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

Application of Southern California Edison
Company (U 338-E) for Authorization to Recover
Costs Related to NextGen Enterprise Resource
Planning Program.

A.25-03-009

REPLY BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

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TABLE OF CONTENTS

Section	Page
I. INTRODUCTION.....	1
II. BACKGROUND.....	3
A. SCE’s Forecasts Meet the Appropriate Legal Standard	3
III. REASONABLENESS OF FORECAST COSTS AND BENEFITS FOR NEXTGEN ERP PROGRAM	5
A. SCE Has Met the Appropriate Standard to Demonstrate the Reasonableness of Forecast Costs	5
B. SCE’s Forecast Methodology Appropriately Does Not Rely Exclusively on Recorded Costs	6
C. SCE’s Capital Expenditure Forecasts	8
D. Operations & Maintenance Expense Forecasts.....	8
E. Benefits Achieved Through NextGen ERP Program.....	9
IV. REASONABLENESS OF SCE’S PROPOSED IMPLEMENTATION FOR NEXTGEN ERP PROGRAM.....	11
A. SBUA Fails to Support Delay of the NextGen ERP Program Business Transformation Scope.....	11
B. TURN’s Criticisms of the NextGen ERP Program Development and Costs Are Unfounded.....	13
C. TURN Fails to Demonstrate SCE’s Benefit Cost Ratio Is Unreasonable	15
D. SBUA’s Criticisms of SCE’s Approach to Risk Management Are Inaccurate.....	17
V. AUTHORIZATION OF NEXTGEN ERP PROGRAM RATEMAKING PROPOSALS.....	20
A. TURN’s and SBUA’s Criticisms of SCE’s Proposed Reasonableness Threshold “Soft Cap” Are Unfounded.....	20
B. SBUA’s Recommendation for a One-Way Balancing Account for NextGen ERP Program Business Transformation Costs Is Unreasonable	21

REPLY BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

TABLE OF CONTENTS (CONTINUED)

Section		Page
C.	SBUA’s and TURN’s Ratemaking Proposals Regarding Benefits Realization Are Inappropriate and Unreasonable	23
D.	If a Two-Way Balancing Account Is Not Authorized, in the Alternative, SCE Should Be Authorized to Track Costs over Authorized in a Memorandum Account	25
VI.	WHETHER SCE SHOULD BE REQUIRED TO REPORT INCURRED AND FORECASTED COSTS AND BENEFITS OF NEXTGEN ERP PROGRAM.....	25
VII.	CONCLUSION	26

REPLY BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

TABLE OF AUTHORITIES

Authority	Page
Case Law	
<i>BullsEye Telecom, Inc. v. Public Util. Com.</i> , (2021) 66 Cal.App.5th 301	24
<i>Pacific Telephone and Telegraph Co. v. Public Util. Com.</i> , (1965) 62 Cal.2d 634	24
<i>S. Cal. Edison Co. v. Public Util. Com.</i> , (2006) 140 Cal.App.4th 1085	23
<i>The Ponderosa Tel. Co. v. Public Util. Com.</i> , (2011) 197 Cal.App.4th 48	23
CPUC Decisions	
D.07-01-040	17
D.07-07-041	6
D.08-02-036	23
D.08-09-039	24
D.09-03-026	24
D.12-01-032	6
D.20-07-038	4
D.21-08-036	3
D.24-01-004	12
D.25-09-030	4, 6, 7, 21
D.60614	3
D.60615	3
D.64256	3
D.92-03-094	23
CPUC Rules of Practice and Procedure	
Rule 13.12	1
Rule 7.3	23

SUMMARY OF RECOMMENDATIONS

Pursuant to Rule 13.12 of the Commission's Rules of Practice and Procedure, Southern California Edison Company (SCE) respectfully recommends that the California Public Utilities Commission (Commission or CPUC):

Imminent Obsolescence of SCE's Core Enterprise Resource Planning (ERP) System

- Find reasonable that SCE's current Core ERP system faces imminent obsolescence and must be replaced now due to a lack of vendor support by 2027, creating cybersecurity and operational risks if replacement of this critical business system is delayed;

Business Transformation Scope

- Approve the full scope of the NextGen Program ERP scope now so that business processes can be redesigned to efficiently deliver significant business transformation operational benefits and customer cost savings;
- Find SCE's proposed implementation approach for the NextGen ERP Program reasonable;
- Find SCE's forecast implementation costs for the NextGen ERP Program just and reasonable;

Capital Expenditure Forecasts

- Find reasonable and approve SCE's recorded and forecasted capital expenditures of approximately \$1,083 million (2024-2029), which will fund activities necessary for implementing SAP S/4HANA and modernizing SCE's enterprise systems including System Integrator services, technology infrastructure and software, edge remediation, labor and professional services for Operations and Finance Integration, Technology Integration, Organizational Readiness, and Program Management Office, and other capital activities;

Operations & Maintenance Forecasts

- Find reasonable and approve SCE's forecasted O&M expenses of \$238 million (2025-2031) for the NextGen ERP Program, which will fund activities related to software licenses and subscriptions, one-time interim technical and operational support during the transition to business-as-usual, manual validation of legacy data for migration into the new ERP system, retirement of legacy applications, and other necessary support costs;

Benefits Achieved Through NextGen ERP Program

- Find SCE's forecast quantified benefits associated with the NextGen ERP Program just and reasonable;
 - Find reasonable that the program is projected to deliver \$2,245 million in quantified benefits through 2038, including operational efficiencies and cost savings;
- Find SCE's forecast qualitative benefits associated with the NextGen ERP Program just and reasonable;

Benefit Cost Ratio

- Find that SCE's Benefit Cost Ratios (BCRs) are reasonably calculated. SCE's BCRs are based on both costs and benefits *to customers*, discounted to present value (per standard practice) to provide a meaningful, apples-to-apples comparison for regulatory decision-making. Also, SCE's BCRs address the full useful life of the NextGen ERP Program (2025-2038);

Risk Management

- Find that SCE's risk management approach is reasonable. SCE did not rely in static fashion on what has gone before (which presumably would have resulted in a substantial, generalized contingency funding request). Instead, SCE incorporated the learnings and methods from previous similar projects, and as part

of continuous improvement SCE provided the project and the Commission with a new, more advanced, and more useful risk management approach and analysis;

Proposed Ratemaking

- Authorize SCE’s request to establish the NextGen ERP Program Balancing Account (ERPBA) to provide for the recovery of \$1,081 of revenue requirement for the Implementation period, effective upon a final Commission decision in this proceeding.
 - Authorize SCE’s request that the ERPBA revenue requirement be based on the forecast of operational costs through 2031, net of the “reimbursable” benefits that SCE proposes to return in the ERPBA through 2028;
 - Authorize SCE’s request that beginning in 2026, SCE will include the forecast ERPBA revenue requirement in distribution rates based on a forecast and to true-up the ERPBA revenue requirement for completed releases with assets placed in service for each remaining year until the remaining ongoing authorized revenue requirements are incorporated in SCE’s 2033 GRC;
 - Authorize SCE’s request to keep the incremental revenue requirement associated with the NextGen ERP Program implementation costs, the accompanying on-going capital costs, and cost savings for Reimbursable benefits, in one cost recovery mechanism, the ERPBA so as to avoid overlapping or intertwining costs and benefits associated with the NextGen ERP Program Post-Implementation phase that will be included in SCE’s 2029 GRC forecast period;
- Find reasonable and approve SCE’s request for a two-way balancing account, given the program’s substantial uncertainty, complexity, multi-year timeline, and evolving business requirements;

- In the alternative, authorize a memorandum account to record costs over authorized amounts;
- Authorize SCE’s proposed 125 percent reasonableness threshold for cost recovery, where the 125 percent reasonableness threshold in 2024 constant dollar equates to \$1,304 million in capital expenditures (\$1,043 million multiplied by 125 percent) and \$297 million in O&M expenses (\$238 million multiplied by 125 percent);
 - Authorize SCE’s request that the 125 percent reasonableness threshold be calculated on a cumulative basis over the 2024-2031 period;
- Authorize SCE’s request that if SCE’s cumulative recorded 2024-2031 capital expenditures and O&M expense exceed the cumulative Commission authorized capital and O&M amounts, and that the cumulative recorded amounts between 100 to 125 percent be recovered through Tier 2 advice letters and any recorded amounts above the 125 percent reasonableness threshold be subject to an after-the-fact reasonableness review in a future stand-alone Application or future GRC;
- Find reasonable SCE’s 2024 recorded capital expenditures for NextGen ERP Program Implementation activities since the Commission declined to adopt SCE’s request for the NextGen ERP SAP Memorandum Account (NGESMA) in its 2025 GRC;

Reporting

- Find reasonable that SCE’s Key Performance Indicator (KPI) tracking schedule aligns with deployment milestones, ensuring timely performance monitoring and transparency;
- Find reasonable SCE’s proposed mechanism to return realized savings to customers, reinforcing affordability and customer benefit objectives;
- Find unnecessary any further demonstration or reporting of incurred and forecast costs and benefits; and

- Find SCE's remaining forecasts and ratemaking proposals to be reasonable.

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I.

INTRODUCTION

Pursuant to Rule 13.12 of the California Public Utilities Commission’s (Commission’s) Rules of Practice and Procedure and the Scoping Memo and Ruling (Scoping Memo), Southern California Edison Company (SCE) respectfully submits this Reply Brief. This brief is timely filed pursuant to Administrative Law Judge (ALJ) Elaine C. Lau’s January 7, 2026 Email Ruling Granting Extension of the Submission of Opening and Reply Briefs.

SCE’s Reply Brief is intended to clarify the record, respond to other parties’ positions and reinforce the necessity of moving forward with replacement of SCE’s highly complex enterprise resource planning (ERP) system, which manages a vast amount of critical day-to-day information necessary for SCE’s business operations. Many sections of the Opening Briefs filed by other parties simply repeat points made in their Direct Testimony, and do not address SCE’s Rebuttal Testimony. Additionally, in some cases where parties did address SCE’s rebuttal showing in their Opening Briefs, SCE has already anticipated and responded to these arguments in its Opening Brief. Thus, although SCE disagrees with the arguments and accuracy of many portions of these parties’ Opening Briefs, for the sake of brevity, SCE will generally not repeat positions included in our Opening Brief. Instead, SCE’s Reply Brief mainly focuses on the new

or modified arguments and issues raised by the parties in their respective Opening Briefs. SCE's silence in this Reply Brief on any issue should not be interpreted in any way as acquiescence to the material presented in other parties' Opening Briefs.

For example, SCE's Opening Brief responded to each of Cal Advocates' recommendations made in Direct Testimony, relying heavily on SCE's Rebuttal Testimony. However, Cal Advocates essentially ignores SCE's Rebuttal Testimony in its Opening Brief, citing SCE's rebuttal only twice—to update SCE's forecast amounts and to note the date it was served.¹ Rather than responding to SCE's rebuttal, Cal Advocates simply reiterates the same Direct Testimony points SCE has already rebutted.² Thus, apart from reiterating a few of those rebuttal points in this Reply Brief, SCE stands on its testimony and Opening Brief with respect to Cal Advocates' recommendations. Similar to Cal Advocates, TURN almost completely ignores SCE's Rebuttal Testimony, citing it just twice in its Opening Brief. TURN's Opening Brief is largely identical to its Direct Testimony, though TURN does add a few new points/recommendations regarding obsolescence, ratemaking and benefits. SCE responds to these points in detail below. Finally, SBUA's Opening Brief contains some new points and recommendations regarding affordability, forecast costs and benefits, implementation, ratemaking, and reporting, to which SCE responds below.

To the extent parties fail to respond to SCE's rebuttal in their briefs, parties should be held to have conceded on those issues. For example, in its Opening Brief, Cal Advocates failed to address SCE's Rebuttal Testimony responding to Cal Advocates' proposed reductions to specific cost forecasts.³ Likewise, in its Opening Brief, TURN failed to address SCE's exhaustive Rebuttal Testimony demonstrating on multiple grounds the imminent obsolescence of SCE's current ERP system and the unsuitability of any extended support option.⁴ As another

¹ Cal Advocates' Opening Brief, pp. 2-3.

² Waiting until Reply Brief to potentially respond to SCE's Rebuttal Testimony leaves SCE no opportunity to reply to Cal Advocates' response.

³ Ex. SCE-02, Vol. 1, pp. 12-73.

⁴ Ex. SCE-02, Vol. 1, pp. 76-85.

example, SBUA failed to address SCE's Rebuttal Testimony invalidating SBUA's claims that certain NextGen forecasts are duplicative of other authorized amounts.⁵ For the sake of brevity, SCE does not recount all such instances; these are just a few examples.

SCE's Reply Brief follows the Common Briefing Outline. Due to inconsistencies in how parties allocated issues within the Common Briefing Outline, however, SCE's reply does not always correspond to where issues are raised in parties' Opening Briefs.

II.

BACKGROUND

A. SCE's Forecasts Meet the Appropriate Legal Standard

A utility seeking a rate increase has the ultimate burden of proving that its request is reasonable⁶ and, as Cal Advocates acknowledges, the burden of proof standard is "preponderance of evidence."⁷ However, while Cal Advocates identifies SCE's burden of production as the applicant to "come forward with evidence to support its claim," Cal Advocates fails to mention that it and other opposing parties have a "burden of going forward": "Commission decisions consistently hold the utilities to their ultimate burden to prove the reasonableness of the relief they seek and the costs they seek to recover. Yet when other parties propose a different result, they too have a 'burden of going forward' to produce evidence to support their position and raise a reasonable doubt as to the utility's request."⁸

As demonstrated throughout SCE's Opening Brief and Rebuttal Testimony, SCE has consistently met its burden of proof and in many instances other parties "merely failed to meet [their] burden of going forward."⁹ In addition, as the Commission affirmed in SCE's most

⁵ Ex. SCE-02, Vol. 1, pp. 104-106.

⁶ Re Southern Counties Gas Co., D.60614, 58 CPUC 27, 34 (1960); Re Southern California Gas Co., D.60615, 58 CPUC 57 (1960); Re Suburban Water Co., D.64256, 60 CPUC 183 (1962).

⁷ D.21-08-036, p. 9; Cal Advocates' Opening Brief, p. 5.

⁸ D.20-07-038, pp. 3-4 (rejecting TURN's repeated claims that the Commission failed to hold the applicant utilities to their burden of proof).

⁹ D.20-07-038, at p. 4.

recent GRC decision, “[a]s a general matter, with respect to individual uncontested issues in this proceeding, we find that SCE has made a *prima facie* just and reasonable showing, and adopt the proposal, unless otherwise stated.”¹⁰

In the same section in which Cal Advocates claims “SCE has not met its burden of proof with respect to the costs Cal Advocates disputes,” Cal Advocates states that:

SCE’s submission of several errata, as well as various supplemental testimonies, call into question the veracity of SCE’s representations in general, adversely impact Cal Advocates’ discovery process and evaluation of SCE’s requests, and create uncertainty about the accuracy of SCE’s data and forecasts. Therefore, the Commission should weigh such revisions against the credibility of the SCE witnesses charged with establishing the burden of proof on those requests or issues.¹¹

Cal Advocates does not demonstrate a reasonable basis to challenge the credibility of SCE’s witnesses or other adverse impacts. First, SCE did not submit “various supplemental testimonies”—SCE served no supplemental testimony at all.¹²

Second, the “several errata” SCE submitted do not raise credibility issues. SCE submitted more than 220 pages of Direct Testimony, more than 460 pages of Rebuttal Testimony and appendices, and over 500 pages of supporting workpapers.¹³ Within that extensive showing, there were some errata, as there are routinely in utility ratemaking cases for both utilities *and* intervenors. Over the course of this proceeding, our errata resulted in an approximately \$15

¹⁰ D.25-09-030, pp. 9-10.

¹¹ Cal Advocates’ Opening Brief, pp. 6-7.

¹² SCE did serve a single supplemental workpaper with information Cal Advocates acknowledged it already possessed. *See* Ex. CA-03, p. 19, footnote 61, in which Cal Advocates states, “SCE did not include the updated CSM table in the errata pdf version of its workpaper...However, Cal Advocates found the updated labor forecast in the excel files associated with the new errata filing.”

¹³ Ex. SCE-01, Vol. 1, Summary of Scope (80 pages); Ex. SCE-01, Vol. 2, Costs and Benefits (114 pages); Ex. SCE-01, Vol. 3, Benefit Cost Ratios (35 pages); Ex. SCE-02, Vol. 1, Rebuttal Testimony (141 pages); Ex. SCE-02, Vol. 2, Appendices, (329 pages); Ex. WPSCE01V01 (60 pages); Ex. WPSCE01V02 (337 pages); Ex. WPSCE01V03 (147 pages).

million *reduction* to our forecast costs¹⁴ and \$57 million *reduction* to our forecast benefits.¹⁵ Cal Advocates has not identified a single specific instance in which the record was prejudiced by SCE errata. Moreover, Cal Advocates voluntarily waived cross examination of SCE’s witnesses on the errata (as well as all other issues). To now suggest there are issues with the veracity of SCE’s representations strains credulity.

Therefore, there is no reasonable basis to “call into question the veracity of SCE’s representations in general.”

III.

REASONABLENESS OF FORECAST COSTS AND BENEFITS FOR NEXTGEN ERP PROGRAM

A. SCE Has Met the Appropriate Standard to Demonstrate the Reasonableness of Forecast Costs

In addition to submitting voluminous testimony and workpapers, SCE provided extensive documentation in response to data requests from Cal Advocates, including workpapers, detailed cost and benefit support, and materials related to Solution Planning.¹⁶ This documentation provided further support for SCE’s request for \$1.321 billion in capital and O&M expenditures.

Cal Advocates’ proposed reductions, approximately \$65.340 million in capital and \$90.167 million in O&M, fail to account for the full scope and documented needs of the Program.¹⁷ Cal Advocates’ proposed reductions are in some cases based on standards articulated by Cal Advocates that vary from Commission precedent. For example, Cal Advocates states the Commission “requires that a utility’s costs not only be prudent, but also verifiable before the

¹⁴ Ex. SCE-01, Vol. 2 and Vol. 2E2, pp. 1-2 (a reduction of approximately \$13 million in CapEx from \$1,097 million to \$1,083 million and a reduction of approximately \$1.7 million in O&M from \$239 million to \$238 million).

¹⁵ Ex. SCE-01, Vol. 1 and Vol. 1E2, p. 4.

¹⁶ SCE’s Opening Brief, p. 19.

¹⁷ Cal Advocates’ Opening Brief, p. 7.

utility can recover the costs.”¹⁸ However, the cited decision states that the “Commission *verifies the reasonableness* of the costs.”¹⁹ This is not the same as verifying the costs themselves. Cal Advocates appears to be conflating the actual requirement of reasonableness with a nonexistent requirement that every cost must be independently “verified” or “traced.”²⁰ SCE has provided adequate support for the costs and the reasonableness of those costs has been verified through our showing.

B. SCE’s Forecast Methodology Appropriately Does Not Rely Exclusively on Recorded Costs

Cal Advocates repeatedly cites the phrase “Generally, the Commission prefers actual results to forecasts” to justify using recorded values as the basis for forecast where such recorded values are not adequate to develop a given forecast.²¹ That phrase, however, is not an absolute rule for reasonable forecasting and is misapplied here. In describing general ratemaking, the Commission consistently states that forecasts are “based on the best information about expected future events and historical trends.”²² This approach is consistent with the Commission’s recent decision in SCE’s 2025 GRC, which did not always use recorded costs as the basis for approving SCE’s forecasts. For example, in approving SCE’s labor/non-labor forecasts for Technology Delivery,²³ the Commission acknowledged that “the use of last recorded year method does not consider the underlying driver of OU Capitalized Software projects forecast...”²⁴ Accordingly,

¹⁸ Cal Advocates’ Opening Brief, p. 11.

¹⁹ D.12-01-032, p. 151 (emphasis added): “to recover reasonable costs prudently incurred...after the Commission verifies the reasonableness of costs, recovery will be permitted.”

²⁰ In Cal Advocates’ Opening Brief, pp. 9, 13, 16, 21-23, 25, 26, 30, Cal Advocates repeatedly uses the terms “verifiable” or “traceable”.

²¹ Cal Advocates’ Opening Brief, pp. 12, 14, 16, 17.

²² D.07-07-041, p. 3.

²³ D.25-09-030, p. 590.

²⁴ Another example of the Commission’s recent decision in SCE’s 2025 GRC regarding the use of the best information about expected future events over recorded data was its approval of the unit cost for Targeted Undergrounding (TUG). In D.25-09-030, pp. 381-382, the Commission adopted SCE’s TUG unit cost, which account for forecasted construction difficulty and required scope of work for

Continued on the next page

the Commission found it reasonable to rely on forecast drivers other than recorded costs as the primary basis for estimating future costs for that GRC activity.

Cal Advocates supports this “actuals over forecasts” phrase by referencing Generally Accepted Accounting Principles (GAAP), “Core Principle 4: Principle of prudence that sta[t]es all reporting of financial data is to be factual, reasonable and not speculative.”²⁵ The cited GAAP language establishes how actual *financial reporting* must be done, not how utilities must construct forecasts for future expenditures. Cal Advocates’ reliance on this principle to justify broad substitution of recorded costs for forecasts is not supported by the referenced GAAP language.

Here, SCE has shown in its Rebuttal Testimony that the recorded labor data in 2024 through July 2025 do not reflect the significantly greater workforce required for the full scope and complexity of the NextGen ERP Implementation phase in future years.²⁶ The key question is therefore representativeness: whether the recorded period reflects the conditions expected during the forecast period. Cal Advocates does not engage with SCE’s rebuttal explanation of phased implementation and staffing requirements; instead, it repeats its preference for recorded values in its Opening Brief, without addressing why labor levels observed in an earlier phase of the program would reasonably reflect staffing needs during later, more complex implementation years.²⁷ Cal Advocates’ generalized “actuals over forecasts” phrase does not provide a sufficient basis for ignoring the substantial record evidence in favor of SCE’s forecast and therefore Cal Advocates’ recommendation should be rejected.

2023-2028. The Commission accepted this forward-looking methodology because recorded costs from recently completed projects reflected lower-difficulty conditions and were not representative of future TUG projects, which involve more challenging terrain and additional scope.

²⁵ Cal Advocates’ Opening Brief, p. 12, footnote 48.

²⁶ Ex. SCE-02, Vol. 1, pp. 49-72.

²⁷ Cal Advocates’ Opening Brief, pp. 11-20.

C. SCE's Capital Expenditure Forecasts

SCE's forecast of \$1,083 million in nominal capital expenditure encompasses a set of activities required to deploy the NextGen ERP Program to fully realize the operational and customer benefits. These activities include the system integrator (SI) to lead the design, build, and deployment of the new S/4HANA system, infrastructure-related costs to provide the foundational digital infrastructure for hosting, licensing, and supporting the new system, labor for the Integration teams to support system design, validation, integration of new technologies, implementation with operational processes, training, change management, and other costs related to travel and expenses.²⁸ Cal Advocates recommends \$1,018 million, a reduction of \$65.340 million from SCE's capital forecast.²⁹ SCE has responded to all specific forecast cost recommendations in our Rebuttal Testimony and Opening Brief; no party's Opening Brief presented any new points or recommendations.

D. Operations & Maintenance Expense Forecasts

SCE's forecast of \$238 million in constant O&M expense includes costs for Technology Infrastructure and Software, Capability Sustainment Model, Manual Activities in Support of Data Conversion and Migration, Decommissioning, and Other activities necessary for the program's implementation and ongoing operations. Specifically, these expenses will fund activities related to software licenses and subscriptions, one-time interim technical and operational support during the transition to business-as-usual, manual validation of legacy data for migration into the new ERP system, retirement of legacy applications, and other necessary support costs.³⁰ Cal Advocates recommends \$147.566 million, a reduction of \$90.167 million from SCE's O&M expense forecast.³¹ SCE has responded to all specific forecast cost

²⁸ SCE's Opening Brief, pp. 22-23.

²⁹ Cal Advocates' Opening Brief, p. 7.

³⁰ SCE's Opening Brief, p. 46. Ex. SCE-02, Vol. 1, pp. 7-8.

³¹ Cal Advocates' Opening Brief, p. 3.

recommendations in our Rebuttal Testimony and Opening Brief; no party's Opening Brief presented any new points or recommendations.

E. Benefits Achieved Through NextGen ERP Program

While Cal Advocates acknowledges that it did not evaluate the NextGen ERP Program's benefits,³² TURN and SBUA challenge the validity of those benefits.³³ In its Opening Brief, TURN does not raise new material regarding benefits but instead repeats its assertion that SCE's benefits calculations rely on speculative productivity gains,³⁴ which SCE has already addressed in its Rebuttal Testimony and Opening Brief.³⁵ SBUA, however, raises a new argument. SBUA states that it "inquired whether SCE had performed cost benefit analysis for differing Transformation scopes of work and SCE responded 'no additional cost benefit scenarios were conducted beyond the obsolescence and transformation scopes discussed throughout the testimony.' Consequently, given SCE's application, the Commission lacks sufficient information to approve only part of the TS work."³⁶ SBUA's criticism fails to acknowledge the interconnected nature of business transformation scope benefits and the cost savings associated with economies of scale. As SCE explained in testimony, "The interconnected nature of the business processes and technology is crucial for realizing the full benefits of an ERP project... losing any material capability can undermine the structure of the benefits."³⁷ As SCE further explained, "Implementing all applications throughout one program in concerted fashion will let us leverage economies of scale in certain functional areas (e.g., project management, testing, integration, deployment, etc.)."³⁸ Given the interconnectedness of business transformation scope benefits and the economies of scale relating to business transformation costs, calculating

³² Cal Advocates' Opening Brief, p. 7.

³³ TURN's Opening Brief, pp. 3, 6, 8-13; SBUA's Opening Brief, pp. 7, 11, 12.

³⁴ TURN's Opening Brief, pp. 3, 6, 8-13.

³⁵ SCE's Opening Brief, p. 81-97; Ex. SCE-02, Vol. 1, pp. 93-100.

³⁶ SBUA's Opening Brief, p. 8.

³⁷ Ex. SCE-01, Vol. 1, pp. 35-80; Ex. SCE-01, Vol. 2, pp. 85-86.

³⁸ Ex. SCE-01, Vol.1, p. 13.

individual BCRs for selected adjustments to business transformation scope would be a highly complex process. It was not feasible for SCE to anticipate the partial transformation scopes for which to perform such an intensive analysis among the many scenarios, nor did SBUA at any point request a BCR for a specified business transformation scope. Thus, SBUA's criticism is unreasonable. SCE has demonstrated the business transformation value and provided the support necessary for Commission approval.³⁹

SBUA additionally claims "The future crediting of savings in 2037 and afterward does not undo the harm of unaffordable rates in the present. Customers, if asked, would not typically prefer savings several years in the future, particularly on top of current unaffordable rates."⁴⁰ As with any large program, it takes time to implement and realize benefits. However, some NextGen ERP Program savings reduce the revenue requirement much earlier than 2037, i.e., Reimbursable savings flow to customers during the 2025-2028 period where related activities have already been authorized in the 2025 GRC.⁴¹ Also, specific benefits begin ramping up in 2026 and all 85 benefits are 100% realized in 2032, not 2037.⁴² Customers are also currently experiencing cost savings due to the Commission's reduction of SCE's forecast perpetual license costs in the 2025 GRC due to anticipated NextGen ERP Program benefits.⁴³ SBUA's claim further ignores that customers benefit from cost reductions throughout the release schedules, many before 2032. Last, SCE includes a dedicated affordability chapter in its showing describing how NextGen ERP maintains customer cost impacts within reasonable parameters. The requested revenue requirement in this application spans eight years and is expected to increase the average residential bill by 0.8 percent when averaged over the eight-year span.⁴⁴

³⁹ Ex. SCE-01, Vol. 1, p. 4; Ex. SCE-01, Vol. 2, pp. 76-114; Ex. WPSCE01V02, pp. 101-332.

⁴⁰ SBUA's Opening Brief, p. 9.

⁴¹ SCE's Opening Brief, pp. 148-149.

⁴² Ex. SCE-02, Vol. 2, Appendix C, p. C90.

⁴³ SCE's Opening Brief, p. 7.

⁴⁴ Ex. SCE-01, Vol. 3, pp. 33-35.

IV.

REASONABLENESS OF SCE'S PROPOSED IMPLEMENTATION FOR NEXTGEN ERP PROGRAM

A. SBUA Fails to Support Delay of the NextGen ERP Program Business Transformation Scope

SBUA, citing affordability concerns, claims that “now is not the right time for SCE to further increase the rate burden” and on that basis “objects to SCE funding [business transformation] at this time and asks the Commission to carefully scrutinize SCE’s [obsolescence] request, denying any costs that are not well-supported.”⁴⁵ On these grounds, SBUA asserts that SCE should “apply for any applicable [business transformation] programs in its next GRC.”⁴⁶ However, it is not prudent to apply for the business transformation programs in the next GRC because the costs from delaying would be 30% higher.⁴⁷ Additionally, customers would receive 20% less cost savings if SCE delays the business transformation scope.⁴⁸ Thus, delaying business transformation does not reduce affordability risk; instead, it increases both near-term and long-term costs, to the detriment of customers.

SBUA claims that the fact that some companies will still be with legacy ERP systems beyond 2027 means that “SCE takes unnecessary risk by being an early adopter.”⁴⁹ SCE is not an “early adopter.” As explained in SCE’s Rebuttal Testimony and Opening Brief, SCE is

⁴⁵ SBUA’s Opening Brief, pp. 1-2. SBUA incorrectly states in its Opening Brief on p. 3 that “the [obsolescence scope] costs include \$1.149 billion in capital and \$437 million in O&M” and “the [business transformation] cost includes \$385 million of capital and \$102 million in O&M.” These values represent the Present Value Revenue Requirement (PVRR) of the Obsolescence and business transformation scope. (See Ex. WPSCE01V03E2, p. 29.) SCE’s forecast of the obsolescence scope costs includes \$839 million in capital and O&M. The business transformation scope includes \$482 million in capital O&M. (See Ex. SCE-01, Vol. 1E2, p. 4. The obsolescence cost of \$839 million is the difference between total cost (\$1,321 million) and business transformation (\$482 million)).

⁴⁶ SBUA’s Opening Brief, p. 10.

⁴⁷ SCE’s Opening Brief, p. 116, Ex. SCE-02, Vol. 2, Appendix A: PubAdv-SCE-009-STO Q6 Supplemental, pp. A84-A89.

⁴⁸ Ex. SCE-02, Vol. 1, pp. 92-93, Appendix D. PubAd-SCE-009-STO Q6 Supplemental.

⁴⁹ SBUA’s Opening Brief, p. 9.

prudently transitioning from its imminently obsolete legacy ERP system concurrently with most other similar size companies.⁵⁰ To delay implementation would create numerous risks and needless costs.⁵¹ SBUA claims that “a key benefit of delaying implementation is the potential for SCE to learn from the experiences of other business that transition for S/4HANA.”⁵² Again, it would be imprudent for SCE to delay the complex, multi-year implementation of the NextGen ERP Program and face the risks and costs associated with delay in the hopes of lessons learned, particularly given the lack of comparability across companies replacing their obsolete ERP systems.⁵³

In response to SCE’s testimony regarding the pre-Implementation work completed that would be wasted at the expense of customers if there is delay, SBUA simply asserts “it is not clear how much of that will go stale on account of delay.”⁵⁴ SCE has explained this in detail in its Rebuttal Testimony:

The Commission authorized SCE’s pre-Implementation phases (Solution Planning, SA1, and SA2) in its 2025 GRC Decision. SCE completed this work and recorded \$96.426 million in Capital and \$963,000 in O&M through 2024...If SCE were to change course to pursue the Private Edition option...SCE anticipates a significant portion of the work completed ...would need to be redone and essentially rendered moot, resulting in the need to write off some or all of the prudently spent customer funds.⁵⁵

⁵⁰ SCE’s Opening Brief, pp. 98-99; Ex. SCE-02, Vol. 1, pp. 76-77.

⁵¹ SCE’s Opening Brief, pp. 101, 103.

⁵² SBUA’s Opening Brief, p. 9.

⁵³ SCE’s Opening Brief, pp. 112-116; Ex. SCE-02, Vol. 1, pp. 79, 81, 86-89, 109-115. For the premise that SCE should apply for business transformation costs in its next GRC, SBUA cites an inapplicable building electrification decision in which the CPUC denied an application because the proposed electrification programs “(1) fail to avoid duplication and incorporate lessons learned relative to already authorized ratepayer-funded building electrification programs; (2) fail to estimate and incorporate the impacts of federal and state funding; and (3) are based on unreliable estimates of GHG emissions reductions and marginal GHG abatement costs.” This case is inapposite: as explained, it would be imprudent to delay implementation and face operational risks and increased costs in the hopes of leveraging lessons learned from companies with incomparable ERP needs, and the second two bases of the cited decision’s ruling are inapplicable on their face. D.24-01-004, p. 1.

⁵⁴ SBUA’s Opening Brief, p. 9.

⁵⁵ Ex. SCE-02, Vol. 1, p. 82.

In response to SCE’s testimony that it has already entered into reasonable and necessary agreements totaling \$679.4 million for multiple areas of the NextGen ERP Program, SBUA simply states that the “Commission has not reviewed and approved recovery of these costs” and “must not be backed into covering unapproved costs merely because the money has been spent already.”⁵⁶ SBUA’s remarks miss the point: there is no reasonable basis to disregard or waste these sunk and committed costs. SCE has explained at length in its showing why it would be imprudent and needlessly costly to halt business transformation. The costs SCE has spent and committed align with reasonable and prudent efforts to improve operational capabilities and generate cost savings for customers, which would be reduced if SCE were to delay business transformation progress. And SCE’s momentum aligns with the CPUC’s decision in SCE’s 2025 GRC to reduce costs in anticipation of NextGen ERP Program benefits.⁵⁷

B. TURN’s Criticisms of the NextGen ERP Program Development and Costs Are Unfounded

TURN claims that “SCE concedes that it does not have any data, analyses, evaluations, and/or benefit-cost calculations performed by or for SCE to assess whether SAP’s Private Edition would be a potential cost-effective alternative to SCE’s costly proposal.”⁵⁸ TURN further asserts that “in fact, SCE did not even consider the SAP Private Edition internally or hold discussions with SAP regarding the Private Edition. Clearly, it was not interested in exploring a potentially more cost-effective alternative.”⁵⁹ Contrary to TURN’s unfounded assertions, SCE considered cost impact to customers, which is a key reason SCE proposes to complete the full transformation scope now rather than later to avoid increases in costs and decreases in benefits.⁶⁰

⁵⁶ SBUA’s Opening Brief, pp. 9-10.

⁵⁷ SCE’s Opening Brief, pp. 6-8.

⁵⁸ TURN’s Opening Brief, p. 4 *citing* Ex. TURN-02, DR TURN-SCE-05, Question 1.

⁵⁹ TURN’s Opening Brief, p. 4.

⁶⁰ Ex. SCE-02, Vol. 1, pp. 90-93.

SCE has explained at length why SAP Private Edition is not a suitable alternative—see SCE’s Opening Brief and Rebuttal Testimony for this discussion.⁶¹

TURN further claims that “SCE also concedes that even though it subscribes to Forrester Research, which provides SCE with research, reports, and analyses to guide strategic ERP decisions, it did not use Forrester to identify alternative ERP vendors or AI-driven platforms. Clearly, it was not interested in exploring potentially more cost-effective alternatives – it was perhaps more interested in a profit-driven, more costly solution.”⁶² As explained in the very data request response TURN cites, however, any alternative solution to SAP would require significant redesign and restructure of SCE’s ERP systems,⁶³ *which would increase costs*.

In addition, TURN claims that “[in] its rebuttal, SCE argues that companies such as Walmart, Volkswagen, and IBM have transitioned to SAP S/4HANA.⁶⁴ Not only are these companies a poor comparison with SCE (for one thing, Walmart’s market cap is nearly 50 times SCE’s, and IBM is almost 15 times), SCE itself concedes that it is not able to identify a comparable utility pursuing the same scope of project being proposed here.”⁶⁵ TURN misconstrues and conflates the bases for these two comparisons. SCE clearly stated in the data request response TURN cites that due to variability in technology landscapes, operational environments, commodity scopes, and other factors, “benchmarking on the programmatic level is infeasible” and SCE “did not find any comparable company pursuing an equivalent scope.”⁶⁶ However, large companies with relatively complex operational needs cannot delay addressing imminent obsolescence of their core ERP system—in that sense, SCE is comparable to other large companies with relatively complex operational needs and whether some of the companies SCE cited have a larger market cap is irrelevant for purposes of that comparison.

⁶¹ SCE’s Opening Brief, pp. 100-109; Ex. SCE-02, Vol. 1, pp. 78-86.

⁶² TURN’s Opening Brief, pp. 4-5 *citing* Ex. TURN-02, DR TURN-SCE-04, Question 5d.

⁶³ SCE’s Opening Brief, p. 103, Ex. SCE-02, Vol. 1, p. 81.

⁶⁴ TURN’s Opening Brief, p. 5 *citing* Ex. SCE-02, Vol. 1, pp. 76-77.

⁶⁵ TURN’s Opening Brief, p. 5 *citing* Ex. DR TURN-02, DR TURN-SCE-04, Question 3.

⁶⁶ Ex. DR TURN-02, DR TURN-SCE-04, Question 3.

TURN asserts that “SCE admits that product selections generally followed an SAP-first strategy; it ‘did not conduct an independent competitive solicitation process for every product selection,’ and in its own option screening, cost was accorded a minimal 5% weight, and 60% of the evaluation criterion was focused on ‘Transformation’ and ‘Impact’” and that SCE’s “deliberate decision to assign only 5% weight to cost is a clear indication that shareholder profits, not affordability, were a higher priority for SCE.”⁶⁷ TURN misinterprets the 5% cost weighting and 60% transformation/impact weighting. These figures refer to deployment options — how the system would be implemented — not the scope of the transformation itself.⁶⁸ “Impact” refers to business impact and operational value. “Transformation” reflects how quickly and effectively benefits can be realized (e.g., a big-bang deployment delivers benefits sooner). Cost was not ignored — it was one of several weighted factors, and business benefit was also weighted at 10%.⁶⁹

C. TURN Fails to Demonstrate SCE’s Benefit Cost Ratio Is Unreasonable

TURN’s statement that SCE’s cost benefit analysis has three major issues is unfounded. First, TURN states that SCE approaches this analysis with an implicit “if cost was not a constraint” framework.⁷⁰ Contrary to TURN’s assertion, SCE incorporated affordability in its program design,⁷¹ and SCE’s showing demonstrates that funding our efforts is a valuable investment for our customers, who will benefit from cost savings. SCE’s request solves a critical

⁶⁷ TURN’s Opening Brief, pp. 6-7.

⁶⁸ Ex. SCE-02, Vol. 2, Appendix A: pp. A93-A94 has references to ATTACHMENT 07_TURN-SCE-002_Q2d_SCE NextGen ERP Roadmap details.pptx, where SCE provided an Evaluation Criteria to compare 4 deployment options.

⁶⁹ Ex. SCE-02, Vol. 2, Appendix A: pp. A93-A94, ATTACHMENT 07_TURN-SCE-002_Q2d_SCE NextGen ERP Roadmap details.pptx.

⁷⁰ TURN’s Opening Brief, pp. 8-9.

⁷¹ Ex. SCE-01, Vol. 3, pp. 33-35; SCE-02, Vol. 1, pp. 1, 10, 93.

obsolescence issue, expands our operational and business process capabilities at a lower cost,⁷² and achieves considerable savings in quantified benefits sooner for our customers.⁷³

Second, TURN claims that SCE excludes post-implementation costs required to realize promised benefits.⁷⁴ This is incorrect. For purposes of the BCR calculations, SCE includes all costs and benefits through 2038, which encompasses the full life-cycle costs. In other words, SCE does include what TURN refers to as “post-implementation costs” in its BCR analysis.⁷⁵ Appropriately, the ongoing costs (and Non-reimbursable benefits) associated with steady-state operations in the Post-Implementation Phase will be recovered (and credited) through forecast ratemaking in future GRC proceedings.⁷⁶

Third, TURN’s claim that SCE lacks any consideration of an obsolescence-only scenario for implementation costs⁷⁷ clearly shows TURN’s lack of engagement with SCE’s showing. As stated in its Rebuttal Testimony in response to this point, SCE provided 38 pages of workpapers providing a side-by-side comparison of obsolescence and full transformation costs and benefits on a nominal basis.⁷⁸

Last, TURN repeats its claim that “SCE’s benefit-cost analysis employs a truncated timeframe that conceals the program’s true cost-effectiveness. Its cost-benefit ratio is calculated only for 2025–2032, even though program post-implementation costs continue through 2038.”⁷⁹ As SCE has explained, SCE’s BCRs are appropriately calculated using present value of revenue requirement impacts driven by the full useful life of the NextGen ERP Program (2025–2038),

⁷² Ex. SCE-02, Vol. 1, pp. 86-87. “SCE quantified the risks and inefficiencies of deferring transformation in PubAdv-SCE-009, Question 6 (Supplemental) and in our second workshop held on August 19, 2025. The data shows that deferral of the Business Transformation scope would increase capital and O&M costs by approximately \$188 million (39%) and reduce benefits by \$243 million (16%), resulting in a lower benefit cost ratio (BCR) of 0.63x compared to 0.83x without deferral.

⁷³ Ex. SCE-01, Vol. 1, p. 5.

⁷⁴ TURN’s Opening Brief, pp. 8-9.

⁷⁵ Ex. SCE-02, Vol. 1, pp. 100-101; Ex. SCE-01, Vol. 3E2, p. 5, Table VII-1 shows PVRR for costs and benefits through 2038; Ex. WPSCE01V03E2, pp. 29-35.

⁷⁶ Ex. SCE-01, Vol. 3, p. 11.

⁷⁷ TURN’s Opening Brief, p. 9.

⁷⁸ Ex. SCE-02, Vol. 1, p. 3.

⁷⁹ TURN’s Opening Brief, p. 12.

not a truncated timeframe as suggested by TURN.⁸⁰ TURN has erroneously taken SCE's revenue requirement in the period of 2025-2032 and the nominal value of benefits as the basis to calculate its own incorrect BCR.⁸¹

D. SBUA's Criticisms of SCE's Approach to Risk Management Are Inaccurate

The majority of the arguments that SBUA's Opening Brief raises concerning risk management have been disposed of through SCE's detailed Rebuttal testimony⁸² and addressed in SCE's Opening Brief.⁸³ Below, SCE briefly replies to the six principal contentions that SBA makes.

First, SBUA repeats its criticism regarding the degree to which SCE took input from the experiences of other utilities and projects.⁸⁴ SCE fully addressed this point in Rebuttal testimony.⁸⁵ As summarized in SCE's Opening Brief:

We also involved our external consulting partners (Accenture, EY [Ernst & Young], Infosys) *on impacts for risk events in similar utilities* implementing S/4. All of the model inputs were directly run through different scenarios in a Monte Carlo simulation to determine the total losses of different combinations of outcomes.⁸⁶

SCE also showed that "one of the core foundations of SCE's NextGen ERP Program effort was hiring a seasoned System Implementor (SI) and independent Program Management Office

⁸⁰ In TURN's Opening Brief, p. 12. Ex. SCE-02, Vol. 1, pp. 100-101.

⁸¹ SCE's Opening Brief, pp. 123-124. SBUA also recommends an incorrect BCR by challenging SCE's use of a 10% discount rate (SBUA's Opening Brief, p. 9); however, the discount rate SCE applied is consistent with SCE's approach in comparable projects. See, e.g., D.07-01-040, Section III.A.2.a: For the Devers-Palo Verde #2 Project, SCE used a fixed charge rate model and discounting at an assumed 10.5% marginal cost of capital.

⁸² See Ex. SCE-02, Vol. 1, pp. 107-116.

⁸³ See SCE's Opening Brief, pp. 126-132.

⁸⁴ See SBUA's Opening Brief, p. 4.

⁸⁵ See Ex. SCE-02, Vol. 1, pp. 110-112.

⁸⁶ Ex. SCE-02, Vol. 1, p. 110 (emphasis added).

(PMO) vendor, *both of whom have supported numerous similar projects.*^{87, 88} SBUA's Opening Brief does not respond to any of this evidence.

Second, SBUA makes the supposition that "SCE faces a very high risk that the Application will cost much more than anticipated." SBUA provides no analysis here and ignores SCE's extensive Rebuttal Testimony on risk management. (In fact, SBUA does not even mention SCE's Rebuttal Testimony on this issue.) SCE's testimony and workpapers outlined its modernized and practical risk management approach, and it is that evidence that should be given weight rather than SBUA's conclusory statements.

Third, SBUA's Opening Brief suggests that SCE could not specifically point in writing to internal objections or concerns raised during the approximately 100 internal workshops that SCE conducted in developing the NextGen ERP project.⁸⁹ Setting aside SBUA's characterizations, the record reflects that concerns raised by participants during the 100-plus workshops were duly addressed as SCE developed and refined the user requirements and processes for the NextGen ERP Program applications to manage and mitigate the risks associated with implementation.⁹⁰ Also, SCE's data request responses in the record⁹¹ stated as follows:

The NextGen ERP Program underwent a robust governance process. This included multiple layers of review and formal approvals by senior leadership and governance committees. SCE obtained the necessary approvals through its established governance framework prior to proceeding with the program. For instance, all benefit workstreams were presented and reviewed in formal governance forums, such as the NextGen ERP Steering Committee and Executive Leadership Team meetings. Approval

⁸⁷ Ex. SCE-02, Vol. 1, p. 110 (emphasis added). This was also addressed in detail in SCE's Direct Testimony. *See* Ex. SCE-01, Vol. 2, pp. 5-11.

⁸⁸ In this part of its brief, SBUA also suggests that "SCE was unable to report an achieved benefit-to-cost ratio for its own prior SAP implementation or its SmartConnect (AMI 1.0) project." SBUA's Opening Brief, p. 4. Attempting to performing a retroactive benefit-cost analysis for projects that were undertaken many years ago would be an unproductive exercise and possibly lead to distorted results. Moreover, the original SmartConnect project is unrelated to the current Application.

⁸⁹ SBUA's Opening Brief, pp. 4-5.

⁹⁰ *See, e.g.*, Ex. SCE-02, Vol. 1, p. 112.

⁹¹ Ex. SBUA-SCE-001 Q4.

was only granted after thorough discussion and validation of benefit assumptions and methodologies.

Fourth, SBUA's Opening Brief quotes, out of context, certain language from a general objection by SCE to a number of SBUA's data requests and certain innocuous language from an SCE data request response regarding work performed by Hubbard Decision Research (Hubbard).⁹² SBUA fails to include or address the following language from the same data request response: "Specific analytical results are provided in workpapers for SCE-01, Vol. 3, pp. 108-120 showing loss exceedance curves, including results from mitigation. Key inputs of the analysis (e.g., risks) have been provided in SCE-02, Vol. 1, Rebuttal, page 114 with associated attachments in SCE-02, Vol. 2, Appendices, pp. B42-B49."⁹³

Fifth, SBUA's Opening Brief essentially attempts to testify as to the purported substantive merits of using reference class forecasting (RFC) rather than the methodologies that SCE selected and testified to.⁹⁴ SBUA improperly attempts to inject the RFC methodology into this matter for the first time in its legal briefing as SBUA's prepared testimony does not mention RFC. Thus, SCE was given no opportunity to test and respond to SBUA's factual assertions through data requests and rebuttal testimony. SBUA's tactic is procedurally improper and unfair, and SBUA's briefing on this point should be given no weight.

Sixth, SBUA's Opening Brief appears to essentially ignore SCE's Direct and Rebuttal Testimony by making generalized attacks such as "SCE argues that performing the TS [transformation scope] at the same time as OS [obsolescence scope] will reduce duplication, achieve economies of scale and enable synergies. SCE ignores risk created by added complexity, interoperability issues and potential labor constraints by undertaking such a large project."⁹⁵ In making such statements, SBUA does not address or confront the detailed testimony and workpapers that SCE submitted that outline an improved and updated risk

⁹² See SBUA's Opening Brief, p. 5.

⁹³ Ex. SBUA-02, p. 4. SBUA did not seek production of any Hubbard documents via motion or similar action.

⁹⁴ See SBUA's Opening Brief, pp. 5-7.

⁹⁵ SBUA's Opening Brief, p. 7.

management approach.⁹⁶ SCE was transparent about the attendant risks of undertaking this project and testified in detail how SCE would manage those risks. SBUA's generalized statements do not credibly impugn SCE's evidentiary showing.

V.

AUTHORIZATION OF NEXTGEN ERP PROGRAM RATEMAKING PROPOSALS

A. TURN's and SBUA's Criticisms of SCE's Proposed Reasonableness Threshold "Soft Cap" Are Unfounded

TURN claims that SCE's 25% reasonableness threshold is "unreasonable and adverse to the public interest" because "the Tier 2 advice letter process [is] itself insufficient" and "SCE would also not be required to demonstrate the reasonableness of the costs."⁹⁷ TURN further claims that "SCE does not state what the standard for recovery will be, but it appears that SCE is suggesting that recovery... is essentially guaranteed." TURN mischaracterizes the proposed advice letter process for the reasonableness threshold. Recovery up to 125% is not automatic or guaranteed. The reasonableness threshold Tier 2 advice letter process provides the Commission and stakeholders with notice and an opportunity to review and potentially challenge the recorded costs above authorized.⁹⁸ SCE provided extensive support for the "reasonableness threshold" in its Rebuttal Testimony,⁹⁹ which TURN fails to cite and completely ignores.

Although SBUA approves of a two-way balancing account for obsolescence costs, SBUA opposes SCE's proposed reasonableness threshold. SBUA cites but does not dispute SCE's statements that the NextGen ERP Program is subject to inherent uncertainty such as unforeseen

⁹⁶ SBUA also opines, "Beyond the direct project costs, delayed or impaired performance can impose broader costs and operational problems. Given this context, the most prudent approach is to avoid undertaking these projects at all unless SCE presents a compelling reason to do so." SBUA's Opening Brief, pp. 3-4 (emphasis removed). There is a compelling reason -- SCE faces imminent system obsolescence and escalating operational risk, as detailed throughout SCE's showing.

⁹⁷ TURN's Opening Brief, p. 14.

⁹⁸ Ex. SCE-02, Vol. 1, pp. 128-129.

⁹⁹ Ex. SCE-02, Vol. 1, pp. 1, 7, 118, 124-126.

technical or economic changes, such as the supply and cost of offshore resources and potential trade tariffs and such uncertainty. Despite acknowledging these stated risks, SBUA opposes the reasonableness threshold based on its assertion that “[t]his variability does not establish that cost overruns are unlikely to be associated with imprudence and all cost overruns should be subject to reasonableness review.”¹⁰⁰ SBUA establishes no basis for its claim of imprudence and merely stating the theoretical possibility of such in no way detracts from the extensive showing SCE has made in favor of this needed regulatory mechanism.¹⁰¹ Further, similar to TURN, SBUA ignores the fact that the Tier 2 advice letter process provides the Commission and stakeholders with notice and an opportunity to review and potentially challenge the recorded costs above authorized.¹⁰²

B. SBUA’s Recommendation for a One-Way Balancing Account for NextGen ERP Program Business Transformation Costs Is Unreasonable

SBUA asserts that “[i]n the event that the Commission approves [business transformation] activities, SBUA requests that costs be recorded to a one-way balancing account without pre-approved headroom as Cal Advocates recommends for the Application overall.”¹⁰³

¹⁰⁰ SBUA’s Opening Brief, pp. 10-11.

¹⁰¹ SCE’s Opening Brief, pp. 136-139; Ex. SCE-02, Vol. 1, pp. 124-128.

¹⁰² See SBUA’s Opening Brief, p. 11. SBUA’s citation to SCE’s 2025 GRC and the Commission’s decision to remove the 115% soft cap for vegetation management is irrelevant and actually supports SCE’s proposal for a soft cap in this proceeding. In removing the soft cap, the Commission stated “SCE has also reached a higher level of experience and sophistication regarding vegetation management as a wildfire mitigation” making the soft cap no longer necessary, whereas in this case, SCE is pursuing an inherently risky large capital IT ERP system replacement that it has not undertaken in 15 years. SBUA’s Opening Brief, p. 11; D.25-09-030, p. 354. SBUA makes a meaningless contrast between overspending in the wildfire mitigation context “where additional units may be performed” as opposed to here where overspending would “enable the program to function as initially designed” and “typically provides no benefits beyond the initial forecast.” The NextGen ERP Program is a project type that is known to be inherently risky and while SCE did not propose a general contingency--which is industry-standard--SCE was constrained to propose a reasonableness threshold in order to mitigate the risk; otherwise the program may not be implemented fully and potential operational benefits and cost savings to customers will be lost. The fact that this is not a unit-based program in the same way as vegetation management is irrelevant.

¹⁰³ SBUA’s Opening Brief, p. 11.

In response to SCE’s testimony regarding the Commission’s history of approving two-way balancing accounts for SCE’s Grid Safety and Resiliency Program and vegetation management and wildfire risk mitigation programs, SBUA asserts that “these activities were approved as necessary for safety and regulatory compliance such that it was appropriate that they be completed, nearly regardless of cost. The [business transformation] activities are not essential at this time.”¹⁰⁴ Oddly, SBUA ignores the fact that the business transformation scope will allow SCE to perform the very same type of wildfire and compliance work SBUA references and at a lower cost, as discussed in detail in the workshop SCE held on August 19, 2025.¹⁰⁵ In any case, the distinction SBUA draws is irrelevant—as SCE thoroughly explains in both our testimony and Opening Brief, the key requirement for a two-way balancing account is “significant uncertainty”, which SCE has thoroughly demonstrated.¹⁰⁶

SBUA claims that “there is nothing unfair” “for customers to receive all the upside benefits while holding shareholders responsible for cost overruns.”¹⁰⁷ SBUA cites no legal support for this bald assertion and merely claims that “[i]t is in fact the norm under the ‘fair and reasonable’ rate regime.”¹⁰⁸ This is simply not the case, and SBUA ignores SCE’s extensive showing in favor of a two-way balancing account and reasonableness threshold in its testimony and Opening Brief.¹⁰⁹

¹⁰⁴ SBUA’s Opening Brief, p. 11.

¹⁰⁵ Ex. SCE-02, Vol. 2, Appendix C, pp. C81-C87 discussing business transformation and SCE’s wildfire covered conductor program (WCCP).

¹⁰⁶ SCE’s Opening Brief, pp. 135-136; Ex. SCE-02, Vol. 1, 119-121.

¹⁰⁷ SBUA’s Opening Brief, p. 11.

¹⁰⁸ SBUA’s Opening Brief, p. 11.

¹⁰⁹ SCE’s Opening Brief, pp. 9-12, 132-140; Ex. SCE-02, Vol. 1, pp. 118-129.

C. SBUA’s and TURN’s Ratemaking Proposals Regarding Benefits Realization Are Inappropriate and Unreasonable

SBUA claims that “shareholders should be required to forego a significant portion of their capital rate of return if the program¹¹⁰ does not have a positive BCR.”¹¹¹ SBUA cites no support for this proposal, which is unprecedented, inconsistent with the regulatory compact and akin to retroactive ratemaking. SCE is aware of no CPUC decision—and SBUA cites none—in which shareholders’ authorized capital rate of return was reduced based on a utility achieving fewer benefits than forecast. Further, modifying the authorized rate of return is beyond the scope of this proceeding;¹¹² the record is insufficient and it would be a due process violation to grant SBUA’s proposal given the lack of notice in the Scoping Memo.¹¹³ Finally, SBUA’s proposal that *after* the program and its costs are approved and *after* SCE has raised the capital, spent the capital, and created a used and useful asset, the Commission should use hindsight-based review—based on whether years later the benefits reasonably forecast today based on the known information today actually ended up materializing—to require SCE to forego rate of return on unrecovered rate base or return already collected rate of return is akin to retroactive ratemaking and not appropriate on that basis alone.¹¹⁴

¹¹⁰ Although the business transformation scope is not a “program” in and of itself, SBUA must here be referring to only the business transformation scope in terms of its BCR proposal consistent with SCE’s BCR for the total program.

¹¹¹ SBUA Opening Brief, p. 12.

¹¹² Assigned Commissioner’s Scoping Memo and Ruling, p. 2.

¹¹³ *S. Cal. Edison Co. v. Public Util. Com.*, (2006) 140 Cal.App.4th 1085 at 1091 (“the PUC committed a prejudicial abuse of discretion by violating its own procedural rules concerning the scope of issues addressed in the ... proceeding”); *see also* CPUC Rule 7.3, Scoping Memos.

¹¹⁴ *See, e.g.*, D.92-03-094, p. 6 (“It is a well established tenet of the Commission that ratemaking is done on a prospective basis... This practice is consistent with the rule against retroactive ratemaking.”); D.08-02-036 at 44 (same). *See, e.g., The Ponderosa Tel. Co. v. Public Util. Com.*, (2011) 197 Cal.App.4th 48, 63-64 (rejecting “roll back of general rates already approved by the Commission” as “precisely the type of action prohibited by the retroactive ratemaking doctrine.”); *Pacific Telephone and Telegraph Co. v. Public Util. Com.*, (1965) 62 Cal.2d 634, 650 (noting that “plain and unambiguous language” requires Commission rate determinations to be prospective.); *see also BullsEye Telecom, Inc. v. Public Util. Com.*, (2021) 66 Cal.App.5th 301, 332 n.32 (describing retroactive ratemaking as “improper adjustments to rates established in prior proceedings”). *See,*

Continued on the next page

If the Commission does not deny SCE's Application, TURN proposes that SCE be required to file an application to recover any costs recorded in the NextGen ERPBA and that:

[T]he Commission should condition the recovery of any costs in excess of the authorized amount upon successful demonstration by SCE that ratepayers received the forecasted benefits. Any benefits that were forecasted but not realized should be accounted for in the application for recovery of costs in excess of the authorized amount. The Commission can then determine in that application how the recorded costs in the balancing account should be adjusted by the benefits shortfall – whether it should be dollar for dollar, or by some other factor as determined to be reasonable by the Commission. This will likely have two effects that are in the public interest: 1) SCE will likely be more diligent about keeping the cost of the project under the authorized level, 2) SCE will be incentivized to ensure that ratepayers receive the benefits that were promised.¹¹⁵

TURN's proposal, which it fails to support with any cited precedent, is inappropriate. SCE's estimated benefits, while based on robust due diligence, are a forecast not a guarantee, and TURN's mischaracterization of them as "benefits that were promised" is misleading. Consistent with standard forecast ratemaking principles, SCE provided its best reasonable estimate of benefits. SCE explained how it would demonstrate benefits realization and has committed to subsequently presenting them in the GRC, but at no point "promised" them. Further, it is misguided to suggest that "SCE will likely be more diligent about keeping the cost of the project under the authorized level" if TURN's proposal is adopted. SCE has demonstrated repeatedly that due to inherent uncertainty with large IT capital projects, costs are frequently under-forecast. In considering SCE's costs forecasts exclude any contingency, TURN's proposal is thus unfair and unreasonable.

also, D.09-03-026, p. 138 (rejecting TURN request to penalize PG&E if it failed to achieve the forecasted demand response benefits from its AMI and Smart Meter Upgrade applications); D.08-09-039, p. 53, ("it is not reasonable to penalize SCE for failing to meet the forecasts made in the [AMI] business case").

¹¹⁵ TURN's Opening Brief, p. 16.

D. If a Two-Way Balancing Account Is Not Authorized, in the Alternative, SCE Should Be Authorized to Track Costs over Authorized in a Memorandum Account

In light of the significant uncertainty and complexity associated with the NextGen ERP Program—typical with large capital IT projects—SCE’s requests for a two-way balancing account and a “reasonableness threshold” are well-justified and consistent with CPUC precedent.¹¹⁶ A contingency factor of 20 percent to 30 percent is standard in the IT industry for large complex projects such as the NextGen ERP Program and given SCE has excluded such a factor from its forecasts consistent with prior Commission decisions, the proposed two-way balancing account and reasonableness threshold are necessary and well-supported.¹¹⁷

A one-way balancing account may result in SCE having to reduce the scope of the NextGen ERP Program to stay within authorized amounts, which would in turn diminish the capabilities and associated benefits for customers. Otherwise, it would place unreasonable and incongruent risk on SCE shareholders and would be inconsistent with recognized ratemaking principles.¹¹⁸ In the alternative, given these considerations the Commission should at minimum approve a memorandum account to record costs above authorized to address uncertainty while enabling the program to proceed; such costs would be subject to a full reasonableness review prior to any recovery in rates.

VI.

WHETHER SCE SHOULD BE REQUIRED TO REPORT INCURRED AND FORECASTED COSTS AND BENEFITS OF NEXTGEN ERP PROGRAM

Cal Advocates acknowledges in its Opening Brief that it has no comment on SCE’s tracking of future program benefits.¹¹⁹ Additionally, while TURN claims that SCE lacks the

¹¹⁶ Ex. SCE-02, Vol. 1, p. 1.

¹¹⁷ Ex. SCE-02, Vol. 1, pp. 118-129.

¹¹⁸ Ex. SCE-02, Vol. 1, pp. 128-129.

¹¹⁹ Cal Advocates’ Opening Brief, p. 36.

mechanism to track the cost savings,¹²⁰ SBUA acknowledges SCE’s proposal for benefit tracking and asks the Commission to require SCE “to report incurred and forecasted costs and benefits as it proposes in its Application.”¹²¹ Contrary to TURN’s claim that SCE has no mechanism to benefit tracking, SCE’s testimony describes its performance management framework that was created to measure, track, and achieve the intended operational performance improvements.¹²² TURN further states, “SCE is only proposing to account for the benefits through its 2029 GRC...SCE proposes to provide no reporting and no accounting of such steady-state benefits in either in its 2033 GRC or other form of annual reporting...”¹²³ TURN’s claim completely ignores SCE’s Direct Testimony, Rebuttal Testimony, and workshop materials on this topic.¹²⁴ Specifically, SCE has explained that O&M or capital expenditures that are no longer required due to the NextGen ERP Program will be returned to customers in SCE’s future GRCs through lower recorded costs (informing lower forecasts), specific line-item reductions to capital and O&M forecasts, and/or SCE not needing to include incremental costs in its forecast it otherwise would have requested.¹²⁵ Therefore, no further “reporting” is necessary.

VII.

CONCLUSION

As detailed in testimony and briefing, SCE has fully supported its request with extensive evidence as just and reasonable, and in the best interest of customers. As such, SCE respectfully requests that the CPUC authorize the funding requested for the NextGen ERP Program and associated balancing account and ratemaking treatment set forth in the “Summary of Recommendations” in SCE’s Opening Brief. SCE further asks that the Commission render

¹²⁰ TURN’s Opening Brief, p. 10; SBUA’s Opening Brief, p. 12.

¹²¹ SBUA’s Opening Brief, p. 12.

¹²² SCE’s Opening Brief, pp. 13-14; Ex. SCE-02, Vol. 1, pp. 96-101.

¹²³ TURN’s Opening Brief, p. 15.

¹²⁴ Ex. SCE-01, Vol. 3, pp. 12-13; Ex. SCE-02, Vol. 1, pp. 13-14; Ex. SCE-02, Vol. 2, Appendix C, p. C90.

¹²⁵ SCE’s Opening Brief, pp. 84-85; Ex. SCE-02, Vol. 1, pp. 128, 131.

Findings of Fact and Conclusions of Law and issue Orders consistent with the evidence and materials accompanying this Application.

Respectfully submitted,

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