDG&E accepts the high bar that exists for an after-the-fact reasonableness review, but the bar should not be placed higher than it has been in the past. It needs to remain consistent with Commission precedent, and -- and that is why we can -- we can go -- going forward, this is something that we could -- that we can demonstrate, but to the -- to that fact, drone inspections at the DIAR program, which is now slightly revised to be RIDI, is a -- was for -- was -- was forecast in the exact same fashion that it was reflected in this case. Inspections and repair costs, O&M and capital, the workpapers reflect all of that, and the Commission approved that in its entirety. Not only that -- and -- and I guess I will jump to this other point.

Not -- not only that is -- and cited to the strength of the drone program, it highlighted, it was a -- it was a feature of our GRC decision and specifically called out as a good thing about the rate case in that it would foster more use of drone inspections to reduce wildfire risk, and what's -- the problem here is -- aside from the accounting issues, that -- which is -- there -- there's -- there are, you know, ways that -- that we can all argue SDG&E could have better reflected the costs, but to go to zero and not only that, to say that the program should have been discontinued in 2020 runs afoul of the WMP approval.

The fact that SDG&E had targets -- compliance targets that it had to reach to attain these goal -- to -- to maintain compliance with its WMP, to implement its WPM, to keep and maintain its safety certification, and those thing are -- to say that the program should have been stopped is a different question entirely, and I think that's the more concerning issue here is that these programs -- most of the disallowances in this PD go to zero, which say not only did you not reflect the costs accurately, did you not -- did you not, you know -- did you spend a little bit -- did you spend more than you should have to achieve this goal? It is to say you shouldn't have done the work at all; and that just runs -- for drones in particular and for PSPS communications, which were all to achieve -- which were primarily to achieve Commission requirements and help our customers during these emergency conditions, is to say it -- it's -- it boggles the mind and just runs afoul of the entirety of the construct that was put in place through SB 901 and AB 1054, and that's the concern here.

COMMISSIONER HOUCK: Judge Larsen?

I just want to say that I don't think -- I -- I think by going to zero, it's not saying the work shouldn't have been done; it's saying that you needed to meet your burden and you needed to show how the money was spent so that we can make a reasonableness finding. Those are two different things; and so, I -- I just want to make that clear that that -- that was the concern here is that it wasn't shown how the money was spent and why it was reasonable.

It wasn't that we were saying the programs were unreasonable or that you shouldn't have done the work, so, I -- I just think it's important that we are in an affordability crisis. We need to be able to do the math and show the ratepayers why the -- the money is expensive. Safety is obviously a priority, but we need to be able to know how the money is being spent, and that in -- and be able to show the incrementality and the other things, so I just think it's important that we are really clear here. This isn't saying the work shouldn't have been done. It's saying that we needed to see a better accounting for you to be able to show why those specific costs for what that money -- for what the money was spent for were prudent.

And I -- I don't know if other parties want to respond to anything in this discussion briefly, Judge, if that's okay.

ALJ LARSEN: We have allowed that in previous oral arguments, but maybe we should go to finish the questions?

COMMISSIONER REYNOLDS: I would be interested in hearing any responses while we are on this topic.

ALJ LARSEN: Okay, go ahead. You could speak from the table down there.

MR. FINKELSTEIN: I am hoping that is not a concession to age, your Honor.

I don't have much to add from the comments that we've heard from the two commissioners that were asking the questions and -- and probing these issues.

I -- this isn't a lessons learned moment for San Diego. This is what San Diego had to have known going into these activities, knowing that it was going to have a memorandum account and knowing that it was going to have to establish the reasonableness of its spending on an after-the-fact basis.

None of this is new. None of is this a lesson that San Diego shouldn't have known but can take forward into Track 3 and beyond. It is the prudent manager standard in action as applied to wildfire mitigation costs, and that's how it was intended to be.

I just -- I think you put your finger on it that how can San Diego possibly have thought it was an adequate showing on its drone costs if it didn't bother to split out the repair and replacement costs that represent, it sounds like, something in the order of 60 percent of the recorded costs that it's trying to recover here.

To not even call that out and just have a single line item for the drone program is a troubling sign, and it's not just this program. I urge you to look at those tables in the wildfire mitigation plans. It is one line per initiative, and it's not informative at all.

These claims that you're holding them to a different standard for the utilities, I -- I don't know that that's true. It is true that you let Edison off the hook for an inadequate incrementality showing, in our view, but you did include in the decision, going forward, this is the right way to do incrementality, so we're -- we're trying to focus on that going forward part from that decision, and that's a decision that San Diego should have known about as it was putting together its showing here.

I will leave it at that for now.

Thank you.

MS. WHITE: If I could also add to your points, Bob.

So, I just want to emphasize that under Section 463(b), if SDG&E fails to prepare or maintain records sufficient to enable the Commission to completely evaluate the reasonableness of its costs, then those costs must be denied.

And so, the PD found, based on the available information, that SDG&E's drone inspection costs appear to be for processing of the data collected by drones, and it's only in opening comments on this PD that SDG&E is now claiming that the costs relate to repairs.

So, I think it's very clear SDG&E did not provide sufficient documentation or evidence to establish the reasonableness of its cross.

MS. FULTON: Can -- can I make two points? I will be very brief.

ALJ LARSEN: Okay.

MS. FULTON: The first is subject to check. The PD should at least be revised to reflect what Commissioner Houck is saying that we did not, because it -- it clearly says that the program should have been disc -- the drone program should have been discontinued in 2020.

And the second point is, I think Mr. Finkelstein perfectly illustrates how we are applying standards that SDG&E did not know at the time to its conduct by citing to an Edison decision that came out after we submitted the evidence in this case.

And so, the -- the goalpost moving after the fact, SDG&E can't show up to a football game and then be told we're playing rugby. It is -- it is not -- it is moving the -- the disc -- it is moving the standard in realtime; and so, to -- to hold us to that standard is a clear violation of what is long -- what has been longstanding Commission precedent that in a reasonableness review, we are looked at by what we knew or should have known at the time, which is 2019 to 2022 in this case. Before the Edison decision.

ALJ LARSEN: I think we should go to another question --

MS. FULTON: Okay.

ALJ LARSEN: Did the commissioner have another?

COMMISSIONER HOUCK: I think Mr. Campbell wanted to make a comment.

ALJ LARSEN: Okay.

MR. CAMPBELL: Yeah, I will just get my two cents in here, too. It's really hard to say anything more, too, than the commissioners have already but, obviously, spending a lot of time on this, it's something that is worth a lot of money to the utilities why they're -- they're hanging on it, but they -- they are very smart. They've got a lot of smart, competent people both on the wildfire side and the regulatory side.

They know what $126 million is worth. They know what a reasonableness review is. They can read the statute. They know what your obligation is in terms of reviewing it.

So, they have either chosen to not present that here in this case, or they inadequately tracked it, and the -- the poor team trying to put it together had nothing to give you.

Either way, that's not your problem. That's not your problem to solve, and it's -- and the showing there isn't sufficient.

Thank you.]

ALJ LARSEN: Okay. Is there any other questions?

Commissioner Houck, do you have another question?

COMMISSIONER HOUCK: Just one question for PCF.

In regards to your incrementality argument, what information would satisfy the incrementality standard you argue is lacking in the proposed decision,

And, then, is it your position that SDG&E has simply not provided sufficient evidence to determine whether the cost needs a more nuanced incrementality standard or that the evidence actually indicates the costs are not incremental?

MS. WHITE: Thank you, Commissioner Houck.

That's a good question. I think one issue PCF has is that when SDG&E overspends, it claims that its costs were incremental, but, then, when SDG&E underspends, it claims that it is not obligated to follow the cost categories and what it said it would do in the 2019 GRC and that it's allowed to reprioritize.

So what I think really needs to happen is the PD needs to be revised to take a closer look. It needs to ensure the discrepancies, which PCF identified, are -- it needs to ensure that the discrepancies are explained and that SDG&E is able to identify the correct number, and then it also needs to ensure that -- the PD needs to be revised to explain where exactly the underspent money from the 2019 electric distribution capital went because SDG&E never explains in its supplemental exhibit where -- where exactly the funds were diverted and why.

So I think to establish incrementality, we would first need to know where exactly all of SDG&E's approved costs in the 2019 GRC are being accounted for now.

Thank you.

ALJ LARSEN: Okay. Commissioner Houck, any more questions?

COMMISSIONER HOUCK: No.

ALJ LARSEN: Okay. Why don't we go down the line and see if there are any more questions.

PRESIDENT REYNOLDS: I wanted to ask a little bit more about data governance, along the same lines as the conversation we've been having with respect to drones.

And, Mr. Geraghty, do you want to address the evidence supporting data management, reasonableness of costs.

MR. GERAGHTY: I want to be really very clear because I first had said, "lesson learned," it applied to what actually went in the application.

I think it's really very clear that we think the record -- 5,000 pages, all the hours -- clearly identifies those costs associated with the drone program. One-hundred percent it's easy to point to a single line in an application, but that's not the case.

I think data governance is in a similar fashion. That if all we did was put a single line and that's what's in the application, it makes it very easy for intervenors in the case to say that "you just explained a very complex data governance deal in a single line," but I don't think that's what the record established. I think the record makes it really very clear all the intense requirements from OEIS in creating that data governance.

PRESIDENT REYNOLDS: And if the intervenors want to respond.

MR. FINKELSTEIN: Thank you, President Reynolds.

I'm trying to think of the right way to say this, but I think it's incumbent upon the Commission to apply a pretty strict trust-but-verify approach on these things that San Diego represents what's in the record and what's not. It is thousands of pages.

To my view, it is thousands of pages of largely a nothing burger for the issues that matter to this reasonableness review. And I have tried to verify some of the claims about what's in the record that we said is not in the record, and I've not been successful in tracking it down.

So I'd urge you to be very, very cautious about accepting, just based on representations now, that it's in the record, it's in enough detail, and it was there for intervenors.

Ask for verification of that because it's entirely possible that, you know, I've missed things, others have missed things. We all have lives that we try to get back to on occasion.

So trolling thousands of pages of documents to see if there's a further reference to a cost breakout that we missed the first time, yeah, we might have missed it again, but I'd urge you to make sure that these representations actually reflect what is in the record.

MR. GERAGHTY: On data governance, I think the evidence on whether the data -- data governance program is effective is the filings we have to make to OEIS, the numerous filings we made to the evidence that actually was performed is clear in the record. The evidence that it was not -- that it is incremental is clear because those requirements were not in the 2019 GRC.

So, again, I believe the record makes that very clear; however, it sounds like we could improve in our application process such that somebody doesn't miss that, and I appreciate the recognition that through

$5,000 pages of a record someone may have missed there was the absolute evidence that data governance was required post-2019. It was extreme, and SDG&E experienced costs related to it.

PRESIDENT REYNOLDS: Sure.

MR. FINKELSTEIN: Just very quickly, the answer is not to say, we need to do a better job of pointing to the details in our 5,000-page record.

The answer is we need to come up with a 100-page document that actually has highlighted specific information that we were supposed to present in the reasonableness review, rather than submitting 5,000 pages that might contain that information.

PRESIDENT REYNOLDS: Thank you.

ALJ LARSEN: Commissioner Douglas?

COMMISSIONER DOUGLAS: Thank you.

I just wanted to ask if you have any more detail to add on the community outreach side of the application and the app that was developed, and is there a detailed cost breakdown of the cost of the app versus the actual outreach that was done and the uses to which the app was put?

MR. GERAGHTY: I believe the record is really very clear that all the costs in that bucket did not go to an app. All right. The app was a minor percentage of that spend. So we believe in the course of the record, it was made really very clear what went to CRCs, which went to communications, which may have gone to CBOs and AFNs, and all those other things.

So it's clear the app itself, 117,000 users -- it's intention was really for customers, who we may not normally be able to communicate, and the drive of that came actually like a 1054 hearing. There are customers behind the meter who do not get a bill from SDG or a phone call from SDG; there are visitors in Air B&B.

These are the things that we talked about, but that app itself, 117,000 users. We know it's very effective. And its genesis was through discussions here and 1054, but I fear that it falls prey to the same discussion that you have a single line in the application explaining those dollars. Maybe in many cases our teams relied on those that are absolutely carefully and painfully explained in WMP applications. Maybe our teams made that error, but I think the record clearly details all of those things that make that bucket up.

ALJ LARSEN: Can you say or can anyone on your team say where it is in the record, how much you spent on the app?

MR. GERAGHTY: I would have then turn to

experts in the room to know precisely where it's at if we have that here.

MR. WOLDEMARIAM: In the exhibit there was line items that we were asked to give, through the ALJ exhibits that we provided, almost at the end of the Track 2 hearings, and we provided breakdowns of the various activities, line budget code.

And in there, there's the PSPS app and the ENS enhancements. So there's two items, but those are the costs that are associated, about $9.8 million for those two activities of which somewhere around five-million-plus is for the PSPS app.

ALJ LARSEN: Do you know the exhibit number?

MR. WOLDEMARIAM: 12. Exhibit 12, I believe.

ALJ LARSEN: ALJ Exhibit 12. Do you have the page number?

MS. FULTON: I think it's 09, your Honor. SDG&E T2-09, but subject to check. I'll confirm that right now.

COMMISSIONER HOUCK: Is that one dollar amount for the entire community engagement program or does it break out the actual cost for the app and all of the items for the community engagement?

MR. WOLDEMARIAM: It breaks down all the items for the community engagement, and then there's a line item there for the PSPS app and ENS enhancements, so there's two things on that one line item.

ALJ LARSEN: I'll just have to say that this is an example of a disconnect and as people are talking past each other. If somebody had to write this decision, there's no way I would know that from looking at your -- from your showing. It's impossible write a decision based on the way you have your testimony organized.

And in many cases, there's no reference to a workpaper, and that, that's not even a workpaper, that document you're talking about. That's something I asked -- we asked for after the fact and after your record was found to be deficient. So that's a good example of the problems we're looking at.

Commissioner Douglas, do you have any other questions?

COMMISSIONER DOUGLAS: No.

ALJ LARSEN: Commissioner John Reynolds?

COMMISSIONER REYNOLDS: No.

ALJ LARSEN: President Reynolds?

PRESIDENT REYNOLDS: No.

ALJ LARSEN: It's approximately 2:51. That concludes the questions, and we are ready to adjourn. So thank you everyone for attending the in-person oral argument. We're off the record.]

(At the hour of 2:51 p.m., this matter having been concluded, the Commission then adjourned.)

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