

Decision 22-06-032 June 23, 2022

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Authority to Increase its Authorized Revenues for Electric Service in 2021, among other things, and to Reflect that Increase in Rates.

Application 19-08-013

**DECISION ADDRESSING SOUTHERN CALIFORNIA EDISON
COMPANY'S TRACK 3 REQUEST FOR RECOVERY OF
WILDFIRE MITIGATION MEMORANDUM AND
BALANCING ACCOUNT BALANCES**

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**DECISION ADDRESSING SOUTHERN CALIFORNIA EDISON
COMPANY'S TRACK 3 REQUEST FOR RECOVERY OF
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BALANCING ACCOUNT BALANCES**

Summary

This decision finds reasonable and authorizes Southern California Edison Company (SCE) to recover: (1) the revenue requirement associated with \$385.24 million¹ in incremental 2020 Operations and Maintenance (O&M) expenses recorded in various wildfire mitigation memorandum accounts, representing approximately 81% of SCE's request of \$476 million; and (2) the 2020 revenue requirement of \$15.12 million associated with capital expenditures approved during Track 2, representing 100% of SCE's request. Consistent with the treatment approved for SCE's Track 2 O&M expenses, the approved revenue requirements shall be amortized over a 36-month period.²

This decision also finds reasonable \$464.84 million in recorded wildfire mitigation capital expenditures, representing approximately 68% of SCE's request of \$679 million. SCE may seek future recovery of these capital expenditures in a separate financing order application.

This proceeding remains open.

1. Background

On August 30, 2019, SCE filed Application (A.) 19-08-013 for Authority to Increase its Authorized Revenues for Electric Service in 2021, among other things, and to Reflect that Increase in Rates (Application). SCE's Application also included a request to recover certain recorded expenditures being tracked in various wildfire-related balancing and memorandum accounts.

¹ All dollars in this decision are expressed in constant 2020 dollars unless otherwise specified.

² Decision (D.) 21-10-025 at 111, Ordering Paragraph (OP) 56.

Protests to the application were timely filed by The Utility Reform Network (TURN), National Diversity Coalition, and the Public Advocates Office at the California Public Utilities Commission (Cal Advocates). Responses were timely filed by Pacific Gas & Electric Company (PG&E), Small Business Utility Advocates (SBUA), California Choice Energy Authority and Clean Power Alliance of Southern California (jointly), and Vote Solar and the Solar Energy Industries Association (jointly).

On October 14, 2019, SCE filed a Reply to the Protests and Responses.

A prehearing conference (PHC) was held on October 30, 2019 to determine parties, discuss the scope, schedule, and other procedural matters. During the PHC, motions for party status were granted to San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company; the Agricultural Energy Consumers Association; Coalition of California Utility Employees (CUE); and the Energy Producers and Users Coalition.

In addition, the following parties requested and were granted party status in the proceeding: Center for Accessible Technology; the Engineers and Scientists of California, Local 20, International Federation of Professional & Technical Engineers, and AFL-CIO & CLC (jointly); California Cable & Telecommunications Association; and Conterra Ultra Broadband Holdings, Inc.

On November 25, 2019, the assigned Commissioner issued a Scoping Memo and Ruling (Scoping Memo) dividing the proceeding schedule into three different tracks: Track 1 considered SCE's forecast revenue request for 2021-2023, encompassing all the issues generally considered in Phase 1 General Rate Case (GRC) applications. Track 2 included review of 2019 recorded costs in the Wildfire Mitigation Plan Memorandum Account (WMPMA),

2019 recorded costs in the Fire Risk Mitigation Memorandum Account (FRMMA), and 2018-2019 recorded costs in the Fire Hazard Prevention Memorandum Account (FHPMA). Tracks 1 and 2 were resolved in D.21-08-036 and D.21-01-012, respectively. Track 3 includes review of any 2018-2020 recorded costs in the Grid Safety and Resiliency Program Memorandum/Balancing Account (GSRPMA/BA) above the settlement amount being considered in A.18-09-002, and recorded 2020 costs in the WMPMA, FRMMA, and FHPMA. The Scoping Memo also directed SCE to hire an independent audit firm to evaluate whether costs recorded in each of the accounts are accurate and incremental.³

On January 22, 2020, the Commission issued D.20-01-002, which modified the GRC cycle for large energy utilities from a three-year to a four-year cycle and directed SCE to update its current GRC application to add a third attrition year for 2024.

On April 17, 2020, the assigned Commissioner issued an amended Scoping Memorandum and Ruling (Amended Scoping Memo). Pursuant to the direction in D.20-01-002, the Amended Scoping Memo added a Track 4 to consider funding for a third attrition year covering 2024.

On March 15, 2021, SCE filed its 2021 GRC Track 3 request for recovery of wildfire mitigation memorandum and balancing account balances (Track 3 Request). SCE concurrently served direct testimony in support of its Track 3 Request.

On April 22, 2021, SCE served a copy of the independent audit report conducted by PricewaterhouseCoopers, LLP (PwC) on SCE's Track 3 Request,

³ Scoping Memo at 4.

entitled “Summary of Various 2020 Wildfire Mitigation Regulatory Tracking Accounts & 2018-2020 Grid Safety & Resiliency Program Balancing Account Operations & Maintenance and Capital Costs: Management’s Assertion for Independent Audit, For the Period ended September 10, 2018 to December 31, 2020” (Track 3 Audit Report).⁴

On August 20, 2021, Cal Advocates, TURN, and SBUA served intervenor testimony in Track 3. SCE served its Track 3 rebuttal testimony on September 20, 2021.

Evidentiary hearings for Track 3 were held virtually on October 13-14 and 28, 2021.

On November 12, 2021, SCE, Cal Advocates, TURN, and SBUA filed Track 3 Opening Briefs. On December 10, 2021, SCE, Cal Advocates, TURN, and SBUA filed Track 3 Reply Briefs.

On June 2, 2022, SCE filed a motion to set aside submission of Track 3 of this proceeding to admit Exhibit SCE-T3-17, which had inadvertently not been moved into evidence during the evidentiary hearings. SCE’s motion was granted on June 3, 2022. Track 3 was submitted for the Commission’s decision on June 2, 2022.

2. SCE’s Track 3 Request

SCE’s Track 3 Request seeks two forms of relief. First, SCE requests the Commission find just and reasonable total incremental spending of approximately \$679 million in capital expenditures and approximately \$476 million in Operations & Maintenance (O&M) expense that reflect: (1) costs incurred from 2018-2020 in addition to the Commission-approved amounts from

⁴ Ex. SCE T3-01, Vol. 4.

SCE's Grid Safety and Resiliency Program (GSRP) application, A.18-09-002, recorded in the GSRPBA; and (2) other wildfire mitigation costs SCE incurred in 2020 and recorded in WMPMA, FRMMA, and FHPMA that are incremental to SCE's 2018 GRC-authorized costs.

Second, SCE requests authority to recover a portion of those costs in rates, equal to \$497 million expressed as a revenue requirement, amortized over twelve months.⁵ Assembly Bill (AB) 1054 (Stats. 2019) precludes the California Investor-Owned Utilities (IOUs) from including in their respective equity rate base the collective first \$5 billion of wildfire mitigation-related capital expenditures incurred pursuant to a Commission-approved Wildfire Mitigation Plan (WMP).⁶ SCE's share of the \$5 billion total is 31.5%, or \$1.575 billion. SCE forecasts that all the incremental capital expenditures set forth in its Track 3 request will be subject to the AB 1054 exclusion from equity rate base.⁷ Therefore, although SCE seeks a reasonableness review of the Track 3 capital expenditures, SCE's Track 3 rate request does not include any revenue requirement associated with the capital expenditures.⁸ Upon a finding by the Commission that the Track 3 costs are just and reasonable, SCE intends to separately seek a financing order to authorize these costs and expenses to be recovered through fixed recovery charges pursuant to Public Utilities (Pub. Util.) Code Section 850 et seq.

⁵ Ex. SCE T3-01, Vol. 01 at 1.

⁶ See Pub. Util. Code § 8386.3(e).

⁷ Ex. SCE T3-01, Vol. 01 at 1.

⁸ *Id.* at 6.

SCE's Track 3 request is summarized as follows (2020\$ millions):⁹

	Incremental Capital Expenditures (All Subject to AB 1054)	Approved Track 2 Capital Revenue Requirement Continuation	Incremental O&M	Interest	FF&U	Revenue Requirement (excludes AB- 1054-eligible Capital Expenditures)
WMPMA	\$170.25	\$15.12 ¹⁰	\$210.56	\$0.17	\$2.57	\$228.41
FHPMA	\$0.00	\$0.00	\$252.32	\$0.20	\$2.87	\$255.39
FRMMA	\$6.62	\$0.00	\$12.72	\$0.00	\$0.14	\$12.87
GSRPBA	\$501.95	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total	\$678.83	\$15.12	\$475.59	\$0.37	\$5.59	\$496.67

3. Evidentiary Standards and Burden of Proof

Public Utilities Code Section 451 requires that “all charges demanded or received by any public utility ... shall be just and reasonable.” As the applicant, SCE bears the burden of proving that its cost recovery request is reasonable. SCE has the burden of affirmatively establishing the reasonableness of all aspects of its application.¹¹ The Commission has held that the standard of proof the applicant must meet in rate cases is that of a preponderance of the evidence.¹² Preponderance of the evidence usually is defined “in terms of probability of truth, *e.g.*, ‘such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.’”¹³

⁹ Ex. SCE-T3-01, Vol. 3 at 2, Table I-1 and 3, Table I-2. Although SCE states that Tables I-1 and I-2 are in constant 2020 dollars, SCE elsewhere states that the amounts listed for wildfire covered conductor and fusing mitigation capital expenditures (\$482.08 million and \$24.62 million, respectively) are expressed in nominal dollars. (*Id.* at 7, Table II-3.)

¹⁰ This amount represents the ongoing 2020 capital-related revenue requirement (*i.e.*, depreciation, taxes, and return) associated with the non-AB 1054 capital expenditures approved by the Commission in Track 2 of this proceeding in D.21-01-021. (*Id.* at 1, fn. 1)

¹¹ D.09-03-025 at 8; D.06-05-016 at 7.

¹² D.19-05-020 at 7; D.15-11-021 at 8-9; D.14-08-032 at 17.

¹³ D.08-12-058 at 19, citing Witkin, Calif. Evidence, 4th Edition, Vol. 1 at 184.

Although the utility bears the ultimate burden to prove the reasonableness of the relief they seek and the costs they seek to recover, the Commission has held that when other parties propose a different result, they too have a “burden of going forward” to produce evidence to support their position and raise a reasonable doubt as to the utility’s request.¹⁴

The Commission uses the established prudent manager standard to evaluate whether SCE’s requested costs are just and reasonable. The Commission has described this standard as follows:

The term “reasonable and prudent” means that at a particular time any of the practices, methods, and acts engaged in by a utility follows the exercise of reasonable judgment in light of facts known or which should have been known at the time the decision was made. The act or decision is expected by the utility to accomplish the desired result at the lowest reasonable cost consistent with good utility practices. Good utility practices are based upon cost-effectiveness, reliability, safety, and expedition.¹⁵

The prudent manager standard is not a standard of perfection.¹⁶ The Commission has explained that:

A reasonable and prudent act is not limited to the optimum practice, method, or act to the exclusion of all others, but rather encompasses a spectrum of possible practices, methods, or acts consistent with the utility system needs, the interest of the ratepayers and the requirements of governmental agencies of competent jurisdiction.¹⁷

¹⁴ D.20-07-038 at 3-4; D.87-12-067 at 25-26, 1987 Cal. PUC LEXIS 424, *37.

¹⁵ D.17-11-033 at 10 quoting D.87-06-021.

¹⁶ D.14-06-007 at 36.

¹⁷ D.02-08-064 at 6 quoting D.87-06-021.

With respect to individual uncontested issues in this proceeding, we find that SCE has made a prima facie just and reasonable showing, and approve SCE's uncontested requested costs, unless otherwise stated.

4. Incrementality Standard

SCE is required to demonstrate that its Track 3 costs are incremental to costs approved in other Commission proceedings (*e.g.*, the GSRP Settlement Agreement for 2018-2020 GSRPBA costs and SCE's 2018 GRC for 2020 WMPMA, FRMMA, and FHPMA costs).

SCE contends that the appropriate incrementality test compares the amounts recorded in the Track 3 wildfire mitigation memorandum accounts to the relevant categories and types of authorized costs from the GSRP Settlement and SCE's 2018 GRC, not to unrelated or overall cost categories authorized from those proceedings.¹⁸ During Track 3 of this proceeding, although intervenors disputed SCE's claims of incrementality for certain costs, no intervenor contends that incrementality be measured on a company-wide basis.

We find SCE's approach of determining incrementality on an activity-by-activity basis to be consistent with established prospective ratemaking principles and Commission-approved guidelines for determining incrementality, which the Commission recently reaffirmed in the SCE Catastrophic Event Memorandum Account proceeding (A.19-07-021).¹⁹

The Commission generally establishes rates on a prospective basis:

It is a well-established tenet of the Commission that ratemaking is done on a prospective basis. The Commission's practice is not to authorize increased utility rates to account for previously incurred expenses, unless, before the utility

¹⁸ SCE Opening Brief (OB) at 9. All references to OBs are to the Track 3 OBs.

¹⁹ D.21-08-024 at 14-15.

incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum account or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking.²⁰

The Commission has explained prospective ratemaking as follows:

[P]rospective ratemaking does not "look back" in time and adjust future revenue requirements such that actual utility expenditures are always recovered 1-for-1 through rates. If utility management decides to tradeoff among expense categories in response to changing circumstances or management priorities, they are awarded that flexibility. ... Nor does prospective ratemaking require the utility to reimburse ratepayers if their overall expenditures, or expenditures within particular budget categories, are lower than projected during the rate case. To do so would be tantamount to establishing a 1-for-1 balancing account for all utility expenditures and activities.²¹

Using costs recorded in a memorandum or balancing account to offset forecast variances for unrelated budget categories would be inconsistent with the prospective ratemaking principles outlined above and undermine the purpose of allowing utilities to establish memorandum and balancing accounts. Therefore, in assessing the incrementality of SCE's Track 3 request, we compare SCE's Track 3 costs to the relevant categories and types of authorized costs from the GSRP Settlement and SCE's 2018 GRC.

Although we do not examine incrementality on a total-company basis, we note SCE indicates that in 2018-2020, SCE substantially reduced spending on certain reliability-related infrastructure replacement programs, which SCE

²⁰ D.92-03-094, 1992 Cal PUC LEXIS 236, *7-8.

²¹ D.83-12-068 at 8-9, 1983 Cal. PUC LEXIS 1156, *12.

temporarily de-prioritized to focus on emergent wildfire risk mitigation work.²² SCE's 2020 Interim Risk Spending Accountability Report (RSAR) reflects a 2020 underspend of approximately \$13 million in O&M and \$298 million in capital for RSAR categories.²³ Cal Advocates also argues that SCE re-assigned existing labor authorized in the GRC to activities whose costs are tracked in WMPMA and FRMMA.²⁴

With respect to the underspend in the RSAR, SCE argues, among other things, that: (1) the RSAR relates to a subset of SCE's 2018 GRC-authorized activities; (2) for activities subject to SCE's Safety and Reliability Investment Incentive Mechanism (SRIIM), SCE has already refunded customers the capital-related revenue requirement authorized in the 2018-2020 GRC period related to any underspend; (3) with respect to underspend for capital expenditures, any over-recovery would be illusory to the extent the capital is invested in other activities that are used and useful for customers, or would be temporary since actual capital spending is trued-up in the next GRC cycle; and (4) over the three-year 2018 GRC period, SCE spent more than authorized for O&M in RSAR-related categories.²⁵

Review of SCE's underspend on a total-company basis is not within the scope of Track 3 and a record was not developed on this issue. Therefore, the extent and impacts of SCE underspending its authorized revenues on a total-company basis for 2018-2020 while simultaneously reassigning resources to activities tracked in memorandum and balancing accounts are uncertain.

²² Ex. SCE-T3-01, Vol. 1E3 at 9.

²³ SCE 2020 RSAR, filed April 1, 2021, at 10, 13.

²⁴ Cal Advocates' arguments regarding straight-time labor are addressed in Section 11.1, below.

²⁵ SCE OB at 13-15.

However, the limited information provided in Track 3 and the RSAR raises questions regarding whether the current ratemaking framework is incentivizing the reassignment of resources authorized in a GRC to activities not otherwise included in the GRC but whose costs are separately recoverable via a memorandum or balancing account. Review of such issues is beyond the scope of Track 3 and has broader implications as to how ratemaking is conducted for the utilities under our jurisdiction.

5. Independent Audit of Track 3 Request

In its evaluation of the costs at issue in SCE's Track 3 request, PwC found SCE management's assertion that the costs recorded in the WMPMA, FHPMA, FRMMA, and GSRPBA for the periods ending December 31, 2020 were:

(i) incurred for the Wildfire Mitigation activities set forth in the corresponding, relevant California Public Utilities Commission (CPUC) approved Preliminary Statements describing the contents of the memorandum accounts...; (ii) accurately recorded; (iii) incremental (*i.e.*, in addition to and separate from) amounts previously authorized by the CPUC in the decision resolving SCE's 2018 General Rate Case D.19-05-020 or above the Grid Safety and Resiliency Program settlement agreement adopted by the CPUC in D.20-04-013; and (iv) incurred for separate activities is fairly stated, in all material respects.²⁶

While the Audit Report finds that SCE accurately recorded expenses into each of the Track 3 MAs and BA, PwC also notes that its engagement did not address the prudence of the costs incurred nor whether the costs were likely to be recovered from ratepayers.²⁷

²⁶ Ex. SCE-T3-01, Vol. 4 at 1.

²⁷ *Ibid.*

6. Grid Hardening

6.1. Wildfire Covered Conductor Program (WCCP)

SCE's WCCP includes the following activities: (1) replacing existing bare overhead conductor with covered conductor specially designed to withstand contact from foreign objects to minimize ignitions; (2) replacing wood poles with fire resistant poles (both composite and wrapped); and (3) installing new poles to eliminate instances where existing electrical equipment were attached to trees (tree attachment remediations).²⁸

The approved GSRP settlement provides for the installation of 592 circuit miles of covered conductor, average authorized unit costs of \$428,000 per circuit mile (2018\$), and total capital costs of \$284.842 million (2018\$).²⁹ Pursuant to the settlement, recorded costs exceeding 115% of the adopted total cost and an average recorded unit cost exceeding 115% of the average authorized unit cost are subject to reasonableness review.³⁰

During the 2018-2020 GSRP period, SCE installed approximately 1,132 circuit miles of covered conductor (57 miles in 2018, 277 miles in 2019, 797 miles in 2020).³¹ During this period, SCE recorded \$841.08 million (2020\$) in capital expenditures for WCCP activities, consisting of \$820.56 million for covered conductor and \$20.52 million for tree attachment remediations.³²

²⁸ Ex. SCE-T3-01, Vol. 1 at 13.

²⁹ D.20-04-013, Appendix 1 at 8. The total capital costs include costs for tree attachment remediations.

³⁰ *Ibid.*

³¹ Ex. SCE-T3-01, Vol. 1E3 at 9, Table I-4.

³² Ex. SCE-T3-01, Vol. 1E2 at 15, Table II-5.

SCE's recorded costs include costs for both completed projects and construction work in progress (CWIP).³³

SCE seeks reasonableness review of \$487.60 million (2020\$) of recorded capital expenditures, which is the amount above the GSRP settlement 115% threshold.³⁴ SCE recorded an average unit cost of \$488,613 per circuit-mile for covered conductor for 2018-2020, which is below the 115% GSRP settlement average unit cost threshold of \$531,506 (2020\$).³⁵

TURN and Cal Advocates recommend the Commission disallow portions of SCE's request. TURN recommends: (1) the Commission disallow \$15.89 million in capital expenditures associated with covered conductor installation on 30 circuit miles which had no risk assessment scores, due to SCE's reliance on outdated GSRP criteria to select projects started and completed in 2020, even though SCE had developed significantly enhanced circuit prioritization models in 2019; and (2) the Commission defer consideration of the reasonableness of \$118 million in the CWIP account, because the projects have not been completed and SCE cannot demonstrate that the projects associated with those preliminary costs will meet the average unit cost threshold adopted in the GSRP settlement.³⁶

³³ CWIP represents costs incurred to date on a fixed asset which is still under construction and is not yet in service. (SCE OB at 18, fn. 49.)

³⁴ Ex. SCE-T3-01, Vol. 1 at 12-13. In its rebuttal testimony (Ex. SCE-T3-01, Vol. 3), SCE states that its request for WCCP is \$482.08 million in both 2020\$ (Table I-1) and Nominal\$ (Table II-3). TURN states that the GSRP settlement does not specify whether nominal or real dollars should be used to calculate the cap for WCCP. (TURN OB at 15, fn. 46.) This issue was not fully briefed by the parties and is not material to the resolution of the disputed issues concerning SCE's WCCP request.

³⁵ Ex. SCE-T3-01, Vol. 3 at 8.

³⁶ TURN OB at 16.

Cal Advocates recommends an adjustment of \$143.23 million of CWIP costs associated with projects that were not completed by the end of 2020.³⁷ Cal Advocates argues that it would be speculative to find the costs of incomplete capital projects to be reasonable.

6.1.1. Costs for Circuit Miles Completed During GSRP Period

As noted above, SCE installed 1,132 circuit miles between 2018-2020 compared to the approved GSRP forecast of 592 miles. SCE contends the additional scope of work was prudent and necessary to expediently mitigate wildfire risk and support efforts to reduce Public Safety Power Shutoff (PSPS) impacts to customers in the future, and therefore, should be approved. SCE also states that in Track 1 of this proceeding, the Commission approved a cumulative scope of covered conductor of 4,500 circuit miles for 2019-2023 and that virtually all of the 1,132 miles installed during the GSRP period are within the cumulative 4,500-mile scope authorization.³⁸

According to SCE, it scoped and selected 99.6% of all the projects installed during the GSRP period pursuant to then-current risk methodologies.³⁹ SCE's risk modeling evolved during the GSRP period. SCE initially selected and scoped projects based on the following risk criteria developed for the GSRP:

(1) vintage small conductor at risk of damage during fault conditions based upon a Short Circuit Duty assessment; and (2) conductor with elevated risk of faults, defined as two or more vegetation-related faults over the 2015-2017 period, from

³⁷ Cal Advocates OB at 10.

³⁸ SCE OB at 19 citing D.21-08-036 at Conclusion of Law 74. SCE completed 57 of the 1,132 miles in 2018, which are not covered by the scope authorized in the Track 1 decision.

³⁹ Ex. SCE-T3-01, Vol. 3 at 17.

vegetation-related contact.⁴⁰ SCE then developed the Distribution Overhead Targeted Scoping (DOTS) 1.0 model, which “enhanced [SCE’s] risk modeling and scoring to also use three variables to rank risk: structures attached to conductor spans identified as at risk of slapping and having a wire down; Reax Engineering consequence scores; and the calculated wind torque on a span.”⁴¹ SCE then further enhanced its modeling efforts to use a predictive model referred to as DOTS 2.0 to predict probability of a spark-causing outage multiplied by the Reax Engineering consequence scores to rank segments for covered conductor.⁴²

SCE selected and scoped covered conductor projects installed through 2020 using the GSRP criteria from February 2018 to March 2019, DOTS 1.0 from March to May 2019, and DOTS 2.0 from May 2019 to July 2019.⁴³ SCE states that the general lead time to scope, design, engineer, and install a covered conductor project takes approximately 16-22 months depending on the size and complexity of the work.⁴⁴ Therefore, the selection and scoping of work installed through 2020 did not occur after July 2019.

While TURN generally supports covered conductor installation, TURN argues that due to its high cost, covered conductor installation must be prioritized to those circuits where it provides the most ignition risk-reduction benefits.⁴⁵ Although SCE claims that acceleration of the program was based on updated risk modeling efforts, TURN states that SCE selected 72% of the total

⁴⁰ Ex. TURN-T3-01, Atch-1 at 3.

⁴¹ *Id.* at 4.

⁴² *Ibid.*

⁴³ *Id.* at 21.

⁴⁴ *Ibid.*

⁴⁵ TURN OB at 16.

circuit miles installed between 2018-2020 using the GSRP criteria.⁴⁶ TURN argues that by January 1, 2020, SCE should have re-evaluated its selected circuits using its improved risk models.⁴⁷ TURN specifically points to 496 circuit miles started and completed in 2020, which were selected using GSRP criteria, as being unreasonable.⁴⁸ However, recognizing that disallowing such a large amount of recorded capital expenditures could be construed as a negative signal to the utilities to pursue wildfire mitigation, TURN conservatively recommends the Commission disallow \$15.89 million associated with 30.39 circuit miles, which TURN claims had no risk criteria scoring.⁴⁹

We find reasonable the costs associated with the 1,132 circuit miles of covered conductor SCE installed between 2018-2020. Based on SCE's recorded average unit cost of \$488,613 per circuit mile, we calculate the total costs for these 1,132 miles to be \$553.11 million.⁵⁰

We do not find basis for a disallowance as recommended by TURN. SCE has presented evidence that 99.6% of all the projects (229 out of 230 work orders) scoped and installed during the GSRP period were scoped pursuant to then-current risk assessment methodologies.⁵¹ We do not find evidence to support TURN's claim that SCE reverted to using the GSRP criteria for risk

⁴⁶ *Id.* at 20.

⁴⁷ *Id.* at 21.

⁴⁸ *Ibid.*

⁴⁹ *Id.* at 26-27.

⁵⁰ $1,132 \times \$488,613 = \553.11 million. Elsewhere in the record, the total recorded costs for these 1,132 circuit miles are reported as \$573.62 million. (Ex. TURN-T3-01, Atch-1 at 26.) However, we do not find this amount to be adequately explained or substantiated given SCE's testimony that the average recorded unit cost was \$488,613 per circuit mile.

⁵¹ Ex. SCE-T3-01, Vol. 3 at 17.

assessment in 2020.⁵² SCE credibly explains that due to the lead time needed for the projects, it did not select or scope any projects installed through the GSRP period after July 2019.

We do not find SCE's reliance on the GSRP criteria during this period to be unreasonable. SCE's GSRP criteria targets conductors with elevated risk of vegetation-related contact and equipment/facility failure. SCE's analysis of fires that occurred in SCE's High Fire Risk Areas (HFRA) from 2015-2018 indicates that approximately 90% of all fires associated with electrical equipment in SCE's service area was related to distribution level voltages and that the two largest ignition drivers are "contact from object" followed by "equipment/facility failure."⁵³ Therefore, although less precise at ranking risk than later risk models, use of the GSRP criteria does still result in reducing risk for circuits with elevated risks of ignition in SCE's HFRA. Under the prudent manager standard, we do not evaluate reasonableness based on hindsight but based on what SCE knew or should have known at the time it made its decision.⁵⁴ There is no evidence that contradicts SCE's assertion that the GSRP criteria was the most current risk assessment methodology available through March 2019. We do not find SCE acted imprudently in relying on the GSRP criteria in selecting, scoping, and designing work for the WCCP through March 2019.

We also do not find that SCE acted imprudently in not using updated risk assessment methodologies that subsequently became available to re-evaluate in-flight projects, which SCE had selected, scoped, and designed based on the GSRP criteria. Given the lead time involved, it would not have been practical or

⁵² TURN OB at 22.

⁵³ Ex. SCE-T3-01, Vol. 1 at 16-17.

⁵⁴ See D.17-11-033 at 10 quoting D.87-06-021.

cost-effective for SCE to re-evaluate these in-flight projects after January 1, 2020, as recommended by TURN. Since SCE last used the GSRP criteria in March 2019, re-evaluating these projects would have meant losing upwards of 9 months of work SCE had already expended on these projects and resulted in stranded costs for the canceled work. Given that these projects were scoped based on a risk assessment and unquestionably reduce risk in SCE's HFRA, we find SCE's decision to complete the in-flight projects to be reasonable taking into account "cost effectiveness, safety, and expedition."⁵⁵

The reasonableness of the overall scope of work completed by SCE between 2018-2020 is further supported by the scope of work for 2019-2023 authorized by the Track 1 decision. SCE completed 1,075 of the 1,132 circuit miles during 2019-2020, which are within the scope of the 4,500 circuit miles the Track 1 decision authorized for 2019-2023. TURN makes a valid point that the fact that the completed miles are within the authorized scope does not mean that the specific circuits SCE chose were reasonable. However, this fact does further support the reasonableness of the accelerated scope of the program beyond the 592 circuit miles authorized in the original GSRP settlement.⁵⁶ Moreover, as discussed above, SCE's installation of covered conductor during the GSRP period was based on an assessment of which circuits posed elevated ignition

⁵⁵ *Ibid.*

⁵⁶ It is unclear to what extent SCE's updated risk modeling efforts account for the expanded scope of the WCCP compared to the scope approved as part of the GSRP settlement. TURN states that approximately 72% of the miles SCE installed were based on the GSRP criteria as opposed to DOTS 1.0 or 2.0. However, SCE also states that the scope of work SCE requested in its GSRP application, which was ultimately approved as part of the GSRP settlement, was not based solely on risk assessment but was limited by the forecast rate at which new projects could be designed and planned during the ramp-up period. (Ex. SCE-T3-01, Vol. 1 at 19.)

risks based on information that was available at the time the work was being scoped and designed.

In addition, we do not find a basis for TURN's specific recommendation to disallow \$15.89 million associated with 30.39 circuit miles. Although TURN claims that no risk assessment was done on these miles, SCE explains that these miles are associated with structures (*i.e.*, poles) contained within work orders, 99.6% of which were scoped pursuant to the then-current risk methodologies.⁵⁷ It does not appear that all of these structures are associated with the 496 circuit miles TURN criticizes as being improperly based on the GSRP criteria. In any event, we do not find a basis to disallow these specific poles, which are part of larger projects that we find were reasonably scoped pursuant to then-current risk assessment methodologies.⁵⁸ Even if these poles were to be converted into circuit miles in the manner proposed by TURN, the Commission has previously approved a 20% operational buffer for the WCCP recognizing that it is reasonable to expect some additional operational miles to be installed during actual design and deployment since risk assessment models do not focus on operational design considerations.⁵⁹ The 30.39 circuit miles TURN recommends be disallowed is less than 3% of the total covered conductor installed between 2018-2020 and would be well within the operational buffer found to be reasonable by the Commission.

For the reasons discussed above, we find reasonable SCE's costs of \$553.11 million associated with the 1,132 circuit miles SCE completed between 2018-2020. However, given the high costs for covered conductor, we continue to

⁵⁷ SCE OB at 24.

⁵⁸ See SCE Reply Brief (RB) at 8-9. All references to RBs are to the Track 3 RBs.

⁵⁹ D.21-08-036 at 204.

emphasize that SCE should prioritize implementing covered conductor in areas where it would provide the most ignition risk-reduction benefits. Although we find that SCE did not act imprudently with respect to the now-completed 1,132 circuit miles, as acknowledged by SCE, in certain instances, it may be appropriate to re-consider scope and/or installation sequencing, depending on the status and extent of pre-construction work for that particular project and based on other practical considerations.⁶⁰ SCE notes that in approving SCE's 2021 Wildfire Mitigation Plan Update, the Office of Energy Infrastructure Safety (OEIS) stated, "[OEIS] understands that some [covered conductor] projects within the scope are too far along in progress to be reconsidered."⁶¹ However, OEIS further stated: "SCE should still be re-evaluating any projects that are in earlier phases and for which alternative hardening methods may be more effective in reducing risk based on SCE's changing risk analysis, as well as, meeting requirements set throughout this Action Statement."⁶²

6.1.2. Construction Work in Progress (CWIP) Costs

Capital expenditures for all projects are recorded to the CWIP account until the project is completed. In 2018-2020, in addition to the costs associated with the 1,132 circuit miles of completed covered conductor work, SCE recorded approximately \$246.94 million in the CWIP account for work conducted on an

⁶⁰ SCE RB at 5.

⁶¹ SCE OB at 22 quoting OEIS' Final Evaluation of 2021 Wildfire Mitigation Plan (WMP) Update of Southern California Edison at 113. The OEIS report is available at: [TN10286_20210818T160430_Final_Action_Statement_on_Southern_California_Edison_2021_WMP_U\(2\).pdf](#), last accessed April 15, 2022.

⁶² OEIS' Final Evaluation of 2021 WMP Update of Southern California Edison at 113.

additional 2,616 miles of covered conductor projects that were not completed before the end of 2020.⁶³

TURN initially recommended that the Commission defer any finding that the costs recorded in the CWIP account are reasonable because it is impossible to know whether the unit cost for those projects will be below the 115% average unit cost threshold adopted in the GSRP settlement. In rebuttal testimony, SCE presented evidence that the average recorded unit cost for 644 miles completed in the first half of 2021, representing \$111.83 million of the CWIP account, was less than the unit cost threshold.⁶⁴ TURN accepted SCE's showing and modified its recommendation to recommend that the Commission defer any reasonableness finding only as to the remaining \$118 million of the CWIP balance associated with approximately 1,970 circuit miles, which had not been completed.⁶⁵

Cal Advocates recommends that the Commission defer a finding of reasonableness for \$143.23 million of SCE's CWIP costs associated with projects that were not completed by the end of 2020. Cal Advocates' recommendation represents roughly 58% of SCE's total 2020 end-of-year WCCP CWIP balance. Cal Advocates calculates this ratio based on the ratio of total WCCP costs that are below and above the 115% GSRP settlement cap.⁶⁶ Cal Advocates argues it would be speculative to find the costs of incomplete capital projects to be

⁶³ Ex. TURN-T3-01, Atch-1 at 26. `

⁶⁴ Ex. SCE-T3-01, Vol. 3E at 15, Appendix B at 2-13; *see also* Ex. TURN-T3-02. The total cost for the 644 miles was \$336.06 million. The total cost includes costs incurred in 2021, which are not recorded in the GSRPBA or included in SCE's Track 3 request.

⁶⁵ TURN OB at 32.

⁶⁶ Ex. Cal Advocates-02 at 17; Ex. Cal Advocates-02E at 18.

reasonable.⁶⁷ Cal Advocates also argues that reviewing the reasonableness of capital projects that are now completed but were not completed during the time frame of this reasonableness review is beyond the scope of this case.⁶⁸

SCE argues it has fully satisfied the GSRP settlement unit cost test and there is no need to defer approval of SCE's WCCP-related CWIP request. According to SCE, such a deferral would be potentially contrary to AB 1054, inconsistent with Commission precedent, and inefficient.

We agree with TURN that the Commission cannot make a finding of reasonableness as to the CWIP costs associated with the approximately 1,970 circuit miles, which have not been completed.⁶⁹ TURN erroneously calculates these CWIP costs as \$118 million. The record reflects that the CWIP costs associated with this incomplete work total \$135.11 million.⁷⁰ Because CWIP represents costs for incomplete projects and the costs for the completed projects associated with these CWIP costs are not in the record, SCE is unable to demonstrate that the projects associated with these CWIP costs will meet the 115% average unit cost threshold adopted in the GSRP settlement.

Pursuant to the GSRP settlement, average recorded unit costs exceeding 115% of the average authorized unit cost are subject to reasonableness review.⁷¹

⁶⁷ Cal Advocates OB at 11.

⁶⁸ *Id.* at 13.

⁶⁹ Given our finding that SCE has failed to demonstrate the reasonableness of \$135.11 million in CWIP costs, we do not find Cal Advocates' alternative proposal to defer consideration of \$143.23 million in CWIP to be warranted.

⁷⁰ According to SCE, the CWIP balance is approximately \$246.94 million. (Ex. TURN-T3-01, Atch-1 at 26; Ex. SCE-T3-01, Vol. 3 at 9, fn. 11.) SCE later provided information that approximately \$111.83 million of the CWIP balance is associated with miles that were completed between January and July 2021. (Ex. TURN-T3-02.) Deducting \$111.83 million from \$246.94 million leaves \$135.11 million.

⁷¹ D.20-04-013, Appendix 1 at 8.

The “average recorded unit cost” is defined as “the cost of a GSRP component recorded in the GSRP Balancing Account, divided by the number of units actually implemented between 2018-2020.”⁷² The average authorized unit cost for the covered conductor program (capital) is \$428,000 per circuit mile (2018\$). The unit to be used for the covered conductor program is a circuit mile, and therefore, it is not possible to calculate the average recorded unit cost using incomplete circuit miles.

Pursuant to the GSRP settlement agreement, the average recorded unit cost must be based on recorded costs, not a forecast of what the costs are likely to be. SCE states that the Commission should rely on SCE’s direct and supplemental showings as “a reliable proxy for unit-cost purposes for the in-flight covered conductor projects that were started during the GSRP Period and will subsequently be in service.”⁷³ SCE also states that “the balance of the CWIP-associated miles [is] likely to also be completed below the threshold.”⁷⁴ These statements confirm that SCE is unable to demonstrate its requested costs meet the unit cost threshold but rather is requesting that the Commission use a forecast to determine that these costs are likely to be below the threshold. Use of a forecast does not satisfy the unit cost requirements of the GSRP settlement agreement. Although the Track 1 decision adopted an expanded scope for covered conductor compared to the GSRP settlement, the issue of whether the costs recorded in the GSRPBA are reasonable is a separate issue. SCE

⁷² *Id.* at 4.

⁷³ SCE OB at 26.

⁷⁴ *Id.* at 28.

acknowledges that the terms of the GSRP settlement, which include the unit cost requirement, were not superseded by the Track 1 decision.⁷⁵

SCE argues that the Commission routinely approves CWIP for programmatic work in both forecast-based and retrospective-review ratemaking proceedings.⁷⁶ The examples SCE points to where the Commission approved CWIP are distinguishable from this case.

In the decision for Track 1 of this proceeding, D.21-08-036, the Commission adopted forecasts for capital expenditures, which included CWIP. The Track 1 decision did not make any reasonableness finding as to CWIP costs recorded in a balancing or memorandum account.

In the decision for Track 2 of this proceeding, D.21-01-012, the Commission approved a non-precedential settlement agreement finding the settled costs, which included CWIP costs, to be reasonable. In approving the settlement agreement, the Commission found that the settlement as a whole was reasonable in light of the whole record. However, pursuant to Rule 12.5 of the Commission's Rules of Practice and Procedure, the Commission's approval of the settlement "does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding." Moreover, as acknowledged by SCE, unlike the CWIP costs at issue here, there was no requirement that the capital expenditures being reviewed in Tracks 1 or 2 meet a unit cost threshold.⁷⁷

SCE also argues that in D.21-06-030, the Commission authorized PG&E to securitize AB 1054-eligible wildfire mitigation capital expenditures, including those subject to a unit cost test threshold and temporarily recorded as CWIP. In a

⁷⁵ Reporter's Transcript (RT), Vol. 14 at 1496:5-11.

⁷⁶ SCE RB at 2.

⁷⁷ *Id.* at 11-12.

prior PG&E GRC decision, D.20-12-005, the Commission approved forecast capital expenditures for PG&E's wildfire mitigation program, the Consumer Wildfire Safety Program (CWSP), based on a non-precedential settlement.⁷⁸ D.21-06-030 did not involve an independent reasonableness review of the costs at issue but rather authorized the financing of costs previously found to be reasonable in D.20-12-005.⁷⁹ PG&E did not seek securitization of capital expenditures exceeding the forecast capital expenditures authorized in its GRC and the Commission did not conduct a further reasonableness review of the costs recorded in PG&E's CWSP-related balancing account.

Contrary to SCE's assertions, we do not find that deferral of the \$135.11 million CWIP balance would be inconsistent with the plain language and intent of AB 1054. SCE states that AB 1054 requires SCE to exclude the first \$1.575 billion of capital expenditures associated with its approved WMPs from equity rate base and that the remaining Track 3 CWIP costs are among the first \$1.575 billion in eligible capital expenditures.⁸⁰ SCE argues that if TURN's proposal to defer review of the CWIP costs is adopted, SCE would either need to delay securitization or fill its AB 1054 equity rate base exclusion "bucket" with capital expended later in time.⁸¹ The mere fact that the CWIP costs may be part of SCE's first \$1.575 billion of capital expenditures associated with its approved WMPs does not make the costs automatically eligible for securitization. AB 1054 also requires that, prior to issuing a financing order, the Commission must make

⁷⁸ D.20-12-005 at 118-121.

⁷⁹ See D.21-06-030 at 38 ["In D.20-12-005, the Commission authorized PG&E's capital expenditures and determined these expenditures to be just and reasonable under § 451 and consistent with § 8386.3(e)(footnotes omitted)."]

⁸⁰ SCE OB at 27.

⁸¹ *Ibid.*

a finding that the costs to be reimbursed from the recovery bonds are just and reasonable pursuant to Pub. Util. Code Section 451.⁸² We cannot make such a finding given the requirements of the GSRP settlement and the fact that the costs for completion of these projects are unknown.

Finally, we do not find SCE's arguments that deferral would be inefficient and impose unnecessary administrative burdens to be compelling. SCE's claimed inefficiencies cannot override the Commission's obligation to ensure that the costs to be recovered are just and reasonable.

With respect to the \$111.83 million CWIP balance associated with the 644 miles completed in the first half of 2021; we find these costs to be reasonable. SCE has presented evidence regarding the average recorded unit cost for these miles based on the total cost of the completed miles, and the average recorded unit cost is below the authorized unit cost threshold.⁸³ In addition, the completed miles are within the scope of work deemed reasonable in Track 1 for the 2019-2023 period. Given these factors, and the fact that these projects are now complete and in service, we do not find deferral of a reasonableness review to be warranted. Contrary to Cal Advocates' assertions, we do not find review of these costs to be beyond the scope of this case. These CWIP costs were recorded in the GSRPBA between 2018-2020 and SCE requested a finding as to the reasonableness of these costs in its direct testimony. SCE's rebuttal testimony did not make any new requests but rather presented updated information that was not available at the time of its direct testimony to rebut other parties' testimony.

⁸² Pub. Util. Code § 850.1(a)(1)(A)(i).

⁸³ Ex. SCE-T3-01, Vol. 3E at 15, Appendix B at 2-13.

6.2. Fusing Mitigation

Fuses are safety devices consisting of a filament that melts and breaks an electric circuit if the current exceeds the fuse's rating to minimize faults and damage to upstream conductor and other equipment. SCE's fusing mitigation program installs and replaces existing fuses on smaller branch lines within HFRA with new fusing better able to quickly reduce faults and perform isolation functionality. As part of the GSRP settlement, the Commission approved capital expenditures of \$71.47 million for the installation of new Current Limiting Fuses (CLFs) and O&M costs of \$13.07 million for upgrading existing CLFs.⁸⁴ SCE's recorded costs exceeding the approved budgets are subject to a reasonableness review. The approved GSRP settlement also provides that average recorded unit costs exceeding the average authorized unit cost of \$6,432 per fuse location for capital and \$4,791 per fuse location for O&M are subject to a reasonableness review.⁸⁵

During the 2018-2020 period, SCE installed 11,648 new CLFs and Solid Material Universal (SMU) fuses at new locations (capital) and replaced fusing at 1,807 existing Branch Limiting Fusing (BLF) locations (O&M). SCE incurred the following costs for this work (2020\$):⁸⁶

⁸⁴ Ex. SCE-T3-01, Vol. 1 at 32; D.20-04-013, Appendix A to Appendix 1 at A-1.

⁸⁵ Ex. SCE-T3-01, Vol. 1 at 35; D.20-04-013, Appendix 1 at 8.

⁸⁶ Ex. SCE-T3-01, Vol. 1 at 34 (Table II-9), 35-36. In its rebuttal testimony (Ex. SCE-T3-01, Vol. 3), SCE states that its capital expenditure request for fusing mitigation is \$24.62 million in both 2020\$ (Table I-1) and Nominal\$ (Table II-3). Since SCE's recorded O&M costs are below the settlement amount, these costs are not subject to a reasonableness review.

	Recorded Amount	Settlement Amount	Amount Above/ (Below) Settlement Amount	Recorded Average Unit Cost	Settlement Average Unit Cost
Capital	\$97.08 million	\$71.47 million	\$25.60 million	\$8,413 per fuse location	\$6,432 per fuse location
O&M	\$3.54 million	\$13.07 million	(\$9.53 million)	\$1,715 per fuse location	\$4,791 per fuse location

Cal Advocates opposes SCE's request for cost recovery above the settlement amount. SCE encountered CLF material supply issues created by fuse design and/or manufacturing changes. SCE estimates it installed potentially defective fuses at approximately 5,300 locations during the 2018-2020 period.⁸⁷ Fuses at these locations are prone to moisture ingress, which could cause faults or other failures.⁸⁸ SCE replaced 385 of these fuses in 2020 and plans to replace the additional potentially defective CLF units in a cost-effective and risk-informed manner over the next five to seven years.⁸⁹

Cal Advocates recommends the Commission disallow recovery of the incremental costs because SCE installed 5,300 CFL units that will not operate properly to address wildfire risk and failed to provide documentation and evidence to support how SCE performs testing prior to selecting the type of fuse to be installed.⁹⁰ Cal Advocates argues that SCE and the manufacturer should be responsible for the costs of the defective units and installation costs associated with their replacement.⁹¹ Cal Advocates also argues that SCE failed to provide

⁸⁷ Ex. SCE-T3-01, Vol. 3 at 20.

⁸⁸ *Ibid.*

⁸⁹ *Id.* at 20-21.

⁹⁰ Cal Advocates OB at 22-23.

⁹¹ *Id.* at 26.

adequate supporting documentation regarding the number of installations completed with the GSRP settlement amount or for the increased unit cost.⁹²

We find SCE's method for calculating its average recorded unit cost to be reasonable and consistent with the terms of the GSRP settlement. SCE calculates the average recorded unit cost based on the total units installed under the program between 2018-2020. The settlement defines "Average Recorded Unit Cost" as "the cost of a GSRP component recorded in the GSRP Balancing Account, divided by the number of units actually implemented between 2018 and 2020."⁹³ We do not find SCE's showing to be deficient because SCE did not map specific unit installations to the GSRP settlement amount.

In terms of the unit cost increase, SCE states that during the deployment of the fusing, SCE discovered that multiple locations required reconfiguration of equipment in order to install the CLFs.⁹⁴ SCE created additional contractor rates for cases in which CLF reconfigurations were needed, which took into consideration factors such as whether pole loading calculations or a new pole upgrade and/or interset pole with pole loading calculations were required.⁹⁵ We find SCE provides reasonable justification for the increase in unit cost over the GSRP authorized unit cost.

Although we find SCE's recorded average unit cost to be adequately justified, we find SCE has failed to demonstrate it was prudent in selecting and installing the 5,300 potentially defective CLFs. SCE does not provide adequate

⁹² *Id.* at 24-25.

⁹³ D.20-04-013, Appendix 1 at 4.

⁹⁴ Ex. SCE-T3-01, Vol. 1 at 35-36.

⁹⁵ *Id.* at 36.

information regarding how it selected or installed the potentially defective fuses that would enable us to make a finding that SCE acted prudently.

SCE asserts it has used the same type of fuses for 20-30 years and that it is not reasonable to expect SCE to perform pilot installations for every batch of fuses received from the manufacturer.⁹⁶ But SCE does not provide any information regarding how it selected or tested the type of fuses that were found to be potentially defective. Although SCE states it has used the same type of fuses for 20-30 years, the extent to which SCE used the same type of fuses is unclear given SCE's assertions that it has traditionally used conventional fuses (as opposed to CLF) for BLF applications and that its fusing mitigation program installs and replaces existing fuses with new fuses better able to perform isolation functionality.⁹⁷

Moreover, SCE states the potential defect was due to design or manufacturing changes but does not explain the circumstances and timing of SCE discovering the design or manufacturing changes.⁹⁸ Depending on the circumstances, further testing may have been warranted prior to installation.

According to SCE, the average operational life for a branch line fuse is approximately 12 years.⁹⁹ SCE has already replaced 385 of the 5,300 potentially defective fuses and intends to proactively replace the remainder of the fuses over the next five to seven years. The 385 fuses that have already been replaced are not currently used and useful and it is unclear whether the remainder of the fuses are currently used and useful. In any event, ratepayers would not receive

⁹⁶ SCE OB at 31.

⁹⁷ Ex. SCE-T3-01, Vol. 1 at 32 and 35.

⁹⁸ *Id.* at 33, fn. 72.

⁹⁹ SCE OB at 33.

the full value of the fuses' costs since the fuses will be replaced within five to seven years whereas the average operational life for a branch line fuse is ordinarily 12 years.

SCE argues that even if a disallowance were warranted, Cal Advocates' proposal is disproportionate to the magnitude of the potential customer cost impacts caused by the potentially defective fuses.¹⁰⁰ SCE argues that most of the costs incurred are not for the fuse itself, but for the installation of other components that hold the fuse, which will remain useful for many years.¹⁰¹ However, SCE does not present any information in the record that would enable the Commission to determine what percentage of the recorded costs are for the fuse itself as opposed to the other components. Therefore, SCE has failed to meet its burden of demonstrating what portion of the incremental costs would be reasonable.

Based on the foregoing, we find that SCE has failed to meet its burden of demonstrating that the capital costs incremental to the authorized GSRP budget are reasonable and should be recovered from ratepayers. We note that the incremental costs are \$25.60 million, whereas the total capital costs for the 5,300 potentially defective fuse would be \$44.59 million based on SCE's average recorded unit cost of \$8,413 per fuse location.¹⁰² Therefore, some of the costs for installation of the potentially defective fuses are included in the GSRP funding SCE has previously been authorized to recover in rates. In testimony, SCE indicated it is working with the fuse supplier to evaluate potential impacts related to the manufacturing changes and it is possible SCE may receive some

¹⁰⁰ *Id.* at 32.

¹⁰¹ *Ibid.*

¹⁰² 5,300 CFL units x recorded average unit cost of \$8,413 per fuse location = \$44.59 million.

financial recovery from the fusing manufacturer.¹⁰³ In the event SCE receives recovery from the manufacturer or supplier for the defective fuses, SCE shall in its next GRC provide an accounting of the amounts of the recovery, as well as the number and costs of the defective units. To the extent ratepayers have funded some of these fuses, ratepayers should be credited their fair share of any recovery from the manufacturer or supplier.

7. Enhanced Operational Practices

7.1. Enhanced Inspection Practices

7.1.1. Costs Recorded in WMPMA

SCE seeks reasonableness review and cost recovery of \$88.35 million in incremental O&M expenses recorded in WMPMA for work performed on High Fire Risk-Informed (HFRI) inspections, which includes Enhanced Overhead Inspections (EOI)-style ground-based inspections, aerial inspections, infrared inspections and corona scans on areas of heightened risk within SCE's HFRA; and the data captures performed during inspections within HFRA and non-HFRA.¹⁰⁴ SCE argues that the scope of these inspection activities in 2020 was incremental to the traditional inspections and maintenance activities authorized in SCE's 2018 GRC.¹⁰⁵ According to SCE, the assets included in HFRI inspections account for 99% of relative wildfire risk in SCE's HFRA.¹⁰⁶

Cal Advocates recommends a total disallowance of \$20.732 million for HFRI inspections. Cal Advocates recommends a \$7.106 million reduction for straight-time labor costs and \$8.726 million reduction for overhead expenses,

¹⁰³ Cal Advocates OB at 25; SCE RB at 16.

¹⁰⁴ Ex. SCE-T3-01, Vol. 1 at 51 and 55, Table II-19.

¹⁰⁵ *Id.* at 50.

¹⁰⁶ *Id.* at 57, 58.

which Cal Advocates argues are already funded through existing rates, and therefore, not incremental.¹⁰⁷ Cal Advocates also recommends the Commission deny cost recovery of \$4.900 million for contractor costs SCE incurred in 2019 because SCE has not demonstrated that these costs were not recovered during Track 2 of this proceeding.¹⁰⁸

With respect to Cal Advocates' recommended disallowance of SCE's straight-time labor costs, as discussed in Section 4 (Incrementality Standard) and Section 11.1 (Straight-Time Labor), in evaluating whether the straight-time labor costs were incremental, we examine whether the relevant categories and type of work were funded in the GRC. The scope of HFRI inspections appears incremental to the scope of traditional inspections and there is no evidence that labor for HFRI inspections was funded in the 2018 GRC.¹⁰⁹ Moreover, although SCE concedes it reassigned existing employees to conduct new wildfire mitigation activities, SCE also provides evidence that it on-boarded more contractor resources to complete routine, non-wildfire work and that its overall costs for normal time labor and contractor costs have increased between 2018 and 2020.¹¹⁰ Therefore, we find these costs to be incremental to the costs approved in the GRC and do not find a basis to disallow the \$7.106 million in straight-time labor on the grounds recommended by Cal Advocates.

¹⁰⁷ Cal Advocates OB at 29-33.

¹⁰⁸ *Id.* at 33-35.

¹⁰⁹ See D.19-05-020 at 64 (adopting 2018 forecast for distribution maintenance and inspection based on 2015 recorded adjusted expenses); D.21-08-036 at 225 (noting differences between Enhanced Overhead Inspections and traditional inspections).

¹¹⁰ Ex. SCE-T3-01, Vol. 3 at 81-82, Table VII-19.

We also decline to adopt Cal Advocates' recommended disallowance of \$8.726 million for overhead expenses for the reasons discussed in Section 11.2 (Overhead Costs).

With respect to Cal Advocates' recommended disallowance of \$4.900 million for 2019 contractor costs, Cal Advocates states that SCE requested funding for contractor costs it incurred in 2019 as part of Track 2 of this proceeding and that a percentage of the Track 2 costs were based on a forecast.¹¹¹ Cal Advocates argues that SCE is unable to provide evidence confirming that the \$4.900 million in question was not included in those estimated costs.¹¹²

SCE argues it is not seeking double recovery for the 2019 contractor costs requested in Track 3. SCE states that in some cases, services were rendered in 2019 but invoices were not submitted, approved, and paid until 2020.¹¹³ SCE contends that because it did not pay these invoices in 2019, they were not reflected in SCE's accounting system of records, and therefore, not included in SCE's Track 2 request.¹¹⁴ SCE provides a list of 2019 invoices included as part of Track 2 as opposed to Track 3.¹¹⁵ SCE argues that PwC's audit also confirms that the costs are incremental and were incurred for separate activities.¹¹⁶

SCE has provided sufficient evidence demonstrating that the 2019 invoices included as part of its Track 3 request totaling \$3.855 million are distinct from

¹¹¹ Ex. Cal Advocates-03 at 11.

¹¹² *Ibid.*

¹¹³ SCE OB at 71.

¹¹⁴ *Id.* at 72.

¹¹⁵ Ex. SCE-T3-01, Vol. 3 at 91, Appendix B at 76-81.

¹¹⁶ *Id.* at 90.

those included in its Track 2 request.¹¹⁷ Cal Advocates' proposed \$4.9 million disallowance is based on a SCE data request response, which stated that SCE's 2019 contractor costs totaled \$4.9 million.¹¹⁸ SCE subsequently revised this data request response to correct the 2019 contractor cost total to \$3.9 million but stated that this correction did not impact SCE's overall total costs for HFRI inspections.¹¹⁹ Cal Advocates does not acknowledge or address the revised data request response and does not provide any additional justification for disallowing the remaining \$1.045 million of its proposed \$4.9 million disallowance. Based on the foregoing, we do not find justification to disallow the \$4.9 million proposed by Cal Advocates.

7.1.2. Costs Recorded in FRMMA

SCE seeks reasonableness review and cost recovery of \$1.59 million in incremental O&M expense recorded in FRMMA for Expedited Dry Fuels Initiative (EDFI) inspections.¹²⁰ SCE launched EDFI in late 2020 to address emergent risk related to dry fuels observed during the 2020 fire season. SCE performed inspections in 17 areas of concern in HFRA that had elevated dry fuel levels and had the potential of propagating a non-wind-driven fire.¹²¹

Cal Advocates recommends a disallowance of \$0.82 million for EDFI inspections. Cal Advocates' recommendation is based on removing 58% of labor

¹¹⁷ *Id.*, Appendix B at 76-81.

¹¹⁸ Ex. Cal Advocates-03 at 10, fn. 23.

¹¹⁹ Ex. SCE-T3-17; Ex. SCE-T3-22.

¹²⁰ Ex. SCE-T3-01, Vol. 1 at 55, Table II-19.

¹²¹ *Id.* at 54.

costs associated with normal time hours, which Cal Advocates argues SCE has failed to demonstrate were incremental to costs authorized in SCE's 2018 GRC.¹²²

As discussed in Section 4 (Incrementality Standard) and Section 11.1 (Straight-Time Labor), in evaluating whether the straight-time labor costs were incremental, we examine whether the scope and type of work were funded in the GRC. SCE launched EDFI in late 2020 and there is no evidence that labor for EDFI inspections was funded in the 2018 GRC. Moreover, as noted above in Section 7.1.1, SCE's overall costs for normal time labor and contractor costs increased between 2018 and 2020. Therefore, we find these costs to be incremental to the costs approved in the GRC and do not find a basis to disallow the \$0.82 million in straight-time labor on the grounds recommended by Cal Advocates.

7.2. Remediations

7.2.1. Costs Recorded in WMPMA

As part of SCE's Enhanced Operational Practices inspection process, SCE identifies potential wildfire risks that must be remediated. Remediation notifications are prioritized based on the severity of the findings and must be completed pursuant to the timeframes set forth in General Order (GO) 95, Rule 18-B:

- (1) Priority 1 issues (P1s) require immediate action within 72 hours and conditions must be made safe within 24 hours;
- (2) Priority 2 issues (P2s) are lower risk and require remediation within 6 months if located within HFRA Tier 3 and 12 months if located within HFRA Tier 2; and

¹²² Cal Advocates OB at 43-44.

- (3) Priority 3 issues (P3s) do not require near-term remediation as they do not pose material, safety, reliability, or fire risks and require remediation within 5 years.¹²³

SCE seeks reasonableness review and cost recovery of \$51.30 million in incremental O&M expense and reasonableness review of \$115.86 million in incremental capital expenditures recorded to the WMPMA for distribution and transmission remediation activities in 2020.¹²⁴ SCE's incremental O&M costs include \$5.83 million for B Material, which is addressed in Section 11.3, below.

7.2.1.1 O&M

Cal Advocates recommends a disallowance of \$18.782 million for remediation O&M expense. Cal Advocates recommends the following disallowances: (1) a \$2.513 million reduction for straight-time labor costs; (2) a \$6.412 million reduction for overhead expenses; and (3) a \$9.857 million reduction for contractor expenses incurred to remediate P3 notifications.¹²⁵

Cal Advocates argues that reductions for straight-time labor and overhead costs are warranted because they are already funded through existing rates, and therefore, not incremental.¹²⁶ We decline to adopt Cal Advocates' recommended disallowances for straight-time labor and overhead costs. Based on our finding that HFRI inspection activities are incremental to activities forecast in the 2018 GRC, we find that the remediations resulting from those inspections are also incremental. We also find that SCE has adequately demonstrated its overhead costs are incremental for the reasons discussed in Section 11.2 (Overhead Costs).

¹²³ Ex. SCE-T3-01, Vol. 1 at 71-72, Table II-21.

¹²⁴ *Id.* at 70, Table II-20.

¹²⁵ Cal Advocates OB at 36.

¹²⁶ *Id.* at 41-43.

Cal Advocates also opposes SCE's request to recover remediation work expenses for P3 notifications, which are categorized as lower risk and can be performed at a later date. In 2020, SCE remediated a total of 32,499 distribution notifications, including 10,675 P3 notifications, and a total of 6,197 transmission notifications, including 62 P3 notifications.¹²⁷ Cal Advocates argues that SCE's request to recover costs to remediate P3 notifications as part of the WMPMA is unreasonable, inappropriate, and that the Commission should judge this work as part of SCE's normal business operations.¹²⁸ Cal Advocates also argues that SCE's P3 work conducted in 2020 was not cost effective, since contractor rates were higher than usual in 2020 and the P3 items did not need to be remediated on an urgent time frame.¹²⁹

SCE argues that its well-established practice of bundling notifications is operationally efficient and cost-effective.¹³⁰ SCE estimates it completed about 4% of the P3 remediations on a stand-alone basis and completed the remaining 96% in conjunction with higher priority work.¹³¹ SCE argues that deferring the work until a later time would leave an infraction on SCE's system and simply shift costs to a later period, which would not ultimately result in customer savings.¹³²

We agree with Cal Advocates that notifications categorized as P3 involve routine work that is not appropriate for recovery via the WMPMA. The purpose

¹²⁷ Ex. SCE-T3-01, Vol. 1 at 74, Table II-22 and 77, Table II-24. The total notification count includes notifications for both capital and O&M.

¹²⁸ Cal Advocates OB at 40.

¹²⁹ *Ibid.*; see also Ex. SCE-T3-01, Vol. 1 at 75 (noting increased contractor rates for 2020).

¹³⁰ SCE OB at 34.

¹³¹ *Id.* at 35.

¹³² *Ibid.*

of the WMPMA is to track costs incurred to implement SCE's approved WMP, *i.e.*, wildfire mitigation work activities.¹³³ As defined by SCE, P3 notifications "do not pose material, safety, reliability, or fire risks" and there is no indication this work was conducted to implement SCE's approved WMP.¹³⁴ We do not take issue with SCE bundling this work with higher priority notifications where it is efficient and cost-effective to do so. However, the costs for this routine work should be recovered as part of the GRC process, rather than through a memorandum account reserved for tracking expenses for wildfire mitigation work activities.

SCE did not identify which of its costs were P3 remediation costs. SCE states that since costs are recorded for work orders as a whole, not for individual repairs contained within those work orders, it is not possible for SCE to separately identify costs for P3 items.¹³⁵ Given the lack of detail concerning the P3 costs, Cal Advocates calculates its recommended adjustment based on total notifications and cost data provided by SCE. Cal Advocates calculates the ratio of total O&M to capital P1 and P2 notifications completed in 2020 and applies this ratio to the total number of completed P3 notifications to estimate the number of completed O&M P3 notifications.¹³⁶ Cal Advocates then estimates the costs for the O&M P3 notifications based on the average cost of total notifications (P1, P2,

¹³³ D.19-05-038 at 54-55, OP 18.

¹³⁴ Ex. SCE-T3-01, Vol. 1 at 72, Table II-21.

¹³⁵ SCE OB at 36.

¹³⁶ Cal Advocates OB at 41.

and P3).¹³⁷ Cal Advocates uses this methodology to separately estimate the costs for O&M P3 notifications completed for distribution and transmission.¹³⁸

Cal Advocates' calculations result in a reduction of \$9.779 million for distribution P3 remediations and \$0.078 million for transmission P3 remediations.¹³⁹

SCE argues that Cal Advocates' proposed disallowance is grossly disproportionate because SCE takes on average an additional 15 minutes to perform a P3 notification, which on average is 3% of the total remediation time of a bundled P2/P3 project.¹⁴⁰ SCE argues that Cal Advocates' recommended disallowance of \$9.78 million out of \$29.77 million in total distribution remediation costs (*i.e.*, 33% of the total costs) is overstated by a factor of 10 and should be rejected.¹⁴¹

Examples of P2 work include remediation of vegetation near line, deteriorated crossarm or splice, insufficient pole depth, and damaged insulators.¹⁴² *Examples* of P3 work include remediating missing reflector strips, ground moldings, guy wire guards, high voltage signs, and damaged dampers.¹⁴³ Based on the examples provided, P2 notifications involve more extensive work than P3 notifications. Therefore, we agree it is not reasonable to equally weight costs to remediate a P2 and P3 notification.

¹³⁷ SCE OB at 36-37; Ex. SCE-T3-12.

¹³⁸ *Ibid.*

¹³⁹ Cal Advocates OB at 41.

¹⁴⁰ SCE OB at 37.

¹⁴¹ *Ibid.*

¹⁴² Ex. SCE-T3-01, Vol. 1 at 72, Table II-21.

¹⁴³ *Ibid.*

SCE presents evidence that the average time to complete a P3 notification is on average 3% of the total time to remediate a bundled P2/P3 project. However, SCE also states that it performed approximately 4% of the P3 remediations on a stand-alone basis.¹⁴⁴ Based on the evidence in the record regarding the types of work and average time involved to remediate P2 versus P3 notifications and the percentage of P3 remediations SCE conducted on a stand-alone basis, we find it reasonable to assign 5% of SCE's total distribution remediation costs to P3 remediations. Therefore, we disallow \$1.49 million from SCE's requested \$29.77 million in distribution remediation costs.

SCE does not dispute Cal Advocates' calculated disallowance for transmission remediation costs. We find reasonable and adopt Cal Advocates' recommended disallowance of \$0.078 million to account for transmission P3 remediations.

7.2.1.2. Capital

Cal Advocates recommends that \$19.092 million from SCE's incremental capital expenditures for HFRI transmission remediation activities be excluded from recovery.¹⁴⁵ Data request responses by SCE identify that these costs are related to projects that were not closed or placed in service in 2020.¹⁴⁶ Moreover, SCE was unable to provide a future date for the completion of this work.

¹⁴⁴ Based on Cal Advocates' methodology of estimating the number of O&M P3 notifications, 4% of the distribution O&M P3 notifications (7272) would equate to approximately 291 P3 notifications, which would be approximately 1.3% of the total distribution O&M notifications (P1, P2, and P3). (See Ex. SCE-T3-12.)

¹⁴⁵ Cal Advocates OB at 77.

¹⁴⁶ Ex. Cal Advocates-08 at 9.

Cal Advocates argues that SCE's incomplete projects do not meet the "used and useful" principle that requires assets to be physically used and useful to current ratepayers before customers pay the associated costs.¹⁴⁷

We find that SCE has failed to justify the reasonableness of the \$19.092 million in CWIP for projects that remained incomplete by the end of 2020. We cannot determine the reasonableness of recorded costs for incomplete projects. The total costs to complete the projects remain unknown and it is uncertain when the projects will provide a benefit to ratepayers. There is a distinction between the Commission determining it is reasonable for a utility to be authorized a CWIP balance on a forecast basis in a GRC versus in a reasonableness review of recorded costs in a memorandum account. As discussed further in Section 6.1.2 (CWIP Costs), SCE does not cite to any applicable Commission precedent that would support SCE's position that recorded CWIP costs for incomplete projects may be found reasonable during a reasonableness review of a memorandum account.

7.2.2. Costs Recorded in FRMMA

7.2.2.1. O&M

SCE seeks reasonableness review and cost recovery of \$2.13 million in incremental O&M expense recorded in FRMMA for performing remediations from EDFI notifications.¹⁴⁸ Cal Advocates recommends a disallowance of \$0.47 million in O&M. Cal Advocates' recommendation is based on removing 58% of labor costs associated with normal time hours, which Cal Advocates

¹⁴⁷ *Ibid.*

¹⁴⁸ Ex. SCE-T3-01, Vol. 1 at 70, Table II-20.

argues SCE has failed to demonstrate were incremental to costs authorized in SCE's 2018 GRC.¹⁴⁹

As discussed in Section 4 (Incrementality Standard) and Section 11.1 (Straight-Time Labor), in evaluating whether the straight-time labor costs were incremental, we examine whether the scope and type of work were funded in the GRC. SCE launched EDFI in late 2020 and there is no evidence that labor for EDFI-related remediations was funded in the 2018 GRC. Moreover, as noted above in Section 7.1.1, SCE's overall costs for normal time labor and contractor costs increased between 2018 and 2020. Therefore, we find these costs to be incremental to the costs approved in the GRC and do not find a basis to disallow the \$0.47 million in straight-time labor on the grounds recommended by Cal Advocates.

7.2.2.2. Capital

SCE seeks reasonableness review of \$3.69 million in incremental capital expenditures recorded in FRMMA for performing remediations from EDFI notifications.¹⁵⁰ According to SCE, it incurred these capital expenditures for performing 321 replacements from EDFI notifications.¹⁵¹

Cal Advocates recommends a disallowance of \$0.42 million for SCE's FRMMA remediation capital expenditures.¹⁵² Cal Advocates' recommendation is based on excluding costs associated with projects that Cal Advocates contends were deferred and/or already funded by ratepayers in various GRCs. According to Cal Advocates, SCE stated in a data request response that it is seeking

¹⁴⁹ Cal Advocates OB at 43-44.

¹⁵⁰ Ex. SCE-T3-01, Vol. 1 at 70, Table II-20.

¹⁵¹ *Id.* at 76.

¹⁵² Cal Advocates OB at 44.

recovery for 414 distribution remediations.¹⁵³ Based on discovery, Cal Advocates determined that 47 of these remediations were associated with deferred maintenance projects that SCE identified as requiring remediation between five to 20 years ago.¹⁵⁴ Since SCE could not provide a breakdown of the costs associated with the 47 remediations, Cal Advocates calculates its recommended disallowance by multiplying the 47 remediations by the average cost of the 414 total remediations.¹⁵⁵

We find that SCE has failed to demonstrate that the costs associated with the 47 remediations are incremental given that the remediation notifications are between five to 20 years old. Given the lack of information provided by SCE regarding these remediations, we find Cal Advocates' recommended disallowance to be reasonable.

7.3. HFRI Program Management Office

In 2019, given the scale and schedule of the EOI program, SCE set up a dedicated central program management office (PMO) to provide oversight for all wildfire mitigation activities. According to SCE, the most effective use of resources was to have contract and temporary workers staff the HFRI PMO activities for the first couple of years.¹⁵⁶ SCE used Deloitte LLP (Deloitte) to expeditiously help with setting up the logistics and work process for conducting the inspections, compiling the data, and completing remediations in a timely manner.¹⁵⁷ SCE continued to rely on expert consultant services throughout 2020,

¹⁵³ *Ibid.*

¹⁵⁴ *Id.* at 45.

¹⁵⁵ *Ibid.*

¹⁵⁶ Ex. SCE-T3-01, Vol. 1 at 80.

¹⁵⁷ *Ibid.*

focused on three main work streams: inspection redesign, notifications policy and process, and operational performance.¹⁵⁸ SCE incurred \$12.34 million in O&M for HFRI PMO activities and recorded the costs to the WMPMA.¹⁵⁹

Cal Advocates recommends a disallowance of \$2.71 million for consulting and contract costs incurred by the HFRI PMO. Cal Advocates' \$2.71 million adjustment consists of removing \$76,365.52 of unapplied contract discounts and \$2.63 million of invoices that Cal Advocates contends SCE did not demonstrate are incremental 2020 wildfire costs.¹⁶⁰

SCE paid Deloitte \$18.75 million for work performed from September 22, 2019 through December 5, 2020.¹⁶¹ SCE allocated 40% of these costs to Organizational Support and 60% to HFRI PMO based on SCE management's judgement as to estimated headcount/support level.¹⁶² SCE received a 2% discount for eight of the 16 invoices billed from Deloitte.¹⁶³ SCE acknowledges that it did not properly allocate the discount 40/60 between Organizational Support and HFRI PMO, but asserts that on a total cost basis, the discounts were realized, applied, and passed through to customers.¹⁶⁴

SCE's accounting of the \$18.75 million paid to Deloitte for both Organizational Support and HFRI PMO supports SCE's assertion that the total

¹⁵⁸ *Id.* at 81.

¹⁵⁹ *Ibid.*

¹⁶⁰ Cal Advocates OB at 46.

¹⁶¹ Ex. SCE-T3-01, Vol. 3 at 86, Table VII-22.

¹⁶² Ex. Cal Advocates-04 at 11-12; Ex. Cal Advocates-05 at 6.

¹⁶³ Ex. SCE-T3-01, Vol. 3 at 86, Table VII-22.

¹⁶⁴ *Id.* at 86.

cost includes the 2% discount for the eight invoices.¹⁶⁵ Therefore, we do not find that there are unapplied contract discounts for the total cost.

Cal Advocates also recommends that the Commission reduce SCE's request by \$2.63 million based on the argument that three of the 2019 invoices are not for incremental 2020 activities since they include work performed in 2019 and invoiced without any HFRI PMO activities.¹⁶⁶

SCE argues that while it has generally structured its Track 2 and Track 3 cost recovery requests to correspond to 2019 and 2020 costs (with the exception of GSRPMA costs which cover the 2018-2020 GSRP period), nothing in the relevant memorandum account tariffs or Commission decisions approving them dictates that SCE structure its recovery requests in this manner.¹⁶⁷ SCE argues that it determined incrementality of its Track 3 costs based on costs recorded in 2020, regardless of whether the work was performed in 2020, and that these costs are incremental, not duplicative of the costs requested in Track 2, and were prudently incurred on behalf of customers to mitigate wildfire risk.¹⁶⁸

SCE provides a list of all Deloitte invoices for 2019 services and indicates which invoices it requested in Track 2 versus Track 3.¹⁶⁹ SCE has adequately demonstrated that the costs for Deloitte's services it is requesting in Track 3 are distinct from the costs it requested in Track 2. Cal Advocates does not provide any explanation as to why these costs could not be included in Track 3.

With respect to SCE's allocation of the Deloitte costs to HFRI PMO,

¹⁶⁵ *Id.* at 86, Table VII-22.

¹⁶⁶ Cal Advocates OB at 46-47.

¹⁶⁷ SCE OB at 71.

¹⁶⁸ *Id.* at 71-72.

¹⁶⁹ Ex. SCE-T3-01, Vol. 3 at 87, Table VII-23.

Cal Advocates does not dispute the reasonableness of the 40/60 allocation or recommend an alternative allocation. Moreover, since SCE's Track 3 request includes both Organizational Support and HFRI PMO costs, using a different allocation would not have any impact on SCE's overall Track 3 request. For example, if the Commission were to find that less than 60% of the costs in an invoice should be allocated to HFRI PMO activities, this would result in the costs being allocated to Organizational Support instead. Therefore, we find it reasonable to use the 40/60 allocation for all Deloitte costs incurred during this period, even if a single invoice may not necessarily reflect that 60% of the costs were for HFRI PMO activities. Applying the 40/60 allocation to all invoices and the 2% discount results in recorded costs of \$11.25 million for HFRI PMO and \$7.50 million for Organizational Support.¹⁷⁰ We find the \$11.25 million in consulting and contract costs for HFRI PMO to be adequately substantiated and reasonable.

Cal Advocates also recommends disallowing \$0.735 million for HFRI PMO associated with overhead costs.¹⁷¹ SCE requests incremental costs of \$12.34 million for HFRI PMO but it is unclear what accounts for the additional \$1.09 million beyond the \$11.25 million paid to Deloitte. In a data request response to Cal Advocates, SCE stated that it allocated \$12.34 million of costs associated with Deloitte to HFRI PMO.¹⁷² Based on SCE's data request response, it is unclear how much of SCE's \$12.34 million request is for consulting and contract costs, overhead, or any other costs. Given SCE's failure to provide a breakdown of these costs, we find that SCE has failed to adequately justify the

¹⁷⁰ *Id.* at 86, Table VII-22.

¹⁷¹ Cal Advocates OB at 68.

¹⁷² Ex. Cal Advocates-04 at 11-12.

remainder of its requested costs and disallow the remaining \$1.09 million of its request.

7.4. HFRI Technology Solutions

In 2020, SCE put into place technology solutions to support HFRI inspection, data governance, and remediation work. SCE seeks cost recovery of \$29.06 million in incremental capital and \$2.44 million in incremental O&M recorded in the WMPMA for HFRI Technology Solutions.¹⁷³

Cal Advocates recommends the following disallowances: (1) removing \$0.14 million in O&M for an overpayment to contractor Cellco Partnership; (2) removing \$2.21 million for internal straight-time labor, consisting of \$2.04 million in capital and \$0.17 million in O&M; and (3) removing \$0.32 million in capital for overhead costs.¹⁷⁴

SCE confirms the overpayment of \$0.14 million to Cellco Partnership and has reduced its O&M request from \$2.58 million to \$2.44 million to account for the overpayment.¹⁷⁵ Therefore, no further reduction to SCE's request is warranted due to this issue.

We decline to adopt Cal Advocates' recommended disallowances for straight-time labor and overhead costs. Based on our finding that costs for HFRI inspections are incremental, we find that the technology solutions supporting that work are also incremental. We also find that SCE has adequately demonstrated its overhead costs are incremental for the reasons discussed in Section 11.2 (Overhead Costs).

¹⁷³ Ex. SCE-T3-01, Vol. 1E2 at 84, Table II-26.

¹⁷⁴ Cal Advocates OB at 47, 66-67, 68.

¹⁷⁵ Ex. SCE-T3-01, Vol. 3 at 37.

8. Vegetation Management

8.1. Line Clearances

8.1.1 Party Positions

SCE incurred \$354.94 million in O&M expense for Line Clearance activities in 2020.¹⁷⁶ SCE seeks reasonableness review and recovery of \$252.32 million recorded in FHPMA, which is the amount exceeding what SCE was authorized for Routine Vegetation Management in its 2018 GRC.¹⁷⁷ SCE contends that the following factors collectively increased the costs of SCE's vegetation management activities well beyond what was authorized in the 2018 GRC: (1) D.17-12-024 and associated required and recommended clearances, (2) SCE's expanded clearance practices, and (3) the passage of Senate Bill (SB) 247 (Stats. 2019), which set higher rates for tree trimmers working on vegetation clearance.¹⁷⁸ SCE attributes \$123.34 million of its incremental costs as being related to SB 247 and the remaining \$128.97 million as non-SB 247 costs.¹⁷⁹ SCE states its 2018 GRC forecast, which the Commission authorized in its entirety, was based on its last year of recorded costs, *i.e.*, 2015, and that new requirements for expanded line clearances did not exist and were not reasonably foreseeable.¹⁸⁰

TURN recommends an overall reduction of \$97.92 million of SCE's request consisting of: (1) a reduction of approximately \$46 million to account for non-SB 247 line clearance costs incurred in non-HFRA, which TURN argues were not

¹⁷⁶ Ex. SCE-T3-01, Vol. 3E2 at 48, Table IV-11.

¹⁷⁷ *Ibid.*

¹⁷⁸ Ex. SCE-T3-01, Vol. 1 at 97, 168-169.

¹⁷⁹ Ex. SCE-T3-01, Vol. 1E2 at 98, Table II-31.

¹⁸⁰ Ex. SCE-T3-01, Vol. 1 at 97.

mandated by D.17-12-024 and improperly recorded to the FHPMA;¹⁸¹ and (2) a reduction of \$51.8 million to reflect the expected savings from tree trimming contract negotiations expected during the 2021 GRC cycle.¹⁸² If the Commission declines to adopt the second disallowance, TURN recommends the Commission completely disallow SCE's request of \$16.15 million in capital and \$1.11 million in O&M for Vegetation Management Technology Solutions.¹⁸³

Cal Advocates recommends the following disallowances: (1) a disallowance of \$9.29 million in SB 247 costs, which Cal Advocates contends are Federal Energy Regulatory Commission (FERC)-jurisdictional costs that would have already been recovered from FERC Transmission rates, and (2) a disallowance of \$9.08 million in non-SB 247 costs for straight-time labor costs, which Cal Advocates contends are already included in authorized revenues and existing rates.¹⁸⁴

8.1.2. Recording of Non-High Fire-Threat District Costs in FHPMA

Since its establishment in 2009, the Commission has authorized SCE to track various costs related to fire hazard prevention activities in the FHPMA.¹⁸⁵ Relevant to SCE's Track 3 request, the Commission in D.17-12-024 authorized

¹⁸¹ TURN recommends a disallowance of \$46.12 million based on removing all non-SB 247, non-HFRA costs recorded to the FHPMA, or a disallowance of \$46.91 million based on applying the GRC authorized costs equally to HFRA and non-HFRA and then removing the remaining non-HFRA costs. (TURN OB at 44-45.) TURN's calculations of estimated HFRA, non-HFRA, SB 247, and non-SB 247 costs differ from the cost breakdowns provided by SCE. (See TURN OB at 44; Ex. TURN-T3-01, Atch-1 at 27; Ex. SCE-T3-01, Vol. 3E2 at 48, Table IV-11.)

¹⁸² TURN OB at 34-35.

¹⁸³ *Id.* at 35.

¹⁸⁴ Cal Advocates OB at 49, 54.

¹⁸⁵ See Ex. SCE-T3-01, Vol. 1 at 176-177.

SCE to track the costs incurred to implement the regulations adopted by D.17-12-024 in the FHPMA.¹⁸⁶

In D.17-12-024, the Commission adopted “new regulations to enhance the fire safety of overhead electric power lines and communication lines located in high fire-threat areas.”¹⁸⁷ D.17-12-024 made two modifications to GO 95 regulations concerning vegetation management activities: (1) Amendments to GO 95, Rule 35, Table 1 to require utilities to maintain the stricter Case 14 vegetation clearances in the High Fire-Threat District (HFTD),¹⁸⁸ and (2) Amendments to GO 95, Appendix E to increase the recommended time-of-trim clearances between power lines and vegetation in the HFTD.¹⁸⁹

D.17-12-024 did not consider or adopt any new regulations with respect to non-HFTD areas. Since D.17-12-024 only authorized SCE to track the costs incurred to implement the regulations adopted by D.17-12-024, that decision does not provide authorization for SCE to track costs in the FHPMA for activities SCE conducted in non-HFTD areas. Moreover, SCE does not cite to any additional authority that would permit SCE to record these costs in the FHPMA.

SCE states that TURN’s argument that non-HFRA costs should be ineligible for recording in the FHPMA is based on a “ratemaking technicality.”¹⁹⁰ What SCE terms a “ratemaking technicality,” in fact reflects a fundamental tenet

¹⁸⁶ D.17-12-024 at 128.

¹⁸⁷ *Id.* at 1.

¹⁸⁸ Areas internally designated by SCE as HFRA in 2020 do not fully conform to areas designated as HFTD by the Commission. In D.20-12-030, the Commission approved the inclusion of 37 out of 43 of SCE’s proposed HFRA “polygons” in the official HFTD fire map. According to SCE, the amount of high fire threat-related work SCE completed in the other 6 polygons in 2020 was de minimis. (TURN OB at 36, fn. 104 citing Ex. SCE-01 at 5, fn. 8.)

¹⁸⁹ D.17-12-024 at 3, Appendix B at B-6 and B-11.

¹⁹⁰ SCE RB at 18.

of Commission ratemaking. As discussed above in Section 4 (Incrementality Standard), under well-established principles of prospective ratemaking, the Commission does not authorize increased utility rates to account for previously incurred expenses, unless the Commission has authorized the utility to book those expense into a memorandum or balancing account before the utility incurs those expenses. Given that SCE does not cite to any Commission authority for SCE to book vegetation management activities conducted in non-HFTD into the FHPMA, consistent with the rule against retroactive ratemaking,¹⁹¹ we find that any costs for work in the non-HFTD, including SB 247-related costs, were improperly recorded in the FHPMA and not eligible for recovery in Track 3.¹⁹²

8.1.3. Allocation of GRC-Authorized Costs

Per SCE's calculation, in SCE's 2018 GRC, the Commission authorized \$80.16 million for vegetation management activities in 2020.¹⁹³ SCE incurred \$354.94 million, consisting of \$221.68 million for work in HFRA and \$133.25 million for work in non-HFRA. SCE assigns \$79.56 million of the

¹⁹¹ See Pub. Util. Code § 728; *Southern California Edison Co. v. Pub. Util. Com.* (1978) 20 Cal.3d 813, 816.

¹⁹² SCE's increase in non-HFRA costs in 2020 is partly attributable to SB 247 but also partly attributable to SCE increasing the volume of non-HFRA work. SCE's vegetation management work in non-HFRA significantly increased in 2020 compared to 2016-2019 levels. In 2020, SCE conducted 494,976 trims in non-HFRA compared to annual trims ranging from 280,340 to 315,396 between 2016-2019. (Ex. SCE-T3-01, Vol. 1 at 101, Table II-33.) SCE's 2018 GRC forecast was based on historical levels of work and the reasonableness of the increase in non-HFRA work over historical levels is unclear.

¹⁹³ Ex. SCE-T3-01, Vol. 3E2 at 48, Table IV-11. The Commission approved \$63.834 million (\$2015) for distribution vegetation management (D.19-05-020 at 64; Ex. TURN-T3-06 at 8) and \$10.443 million (\$2015) for transmission vegetation management (D.19-05-020 at 71-72).

GRC-authorized funding to work in non-HFRA and \$0.60 million to work in HFRA. Based on this assignment, SCE claims incremental line clearance costs of \$206.94 million for HFRA work and \$45.38 million for non-HFRA work.¹⁹⁴

TURN argues SCE's argument that 99% of 2018 GRC dollars for 2020 was authorized only for spending in non-HFRA is unreasonable.¹⁹⁵ SCE's 2018 GRC request for vegetation management activities was fully authorized in D.19-05-020.¹⁹⁶ TURN cites to SCE's testimony in the 2018 GRC, which specifically addressed SCE's proposals to do vegetation management work in high fire risk areas.¹⁹⁷ TURN argues that, for the incrementality test, it would be more reasonable to assign the GRC authorized dollars for 2020 to cover standard line clearances and those in areas with higher fire risk on an equal basis.¹⁹⁸ TURN contends that this assumption is actually generous to SCE as the Commission's authorization of SCE's full vegetation management request in D.19-05-020 was based on a significant portion of the vegetation management work to occur in high fire-risk areas.¹⁹⁹

SCE bears the burden of proving that the costs it is requesting are incremental to amounts authorized in SCE's 2018 GRC. Based on the testimony cited by TURN, it is clear that SCE's request for vegetation management funding in the 2018 GRC included funding for work in high fire risk areas. SCE's 2018

¹⁹⁴ Ex. SCE-T3-01, Vol. 3E2 at 48, Table IV-11. The total costs of \$354.94 million include approximately \$22.46 million in FERC-jurisdictional costs, which are not included in SCE's claimed incremental costs.

¹⁹⁵ TURN OB at 40.

¹⁹⁶ D.19-05-020 at 64, 71-72.

¹⁹⁷ TURN OB at 40-41 citing Ex. TURN-T3-06.

¹⁹⁸ *Id.* at 43.

¹⁹⁹ *Ibid.*

GRC testimony references the need for vegetation management work in high fire risk areas and even notes that trees in areas designated as high risk for wildfire may need more frequent trimming to meet Commission standards.²⁰⁰ In SCE's 2018 GRC, the Commission approved SCE's vegetation management request in full, and therefore, the authorized funding included funding for SCE to perform vegetation management work in high fire risk areas.

Neither the 2018 GRC decision nor SCE's 2018 GRC testimony, which is in the record for this proceeding, specifies how much of the authorized budget was for work in HFRA versus non-HFRA. However, we find it unreasonable to assume that only 1% of the authorized costs (or \$0.60 million) was for work in HFRA. SCE's 2018 forecast was based on its 2015 recorded costs and it is highly implausible that only 1% of these costs was for work in high fire risk areas.²⁰¹ As a point of comparison, SCE's 2020 recorded costs reflect that approximately 62.5% of its total vegetation management costs was for work in HFRA.²⁰² Moreover, SCE's vegetation management work in non-HFRA significantly increased in 2020 compared to historical levels, and we find it unlikely that SCE's 2018 forecast, which was based on historical costs, would have reflected the volume of non-HFRA work that was actually completed in 2020.²⁰³

Based on the foregoing, we find that SCE has failed to demonstrate that only 1% of the vegetation management budget authorized in the 2018 GRC was for work in HFRA and that all HFRA costs in excess of \$0.60 million were incremental. We find it probable that at least 50% of the authorized budget was

²⁰⁰ Ex. TURN-T3-06 at 7.

²⁰¹ *Id.* at 8.

²⁰² Ex. SCE-T3-01, Vol. 3E2 at Table IV-11.

²⁰³ See fn. 192, *supra*.

for work in HFRA. In the absence of more specific information, we find TURN's proposal to allocate 50% of the authorized costs to HFRA work to be reasonable.

Allocating 50% of the GRC-authorized costs of \$80.16 million to SCE's HFRA costs results in incremental HFRA costs of \$167.46 million. As discussed above, we do not find that SCE's non-HFRA costs are eligible for recovery through the FHPMA. Further, as discussed below, we do not find that any additional disallowances to SCE's line clearance costs are warranted. Therefore, we find reasonable and approve \$167.46 million for SCE's 2020 line clearance costs compared to SCE's original request of \$252.32 million.

8.1.4. Anticipated Savings from Contract Negotiations

TURN recommends the Commission reduce SCE's request for line clearance costs related to SB 247 by \$51.8 million to account for savings from tree trimming contract renegotiations expected during the 2021 GRC cycle.²⁰⁴ TURN argues SCE's vegetation management costs increased in 2020 not only due to SB 247 but also due to SCE's choice not to assign vegetation contractor crews to HFRA and non-HFRA separately, which resulted in increases to the cost of performing tree trimming service area wide.²⁰⁵ In justifying its costs for Vegetation Management Technology Solutions, SCE claims that customers will receive economic benefits from its selected system, Arbora, through savings in the form of renegotiated tree trimming contracts to be renewed in 2022 and 2023.²⁰⁶ TURN argues SCE's ratepayers are facing unprecedented affordability challenges and it would be beneficial for ratepayers to receive all of the cost

²⁰⁴ TURN OB at 46.

²⁰⁵ *Id.* at 45.

²⁰⁶ Ex. SCE-T3-01, Vol. 1 at 113-114.

savings for line clearance costs at this time.²⁰⁷ If the Commission does not reduce SCE's request for line clearance costs related to SB 247 to account for these future savings, TURN recommends the Commission adopt SBUA's proposed disallowance of Vegetation Management Technology Solutions costs.²⁰⁸

In Track 3, the Commission is reviewing the reasonableness of SCE's 2020 recorded costs for line clearance activities. TURN's arguments concerning anticipated future savings in 2022 and 2023 from tree trimming contract negotiations may have some bearing on whether SCE's requested costs for Vegetation Management Technology Solutions are reasonable but are not relevant to whether SCE's 2020 recorded costs for line clearance activities are reasonable. Moreover, if these savings do materialize during the 2021 GRC cycle, they will be captured through the recorded operation of the two-way Vegetation Management Balancing Account authorized in the Track 1 Decision.²⁰⁹ Therefore, we decline to adopt any disallowance to SCE's recorded 2020 line clearance costs based on anticipated future savings. SCE's request for Vegetation Management Technology Solutions costs is addressed below.

8.1.5. FERC-Jurisdictional Costs

Cal Advocates recommends a disallowance of \$9.29 million in line clearance costs, which Cal Advocates contends are FERC-jurisdictional costs. SCE argues that the total incremental line clearance costs requested by SCE, \$252.3 million, already excludes FERC-jurisdictional costs.²¹⁰ SCE states that its original testimony correctly presented the total incremental cost of \$252.3 million

²⁰⁷ TURN OB at 46.

²⁰⁸ *Id.* at 48, 52.

²⁰⁹ D.21-08-036 at 186.

²¹⁰ SCE OB at 43.

but incorrectly split the total cost between SB 247 and non-SB 247 costs.

According to SCE, it does not receive bills from its contractors separately for SB 247 and non-SB 247 work performed, which necessitates an after-the-fact allocation between SB 247 and non-SB 247 costs. SCE incorrectly included \$9.29 million of FERC-jurisdictional costs in the SB 247 costs presented in SCE's original testimony. However, when SCE corrected this error and removed these costs from the SB 247 costs, it resulted in an increase in the non-SB 247 costs since the total incremental costs are \$252.3 million.

Review of SCE's total costs and incremental costs supports SCE's assertion that the \$252.3 million already excludes FERC-jurisdictional costs. The cost breakdown provided by SCE indicates that SCE removed FERC-jurisdictional costs of \$9.3 million for SB 247-related costs and \$13.2 million for non-SB 247 related costs.²¹¹ We do not find evidence to support Cal Advocates' contention that an additional \$9.29 million in FERC costs is included in SCE's incremental cost request.

8.1.6. Straight-Time Labor Costs

Cal Advocates recommends a disallowance of \$9.08 million in non-SB 247 costs for straight-time labor costs, which Cal Advocates contends were already included in authorized rates, and therefore, not incremental.

SCE argues that the \$9.08 million in SCE employee straight time labor costs that Cal Advocates seeks to disallow is not included in SCE's \$252.3 million request for incremental line clearance costs.²¹² SCE points to a data request

²¹¹ Ex. SCE-T3-01, Vol. 3E2 at 48, Table IV-11.

²¹² SCE OB at 64-65.

response that details all its line clearance costs recorded in 2020 and notes that none of the incremental costs are for labor.²¹³

The data request response cited by SCE supports SCE's assertion that its requested line clearance costs do not include costs for straight time labor. Therefore, we do not find a basis for Cal Advocates' recommended disallowance.

8.2. Quality Control

SCE's Quality Control (QC) inspection process involves independent inspectors reviewing recently trimmed trees to verify that they were trimmed to the proper clearance distance. In its 2020 WMP, SCE committed to perform QC inspections of 3,000 risk-informed HFRA circuit mile inspections.²¹⁴ In 2020, SCE contracted with an independent company to perform QC inspections on a total of 8,600 circuit miles, of which 6,300 were HFRA circuit miles.²¹⁵ SCE increased the sample sizes for QC inspections to improve the confidence levels of the QC results. SCE recorded incremental O&M expense of \$3.85 million in the WMPMA for its 2020 QC activities.²¹⁶

Cal Advocates argues that SCE should not recover costs associated with QC inspections performed outside of HFRA. Cal Advocates recommends a disallowance of \$1.02 million based on SCE's estimate that approximately 26.7% of the \$3.85 million recorded was for QC inspections of non-HFRA circuit mileage.²¹⁷

²¹³ Ex. SCE-T3-30, Ex. SCE-T3-30A.

²¹⁴ Ex. SCE-T3-01, Vol. 1 at 106.

²¹⁵ *Ibid.*

²¹⁶ *Ibid.*

²¹⁷ Cal Advocates OB at 55.

TURN contends that the primary cost driver for SCE's request is SCE's decision to increase the confidence level for its QC sampling from 95% in 2019 to 99% in 2020.²¹⁸ TURN argues that this increase in QC confidence levels was not required by the Commission and that SCE has failed to establish the reasonableness of these additional costs or that ratepayers received commensurate benefits justifying these additional costs. TURN recommends the Commission disallow \$3.16 million, which is the incremental cost of increasing the QC confidence level from 95% to 99%.²¹⁹

We find that Cal Advocates' argument that SCE should not recover costs associated with QC inspections outside of HFRA has merit. The purpose of the WMPMA is to track costs incurred to implement SCE's approved WMP.²²⁰ There is no mention of vegetation management QC inspections outside of HFRA in SCE's approved 2020 WMP. Moreover, there are different requirements for vegetation management in non-HFTD. Accordingly, we find that costs for QC inspections outside of HFRA were not incurred to implement SCE's approved WMP and are improper for recovery through the WMPMA.

With respect to SCE's QC inspections within HFRA, we find that SCE has adequately justified the reasonableness of the costs associated with this work. SCE reports the following conformance results for Regulation Clearance Distance

²¹⁸ TURN OB at 48. The confidence level is the degree of confidence that the results observed within the sampled population will be indicative of what the results would be across the population. For its QC *sampling*, SCE used a confidence level of 99% with a confidence interval not greater than +/-5%, which means that SCE can be 99% confident that the find rate in the sampled population would be within +/-5% of the find rate for the entire population. (SCE OB at 45, fn. 151.)

²¹⁹ TURN OB at 48.

²²⁰ D.19-05-038 at 54-55, OP 18.

(RCD) and Compliance Clearance Distance (CCD) from the commencement of QC in April 2019 to March 31, 2021:²²¹

Year	Date Range	RCD	CCD
2019	4/1/19 – 12/31/19	97.98%	89.95%
2020	1/1/20 – 12/31/20	98.62%	94.42%
2021	1/1/21 – 3/31/21	99.40%	96.37%

SCE attributes the increase in RCD and CCD conformance to its QC program. While the QC program likely played a role, we are not entirely convinced that the improvements in conformance rates are solely attributable to the increase in confidence levels. SCE contends that communicating QC inspection results to contractors resulted in improvements to conformance rates, but it is possible SCE may have achieved similar results if SCE reported QC inspection results with a 95% as opposed to 99% confidence level. TURN also provides other potential reasons for why the conformance rates are increasing, such as, with experience, crews may be getting better at learning the regulations and SCE's CCDs.²²²

Although the improvement in conformance rates may not be solely attributable to SCE's use of a 99% confidence level for its sampling, an additional benefit of the QC program is that it results in the remediation of trees found not to conform to the RCD or CCD. TURN's proposed 95% confidence level would have resulted in the sampling of approximately 48,000 trees as opposed to the more than 300,000 trees inspected by SCE in 2020.²²³ SCE's sample size resulted

²²¹ Ex. TURN-T3-01, Atch-1 at 8. The RCD is the vegetation to conductor clearance mandated by regulation and the CCD is SCE's internal distance, which is 1.5 times the RCD. (*Ibid.*)

²²² TURN OB at 49.

²²³ Ex. SCE-T3-01, Vol. 3 at 51.

in the identification of 16,441 trees requiring remediation.²²⁴ A significant number of these trees would not have been identified or remediated with the smaller sample size proposed by TURN. This additional remediation work provides benefits to ratepayers that are not accounted for in TURN's analysis.²²⁵

Based on the above, we find SCE's QC inspection activities in HFRA to be reasonable and approve SCE's requested costs of \$2.83 million for this work.

8.3. Expanded Pole Brushing

SCE's pole brushing activity aims to reduce ignition risk and increase grid resiliency by proactively clearing brush around the base of poles. SCE requests recovery of \$7.49 million in incremental O&M expense recorded in the WMPMA for pole brushing of 159,000 HFRA poles.²²⁶ SCE's long-term plan is to clear all of its approximately 300,000 distribution poles in HFRA.²²⁷

Cal Advocates recommends a disallowance of \$5.50 million based on removing costs associated with the brushing of poles that were not required by Pub. Res. Code Section 4292.²²⁸ Cal Advocates calculates its recommended disallowance by multiplying the number of brushed poles that Cal Advocates

²²⁴ SCE OB at 46, fn. 156.

²²⁵ Moreover, although OEIS' approval of a scope of work in the WMP is not dispositive as to whether the costs are reasonable, we note that SCE's approved 2020 WMP included QC audits of 3,000 circuit miles and in its final action statement on SCE's 2021 WMP, OEIS noted that SCE had completed QC audits of more than 6,000 circuit miles in 2020 and encouraged SCE to target a similar level of QC audits in 2021. (SCE OB at 47, fn. 158 citing OEIS Final Action Statement on the 2021 WMP Update of SCE at 71.)

²²⁶ Ex. SCE-T3-01, Vol. 1 at 103.

²²⁷ Ex. SCE-T3-01, Vol. 3 at 55.

²²⁸ Cal Advocates OB at 56. Pub. Res. Code § 4292 requires electric utilities, in specified areas, to "maintain around and adjacent to any pole or tower which supports a switch, fuse, transformer, lightning arrester, line junction, or dead end or corner pole, a firebreak which consists of a clearing of not less than 10 feet in each direction from the outer circumference of such pole or tower."

states were not subject to Section 4292 (125,000 poles) by SCE's average cost of \$44 per pole.

SCE argues that the WMPMA tariff does not limit cost recovery to activities that are specifically mandated by statute and that expanded pole brushing serves two primary purposes, both of which are in customers' interests.²²⁹ First, SCE argues that pole brushing reduces wildfire ignition risk associated with SCE's poles, which as confirmed by OEIS can occur irrespective of whether a pole is under the purview of Pub. Res. Code Section 4292. SCE notes that its 2020 WMP, which the Commission and Wildfire Safety Division approved, included an expanded scope of pole brushing beyond what is required by Section 4292 and forecast this program would reduce ignitions by 3.4% in 2020.²³⁰

Second, SCE argues that pole brushing helps protect SCE poles from being destroyed in a wildfire (irrespective of ignition source) and can help avoid damage to electrical infrastructure assets, as demonstrated by the 2020 Stagecoach and Apple Fires.²³¹ SCE argues pole brushing, at roughly \$44 per unit, can eliminate the need for a more expensive pole replacement, which can cost approximately \$20,000 per unit.²³² SCE also states that pole brushing is very cost-effective, with a Risk-Spend Efficiency score of more than 60.²³³

²²⁹ SCE OB at 47.

²³⁰ *Id.* at 48.

²³¹ *Ibid.*

²³² Ex. SCE-T3-01, Vol. 3 at 55.

²³³ *Id.* at 57.

SCE forecast a 3.4% reduction in ignitions in 2020 due to expanded pole brushing. This wildfire initiative was forecast to have the second largest incremental ignition reduction after the Wildfire Covered Conductor Program (6.4% reduction) at relatively low cost.²³⁴ Given the cost effectiveness and reduction in wildfire risk, we find SCE's expanded pole brushing in HFRA to be reasonable despite the fact that such brushing may not be mandated by Pub. Res. Code Section 4292.

However, SCE presents conflicting information regarding the number of HFRA poles brushed and the associated costs. SCE testifies it incurred \$7.49 million for brushing 159,000 HFRA poles.²³⁵ SCE also states that the 125,000 poles contested by Cal Advocates are included in the 159,000 HFRA poles but elsewhere states that only 97% of the 125,000 poles are in HFRA.²³⁶ Furthermore, SCE states that it recorded an average unit cost of \$44 per pole,²³⁷ which would calculate to total costs of \$7.00 million for 159,000 poles.

SCE does not explain how brushing of non-HFRA poles implements its 2020 WMP. Therefore, we find it reasonable to approve only costs for brushing HFRA poles. Based on the record, we disallow costs for 3,750 poles (3% x 125,000), which SCE states are not in HFRA. Furthermore, we do not find a basis in the record to approve anything other than the average unit cost of \$44 per pole provided by SCE. Therefore, we find reasonable and approve a total of \$6.83 million (155,250 poles x \$44) for this activity.

²³⁴ *Id.*, Appendix B at B-34.

²³⁵ Ex. SCE-T3-01, Vol. 1 at 103.

²³⁶ Ex. SCE-T3-01, Vol. 3 at 54-55, Appendix B at B-36.

²³⁷ Ex. SCE-T3-01, Vol. 1 at 103.

8.4. Vegetation Management Project Management

SCE encountered several challenges in its vegetation management program in 2018 and 2019 due to the influx of increased vegetation management work caused by changing regulations and wildfire threats. In 2020, SCE hired consultants to create and establish processes required to implement and run the new vegetation management work. SCE relied on a single consultant group, Bain Consulting, to be responsible for project and performance management. SCE recorded \$6.66 million of incremental O&M expense in the WMPMA for this consultant work.²³⁸

Cal Advocates recommends a 10% disallowance (\$0.66 million) of SCE's requested costs.²³⁹ Cal Advocates argues SCE obtained its contractor with a no-bid contract and was unable to adequately verify the reasonableness of the costs.

SCE states that Bain was already working with SCE in 2019 to build a formal vegetation management operating model and identify how to scale up critical capabilities.²⁴⁰ SCE chose to extend Bain's statement of work in 2020 because additional time was required to execute the originally scoped tasks.²⁴¹ SCE states that, in 2019, prior to awarding a contract for Bain to continue the work, SCE compared multiple vendor rates with a similar pricing structure through a rate card, weighed options with various vendors based on a specific statement of work, and ultimately negotiated competitive rates with Bain.²⁴² SCE

²³⁸ *Id.* at 107.

²³⁹ Cal Advocates OB at 56.

²⁴⁰ SCE OB at 48-49.

²⁴¹ *Id.* at 49.

²⁴² *Ibid.*; Ex. SCE-T3-01, Vol. 3C, Appendix B at B38-B40.

also argues that Cal Advocates' proposed 10% disallowance is arbitrary and unsupported by any analysis.²⁴³

A competitive solicitation helps to ensure that a project is undertaken by the most qualified vendor at reasonable cost. However, there was no requirement that SCE conduct a competitive solicitation prior to awarding the contract to Bain and it does not necessarily follow that a lack of a competitive solicitation renders the contract cost unreasonable. In this instance, Bain was already engaged to develop an operating model for SCE's vegetation work and the selection of another vendor likely would have resulted in inefficiencies and delay. Furthermore, the record reflects that SCE undertook reasonable steps to compare the rates of multiple comparable vendors prior to negotiating a contract extension. Based on the foregoing, we do not find that SCE acted imprudently in extending the contract with Bain. Moreover, no party disputes SCE's assertion that the work undertaken by the consultant was a "significant factor in improving SCE's vegetation management capability in 2020."²⁴⁴ Therefore, we find reasonable and approve SCE's recorded costs for this work.

8.5. Vegetation Management Technology Solutions

8.5.1. SCE's Request and Background

SCE's vegetation management (VM) technology solutions costs consist of costs for the development of Arbora and final development costs associated with ArcGIS Survey123 (Survey123). SCE requests incremental capital expenses of \$16.15 million (\$11.99 million for Arbora, \$4.16 million for Survey123) and incremental O&M expenses of \$1.11 million (\$1.06 million for Arbora,

²⁴³ SCE OB at 49.

²⁴⁴ Ex. SCE-T3-01, Vol. 1 at 108.

\$0.05 million for Survey123) recorded to WMPMA for this activity.²⁴⁵

Prior to 2018, SCE did not have a work management software for its routine vegetation work.²⁴⁶ In June 2018, SCE transitioned to an electronic VM system, the Clearion electronic vegetation management system (Clearion VMS).²⁴⁷ Upon deployment of Clearion VMS, SCE encountered “data quality issues related to software synchronization.”²⁴⁸ SCE conducted two root cause analyses, which were followed by attempts to repair and relaunch the software. After a third root cause analysis identified an architectural flaw, SCE discontinued use of Clearion VMS in June 2019 and pursued other solutions.²⁴⁹

SCE then implemented Survey123 as an interim solution while also evaluating and developing a long-term solution. SCE currently uses this software to provide data gathering functionality to support work initiation, scheduling, execution, and completion.²⁵⁰ However, Survey123 is not able to be fully integrated with all of SCE’s vegetation management programs and lacks many other functions needed by SCE.²⁵¹ SCE intends to replace Survey123 when the long-term solution is implemented.

SCE developed Arbora as its long-term VM tool solution. Arbora is an Integrated Vegetation Management technology platform aimed to replace disparate tools developed for multiple programs within the Vegetation

²⁴⁵ *Id.* at 108, Table II-38.

²⁴⁶ Ex. SBUA-T3-01 at 5.

²⁴⁷ *Id.* at 5, 22.

²⁴⁸ *Id.* at 10.

²⁴⁹ *Id.* at 14-15, 22.

²⁵⁰ Ex. SCE-T3-01, Vol. 1 at 115-116. SCE states it also currently uses Fulcrum but there are no costs associated with Fulcrum in SCE’s Track 3 request. (*Id.* at 112.)

²⁵¹ Ex. SBUA-T3-01 at Atch. RII-20.

Management Program, including Routine and Non-Routine Programs, Pole Clearance, Drought Resolution Initiative (DRI), and the Hazard Tree Management Program (HTMP).²⁵² According to SCE, Arbora will ultimately lead to improved program effectiveness, efficiency, and data accuracy.²⁵³ SCE launched the first iteration of Arbora in Q3 2020 to a pilot user group supporting the DRI program, expanded the use of Arbora from DRI to a combined DRI/HTMP program at the end of Q4 2020, and planned to pilot Arbora for Pole Clearing, Routine, and Non-Routine programs in 2021. SCE expects to fully implement Arbora in 2022.²⁵⁴

8.5.2. Intervenor Positions

SBUA recommends the Commission disallow SCE's full request of \$16.15 million in capital and \$1.11 million in O&M costs.²⁵⁵ SBUA argues that cost recovery for Survey123 should be disallowed because those costs are related to remedial actions after SCE's imprudent procurement of Clearion VMS and that cost recovery for Arbora should be disallowed because its principal purpose is to do what Clearion VMS failed to do.²⁵⁶ SBUA states that the Commission has already authorized recovery of the Clearion VMS software costs and that customers should not be required to pay two or three times for the same benefit where those costs arose from SCE's imprudence.²⁵⁷

²⁵² Ex. SCE-T3-01, Vol. 1 at 108.

²⁵³ *Id.* at 108-109.

²⁵⁴ *Id.* at 115.

²⁵⁵ SBUA OB at 2.

²⁵⁶ *Ibid.*

²⁵⁷ *Id.* at 2-3.

TURN agrees with SBUA's assessment that SCE's requested Track 3 costs for VM technology solutions are the direct result of SCE's prior imprudence and should not be the responsibility of ratepayers.²⁵⁸ TURN recommends the Commission hold SCE accountable by either disallowing a portion of its requested SB 247 line clearance costs to account for future tree trimming contract renegotiation savings, which SCE claims customers will realize in the 2021 GRC cycle due to Arbora, or alternatively, to adopt SBUA's proposal to disallow SCE's request for VM technology solutions.²⁵⁹

Cal Advocates recommends a disallowance of \$5.99 million in Arbora-related capital costs based on removing half of the costs for "Technology Solutions-Other," due to SCE's imprudent spending on vegetation management software.²⁶⁰ Cal Advocates states that the Commission has authorized SCE funding for vegetation management software for several GRCs and that SCE has been unable to demonstrate that ratepayers have received the intended benefits of the ratepayer funded VM software projects.²⁶¹ Noting that SCE has developed and implemented three different VM software programs over six years, Cal Advocates argues that SCE imprudently wasted resources and ratepayer funding instead of taking the time to efficiently evaluate the needs of the company and finding the gaps in the software before incurring additional development costs.²⁶²

²⁵⁸ TURN OB at 52.

²⁵⁹ *Ibid.* TURN's recommended disallowance of SB 247 line clearance costs is addressed in Section 8.1, above.

²⁶⁰ Cal Advocates OB at 58.

²⁶¹ *Id.* at 58-59.

²⁶² *Id.* at 59.

8.5.3. Scope of Track 2 Settlement

During Track 2 of this proceeding, SBUA proposed disallowances to SCE's vegetation management costs based on assertions that SCE was imprudent in procuring and implementing Clearion VMS.²⁶³ In the Track 2 settlement agreement, which the Commission approved, the parties agreed to a \$90 million O&M disallowance across three wildfire mitigation memorandum accounts, the WMPMA, FRMMA, and FHPMA.²⁶⁴ The Track 2 settlement agreement adopted SCE's entire Track 2 capital expenditure request, which included \$4.2 million for vegetation management, as just and reasonable.²⁶⁵

SCE contends that through the Track 2 settlement agreement, the parties fully and finally resolved allegations of imprudence related to VMS procurement issues and subsequent Survey123 replacement investment.²⁶⁶ SCE argues that adopting SBUA's disallowance in Track 3 would effectively act as an inappropriate double penalty for SCE's procurement of Clearion.²⁶⁷

Track 2 involved review of SCE's 2019 costs recorded in the WMPMA and FRMMA and 2018-2019 costs recorded in the FRMMA.²⁶⁸ Track 3 involves review of the reasonableness of SCE's 2020 vegetation management technology costs recorded in the WMPMA. The Track 2 settlement agreement resolved issues related to SCE's Track 2 costs but there is nothing in the settlement agreement

²⁶³ D.21-01-012 at 8.

²⁶⁴ *Id.* at 10. The disallowances were not solely related to SBUA's proposed disallowances. Cal Advocates and TURN had also recommended disallowances of SCE's requested Track 2 costs based on other grounds.

²⁶⁵ *Id.* at 9 and 10.

²⁶⁶ SCE OB at 50.

²⁶⁷ *Id.* at 52.

²⁶⁸ D.21-01-012 at 3.

that settled issues related to the reasonableness of SCE's requested costs for Track 3. Furthermore, the Track 2 settlement agreement is non-precedential.²⁶⁹ Therefore, we do not find that there is anything in the Track 2 settlement that would impact the Commission's review of SCE's requested Track 3 costs.

8.5.4. Prudence of Clearion VMS Procurement

SBUA argues that SCE failed to prudently perform its procurement duties with respect to Clearion VMS in three ways: (1) SCE failed to prudently establish the proper process for evaluating potential VMS software, including failure to adequately consider the distinct circumstances in which line clearing crews operate in California; (2) SCE knew or should have known alternatives were available at the time SCE implemented the VMS software, for example, SCE did not consult with PG&E or SDG&E despite the fact that both utilities had developed customized solutions; and (3) while the circumstances under which the software was deployed were unexpected, the volume of tree trimming and removals was not so extreme that it was a fundamental change from what level was needed from the VMS software.²⁷⁰

SCE argues that its procurement and implementation of Clearion VMS was prudent and reasonable.²⁷¹ SCE states it selected Clearion after a long and exhaustive search, which included speaking to peer utilities, participating in nationwide conferences, attending software demonstrations, and retaining a consultant to assist in the search.²⁷² SCE focused its search on a commercial

²⁶⁹ *Id.*, Attachment B at A-10.

²⁷⁰ SBUA OB at 7-8.

²⁷¹ SCE's Track 3 testimony incorporates by reference its Track 2 Rebuttal Testimony on this issue. (Ex. SCE-T3-01, Vol. 3 at 62, fn. 108.) SCE's Track 2 Rebuttal Testimony was marked as Ex. SCE-Tr.2-02, Vol. 2 and admitted into evidence in D.21-01-012.

²⁷² Ex. SCE-Tr.2-02, Vol. 2 at 41.

off-the-shelf (COTS) software as opposed to a custom solution, as the latter generally costs more, has a longer implementation timeline, and generally requires custom solutions and software programming to make modifications and upgrades.²⁷³ SCE also argues that the data scalability and synchronization issues, which SCE encountered during implementation, were unforeseeable in 2016 at the time of Clearion VMS's procurement.²⁷⁴

We find that SCE has failed to demonstrate that it acted prudently in its procurement of Clearion VMS. Although SCE considered engaging in a competitive solicitation to procure the VMS, SCE ultimately decided to procure Clearion VMS via a sole source procurement.²⁷⁵ SBUA recounts that SCE's procurement process relied heavily on the vendor's representations, very general third-party recognition, and information obtained from five utility users of Clearion VMS.²⁷⁶ Although SCE argues that data scalability and synchronization issues were unforeseeable, it does not appear that SCE researched these issues prior to procuring Clearion. SCE states it did not collect information or evaluate the software for scalability (*i.e.*, maximum number of data users and maximum volume of trees trimmed), capability to support enhanced trims, or data synchronization performance characteristics.²⁷⁷ SCE's decision not to evaluate the software for the maximum number of data users and volume of trees trimmed is questionable, especially given the evidence presented by SBUA that SCE

²⁷³ *Id.* at 42.

²⁷⁴ Ex. SCE-T3-01, Vol. 3 at 64.

²⁷⁵ Ex. SCE-Tr.2-02, Vol. 2 at 43. In contrast, SCE's procurement strategy that led to the selection of Arbora included both a Request for Proposal and Request for Information. (Ex. SCE-T3-01, Vol. 1 at 114-115.)

²⁷⁶ Ex. SBUA-T3-01 at 8.

²⁷⁷ *Id.*, Atch. RII-33.

intended for the software to support a higher number of data users (several hundred end-users) compared to other utilities that used the software (between 30 and 120 end users).²⁷⁸ Moreover, it is unclear that SCE identified or evaluated any performance standards that the software had to meet. SCE also did not obtain any performance guarantee from the vendor and the warranty provisions for Clearion VMS never came into effect because SCE never provided final acceptance of the software.²⁷⁹

Further, SCE fails to demonstrate that it reasonably considered alternatives to Clearion VMS. Although SCE states Clearion emerged as the only COTS software that met all of SCE's requirements,²⁸⁰ SCE fails to demonstrate that it was reasonable for SCE to limit its options to COTS solutions as opposed to also considering customized solutions. SCE appears to have focused on COTS solutions due to lower costs and faster implementation timeline. It does not appear that SCE gave due consideration to whether alternative solutions would have better met SCE's needs in terms of functionalities or performance. SCE is aware that both PG&E and SDG&E used customized VMS solutions and there is no evidence that either company's system failed to meet either of their needs.²⁸¹ It is unclear whether SCE consulted with PG&E or SDG&E prior to procuring Clearion. A data request response from SCE recounts SCE's conversations with PG&E and SDG&E teams at the time SCE was seeking to replace Clearion, and even then, SCE was initially focused on finding a COTS replacement.

²⁷⁸ *Id.* at 8, 11.

²⁷⁹ *Id.* at 10, Atch. RII-23.

²⁸⁰ Ex. SCE-Tr.2-02, Vol. 2 at 43.

²⁸¹ Ex. SBUA-T3-01 at 8, Atch. RII-22.

Based on the above, we find that SCE has failed to demonstrate that its sole source procurement process of Clearion VMS was reasonable. The implications of this finding on SCE's requested costs for Track 3 are addressed below.

8.5.5. Costs for Survey123

SCE's costs related to Survey123 are directly the result of the failure of Clearion VMS. Had SCE prudently procured and implemented a VMS solution in 2018, an interim solution would not have been necessary. As discussed further below, ratepayers have already funded a VM technology solution for this period. Given our findings above that SCE did not prudently procure Clearion VMS, we do not find it reasonable for ratepayers to fund this interim solution as well. This is consistent with Commission precedent to disallow costs related to remedial actions due to utility imprudence.²⁸²

SCE argues that if the Commission decides to impose a disallowance, it should be limited to costs related to Clearion VMS functionality supplanted by Survey123. SCE contends that approximately \$1.3 million of its 2020 costs for Survey123 was for iPads and Mobile Device Management tools that remain functional.²⁸³ SBUA does not oppose SCE's recovery of any costs for capital investments that can be used for the Arbora application and are not remedial to unused investments in Clearion VMS.²⁸⁴

We find that SCE has failed to demonstrate that these costs are incremental to previously authorized costs. In SCE's 2015 GRC, the Commission authorized \$9.7 million in capital costs for a VM software project for the years 2014-2016.²⁸⁵

²⁸² D.16-04-006 at 21, 24; D.12-12-030 at 55.

²⁸³ Ex. SCE-T3-01, Vol. 3 at 66, fn. 111.

²⁸⁴ SBUA OB at 9.

²⁸⁵ D.19-05-020 at 154.

SCE did not implement the project as proposed in its 2015 GRC. In SCE's 2018 GRC, the Commission authorized SCE's recorded costs of \$0.916 million for 2016 and adopted a capital forecast of \$4.75 million for 2017, which would have been included in rates for 2018-2020.²⁸⁶ SCE subsequently stated in a data request response that the amount authorized in the 2018 GRC was for a project forecasted to close in 2020.²⁸⁷

In addition, SCE states that VMS capital costs were included as part of the Track 2 settlement. SCE incurred capital costs of \$5.75 million and O&M costs of \$0.34 million for Clearion VMS.²⁸⁸ SCE previously asserted in data request responses that it purchased and implemented Clearion VMS as part of base IT capital within the 2015 GRC and 2018 GRC filing scope.²⁸⁹ SCE subsequently stated that the capital costs of the Clearion VMS software were approved as part of the Track 2 settlement.²⁹⁰ In comments on the proposed decision (PD), SCE stated that the latter data request response was mistaken and that the VM technology costs at issue in Track 2 totaled \$4.2 million in 2019 capital costs for the development and implementation of Survey123.²⁹¹ SCE filed an application (A.21-06-016) for securitization of the capital costs adopted by the Track 2 decision and in D.21-10-025, the Commission authorized SCE to recover the Track 2 capital costs through a fixed recovery charge.²⁹²

²⁸⁶ *Id.* at 155.

²⁸⁷ Ex. SBUA-T3-01 at Atch. RII-19.

²⁸⁸ *Id.* at Atch. RII-11.

²⁸⁹ *Id.* at Atchs. RII-11 and RII-18.

²⁹⁰ *Id.* at Atch. RII-30, Response to Question 07.b.

²⁹¹ SCE PD Comments at 12.

²⁹² D.21-10-025 at 26.

According to SCE, the \$4.75 million authorized in the 2018 GRC was for a VMS project forecasted to close in 2020. SCE did not request an adjustment to this 2020 capital forecast in the 2021 GRC and there is no indication that an adjustment was made in the 2021 GRC. To the extent the forecast was not adjusted, in addition to being recovered through rates during the 2018 GRC cycle, the \$4.75 million forecast would have been incorporated into SCE's rates set for the 2021 GRC cycle.

SCE has failed to provide a clear accounting of the previously authorized amounts for this activity, and therefore, we find that SCE has failed to meet its burden of demonstrating that the requested costs for Survey123 are incremental to previously authorized amounts. Moreover, it is unclear whether SCE would have incurred any costs associated with Survey123, including the costs for iPads and Mobile Device Management tools, if Clearion VMS had performed as intended. Therefore, we disallow all of SCE's requested 2020 costs for Survey123.

8.5.6. Costs for Arbora

SBUA opposes SCE recovering costs for Arbora to the extent these costs stem from SCE's previous failure to prudently procure and implement VMS software.²⁹³ However, if SCE can show that certain costs related to Arbora are related to functionality that was not expected to be delivered by the Clearion VMS software, then SBUA does not oppose SCE recovering those incremental costs.²⁹⁴

SCE argues that recovery of the costs for Arbora is reasonable because SCE's customers will see benefits from Arbora for years and because Arbora has

²⁹³ Ex. SBUA-T3-01 at 36.

²⁹⁴ *Id.* at 37.

a broader scope and much wider functionality than Clearion was intended to perform.²⁹⁵ SCE states it originally selected Clearion to manage routine and compliance-based vegetation management use cases, whereas it selected Arbora to manage a total of nine vegetation management programs, many of which postdate the procurement of Clearion.²⁹⁶ SCE also states that while it intends to use Arbora to manage routine and compliance-based vegetation management use cases in the future, it did not make any investments in those functions in 2020.²⁹⁷ SCE also argues that even if Clearion worked perfectly as intended when it was procured in 2016, its useful life for its originally intended scope of work would likely currently be coming to an end.²⁹⁸

SCE convincingly demonstrates that Arbora has a broader scope and wider functionality than was intended for Clearion VMS. Although at least some of Arbora's functionalities (*e.g.*, support for routine vegetation management) are functionalities that were expected to be delivered by Clearion, SCE's witness testified that SCE is not requesting any funds for these functionalities in Track 3.²⁹⁹

However, SCE fails to demonstrate that all the requested costs are incremental to costs previously authorized. As discussed above, the Commission previously authorized \$5.67 million for VM software in the 2018 GRC and at least another \$4.2 million for VM software as part of the Track 2 settlement. SCE fails to provide a clear accounting of its previously authorized capital costs for VM

²⁹⁵ SCE OB at 50.

²⁹⁶ *Id.* at 53.

²⁹⁷ *Ibid.*

²⁹⁸ *Id.* at 54.

²⁹⁹ *Id.* at 53-54 citing RT, Vol. 14 at 1546:6-27.

software and how much of the requested costs are incremental to previously authorized amounts. Moreover, as observed by Cal Advocates and detailed above, the Commission has authorized SCE capital funding for VMS projects for several GRCs (and during Track 2) and SCE has been unable to demonstrate that ratepayers have received the intended benefits of these ratepayer funded projects. Considering the lack of SCE's incrementality showing and the funding ratepayers have already provided for VM software since the 2015 GRC without receiving the intended benefits of the projects, we do not find it reasonable to approve any additional capital funding for VM technology solutions for 2020.

With respect to SCE's requested O&M costs, we do not find evidence that SCE was authorized O&M funding for VMS projects during this time period. Given the evidence presented by SCE that it incurred these costs to implement functionalities that would not have been provided by Clearion VMS, we find reasonable and approve SCE's request of \$1.06 million in incremental O&M expense.

9. Organizational Support

In early 2018, SCE created a Grid Resiliency & Public Safety Program Management Office (PMO) centralizing management and oversight of SCE's wildfire mitigation efforts. SCE contends that due to the rapid increase in the volume of wildfire mitigation-related work, which spanned across the entire company, this centralized PMO organization was necessary to coordinate planning, executing, and reporting across the enterprise.³⁰⁰ The PMO also performed organizational change management (OCM) activities to support

³⁰⁰ SCE OB at 54-55.

successful implementation of all wildfire mitigation activities.³⁰¹ SCE requests cost recovery of the following O&M expenses: \$0.24 million for Track 2 financial audits that SCE recorded in 2020 (FRMMA), \$1.20 million for OCM activities (FRMMA), and \$22.19 million for PMO support for Grid Resiliency (non-EOI) activities (WMPMA).³⁰²

9.1. Organizational Change Management

Cal Advocates recommends that the Commission disallow SCE's requested costs of \$1.20 million for OCM activities.³⁰³ SCE describes OCM as "a program focused on helping to identify and manage the effect of necessary changes to business processes, systems and tools, job roles, policies and procedures, and other areas that may have a corresponding impact to resources."³⁰⁴ Cal Advocates argues that this type of activity is neither new nor unique to SCE's wildfire mitigation efforts and that SCE is already recovering these costs in its GRC rates as a normal, routine activity within the company.³⁰⁵

SCE argues that OCM for wildfire mitigation is a new program that specifically targets SCE's wildfire mitigation efforts. SCE contends that SCE's 2018 GRC did not authorize any costs for wildfire mitigation related OCM.³⁰⁶ SCE also notes that in Track 1 of this proceeding, the Commission found that the

³⁰¹ *Id.* at 55.

³⁰² Ex. SCE-T3-01, Vol. 3 at 70, Table V-17.

³⁰³ Cal Advocates OB at 65.

³⁰⁴ *Ibid.*

³⁰⁵ *Ibid.*

³⁰⁶ SCE OB at 56.

wildfire management OCM program is new and incremental to other OCM activities.³⁰⁷

We continue to find that the OCM program targeting new wildfire mitigation workstreams that were not included in the 2018 GRC is new and incremental to OCM activities authorized in the 2018 GRC. Therefore, we find SCE's requested OCM costs to be incremental and reasonable.

9.2. Program Management Office Support

SCE's costs for PMO support consist of \$19.01 million for consulting services provided by Deloitte, Professional Safety Solutions, Utility Consulting Group (UCG), KPMG, and Accenture; and \$3.18 million for minor contractor costs, support costs, and indirect costs.³⁰⁸ Cal Advocates recommends that the Commission disallow \$2.97 million of SCE's requested costs.³⁰⁹

Cal Advocates recommends disallowing \$1.84 million for consulting services provided by Deloitte.³¹⁰ Cal Advocates argues that SCE failed to apply a 2% discount it received for 7 of the 16 Deloitte invoices and that the invoices cannot be verified as incremental 2020 wildfire costs. As discussed above in Section 7.3 (HFRI PMO), we find that SCE has adequately demonstrated that the costs for Deloitte's services it is requesting in Track 3 are distinct from the costs it requested in Track 2. SCE allocated 40% of these costs to Organizational Support and 60% to HFRI PMO. Applying the 40/60 allocation to all invoices and the 2% discount results in recorded costs of \$11.25 million for HFRI PMO and

³⁰⁷ *Ibid.* citing D.21-08-036 at 216.

³⁰⁸ Ex. SCE-T3-01, Vol. 1 at 125, Table II-48.

³⁰⁹ Cal Advocates OB at 60.

³¹⁰ *Id.* at 62.

\$7.50 million for Organizational Support.³¹¹ We find the \$7.50 million in Deloitte consulting and contract costs for Organizational Support to be adequately substantiated and reasonable.

Cal Advocates also recommends disallowances of \$0.63 million for UCG consulting services and \$0.43 million for KPMG consulting services.³¹² Cal Advocates contends that these expenses were for work performed in 2019 and cannot be verified as incremental 2020 wildfire costs. SCE provides a list of UCG and KPMG invoices for 2019 services and indicates which invoices it requested in Track 2 versus Track 3.³¹³ SCE has adequately demonstrated that the costs for UCG and KPMG services it is requesting in Track 3 are distinct from the costs it requested in Track 2. Cal Advocates does not provide any explanation as to why these costs could not be included in Track 3. Therefore, we find these costs to be incremental and do not find justification to adopt Cal Advocates' recommended disallowances.

Finally, Cal Advocates recommends a disallowance of \$0.08 million for Other O&M Organizational Support costs. Cal Advocates argues that based on the line-item expenses provided by SCE, SCE's Other O&M Organizational Support costs excluding costs for the five consultant groups total \$3.10 million versus SCE's \$3.18 million request.³¹⁴ SCE does not provide any explanation as to

³¹¹ SCE requested \$7.41 million for Deloitte costs allocated to Organizational Support. (*Id.* at 61.) However, this amount was based on incorrectly allocating costs between HFRI PMO and Organizational Support.

³¹² *Id.* at 63-64. Cal Advocates does not specify which invoices it is challenging and it is unclear how Cal Advocates arrived at its recommended disallowance amounts.

³¹³ Ex. SCE-T3-01, Vol. 3 at 87, Table VII-23.

³¹⁴ Cal Advocates OB at 64-65.

what accounts for the \$0.08 million discrepancy identified by Cal Advocates. Therefore, we find that SCE has failed to justify these costs and adopt Cal Advocates' recommended disallowance.

10. Public Safety Power Shutoffs (PSPS)

The approved GSRP settlement agreement included O&M costs of \$12.97 million for PSPS program spending.³¹⁵ SCE recorded \$28.06 million in O&M expense for PSPS GSRP activities, which is \$15.86 million above the GSRP settlement amount.³¹⁶ The only disputed issue with respect to SCE's PSPS spending concerns SCE's recorded costs for its PSPS Incident Management Team (IMT). SCE recorded \$7.90 million for labor and non-labor costs in support of PSPS IMT activities.³¹⁷ SCE activated PSPS IMT for 12 PSPS events in 2020 and 16 PSPS events in 2019.³¹⁸ TURN argues that SCE should not be allowed to recover \$2.18 million in labor-related O&M costs associated with supplemental pay provided to exempt SCE employees working on the PSPS IMT.³¹⁹

The approved GSRP settlement agreement states: "Excluding WCCP costs, all ... O&M recorded costs in excess of ... \$113,625,000 (O&M) shall be subject to Reasonableness Review, unless otherwise provided for in this Agreement."³²⁰ SCE recorded GSRP O&M costs of \$108.678 million excluding WCCP for

³¹⁵ Ex. SCE-T3-01, Vol. 1 at 137, Table II-51.

³¹⁶ *Ibid.*

³¹⁷ *Id.* at 138, Table II-52.

³¹⁸ *Id.* at 140.

³¹⁹ TURN OB at 55.

³²⁰ D.20-04-013, Appendix 1 at 7, Section C.2.

2018-2020.³²¹ Since SCE's total recorded costs are below the settled amount, SCE is not seeking recovery of any incremental GSRP O&M costs in Track 3. SCE has already refunded the overcollection in GSRP O&M costs to customers.³²²

Pursuant to the terms of the GSRP settlement agreement, which the Commission found to be reasonable and approved, unless otherwise specified in the agreement itself, SCE's GSRP O&M costs are not subject to further reasonableness review if the total recorded costs are below the total authorized costs. There is no provision in the settlement agreement for a separate reasonableness review of the PSPS costs. TURN contends it is not requesting that the Commission conduct a reasonableness review but rather that the Commission evaluate whether it was appropriate for SCE to record the PSPS overtime labor costs to the GSRPBA.³²³ It is undisputed that SCE incurred these costs for PSPS IMT. TURN, in essence, is requesting for the Commission to review the reasonableness of the recorded costs. We do not find TURN's recommendation to be consistent with the terms of the approved settlement, and therefore, decline to adopt it.

11. Financial Considerations

11.1. Straight-Time Labor

Cal Advocates recommends the following disallowances for straight-time labor expenses: (1) \$7.106 million in O&M for Enhanced Inspection Practices (WMPMA); (2) \$0.82 million in O&M for Enhanced Inspection Practices (FRMMA); (3) \$2.513 million in O&M for Remediation (WMPMA); (4) \$0.47 million in O&M for Remediation (FRMMA); and (5) \$2.21 million

³²¹ SCE OB at 58.

³²² *Id.* at 59.

³²³ TURN RB at 24-25.

(\$0.17 million O&M and \$2.04 million capital) for HFRI Technology Solutions (WMPMA).³²⁴ The recommended disallowances represent straight-time labor costs for existing SCE employees hired between 1975 and 2019. Cal Advocates argues that these straight-time labor costs are fully funded through rates regardless of the work performed, and therefore, are not incremental and should be disallowed.³²⁵

SCE argues that GRC decisions do not authorize an overall headcount for labor but rather a scope of work and associated labor and non-labor costs to complete that scope of work.³²⁶ Therefore, SCE argues that incrementality should be determined based on total costs incurred for incremental work scope for relevant activities, not headcount.³²⁷ SCE also states that in 2020, existing SCE personnel resources were reassigned to wildfire-related work in some cases based on their expertise and emergent needs, but that SCE hired contractors to perform the routine work the reassigned personnel would have otherwise performed.³²⁸ SCE notes that it is not seeking cost recovery for those backfilled, new contractor-filled positions.

SCE is correct that, in a GRC, the Commission generally authorizes a scope of work and associated labor and non-labor costs to complete that scope of work. As discussed above in Section 4 (Incrementality Standard), in determining incrementality, we compare SCE's requested Track 3 costs to the relevant categories and types of authorized costs from the GSRP Settlement and

³²⁴ Cal Advocates OB at 29, 41, 43-44, 66.

³²⁵ *Id.* at 29-30, 42, 43-44, 67.

³²⁶ SCE OB at 66.

³²⁷ *Ibid.*

³²⁸ *Id.* at 67.

SCE's 2018 GRC rather than compare costs on a total company basis. Therefore, in determining whether the straight-time labor costs were incremental, we examine whether the relevant categories and type of work were funded in the GRC. Cal Advocates' specific recommended disallowances for straight-time labor are addressed in Section 7.1 (Enhanced Inspection Practices), Section 7.2 (Remediations), and Section 7.4 (HFRI Technology Solutions).

11.2. Overhead Costs

Cal Advocates recommends the following disallowances for overhead costs recorded in WMPMA: (1) \$8.726 million in O&M for Enhanced Inspection Practices; (2) \$6.412 million in O&M for Remediation; (3) \$0.735 million in O&M expenses for HFRI PMO; and (4) \$0.318 million in capital for HFRI Technology Solutions.³²⁹ Cal Advocates states that overhead costs represent more static costs and pertain to general business functions, such as paying facility costs, rents, utilities, and government fees.³³⁰ Cal Advocates argues that SCE recovers overhead expenses through authorized revenues, and therefore, the costs are not incremental.³³¹

SCE argues that Cal Advocates' characterization of overhead costs is correct in general, for company overhead costs, but that SCE's Track 3 overhead request is for Departmental Overheads (DOH) within its Transmission and Distribution (T&D) business unit. SCE clarifies that it is not requesting recovery of company overhead costs in Track 3.³³² SCE states that DOH are costs for areas such as engineering, design, and planning directly required to execute wildfire

³²⁹ Cal Advocates OB at 32, 42, 68.

³³⁰ Ex. Cal Advocates-03 at 9.

³³¹ Cal Advocates OB at 32, 42, 68.

³³² SCE OB at 68.

mitigation work and that DOH are not fixed costs but increase as work volume increases.³³³ SCE states that the GSRP Settlement authorized DOH costs associated with the underlying work and that the costs requested in Track 3 are no different.³³⁴ SCE does not directly charge DOH because the costs support many functions. Rather, SCE partially allocates these costs to the wildfire mitigation work they support based on the DOH allocation methodology approved by the Commission in D.09-03-025.³³⁵

Review of SCE's DOH categories indicates that DOH costs vary depending on current month labor, material, contract, and other charges.³³⁶ SCE's historical DOH costs for T&D increased in 2019 and 2020, which correlate with increases in its capital and O&M costs for T&D.³³⁷ Therefore, the evidence supports SCE's assertion that DOH are not static costs but rather costs that would increase as wildfire mitigation work increases. Since DOH are not fixed costs, and since the scope of work for Enhanced Inspection Practices and associated Remediations is incremental to the scope of traditional inspections and maintenance work funded in the 2018 GRC,³³⁸ we find that SCE has adequately demonstrated that DOH costs for Enhanced Inspection Practices, Remediations, and HFRI Technology Solutions are incremental. Cal Advocates' recommendation regarding HFRI PMO is further addressed in Section 7.3.

³³³ *Ibid.*

³³⁴ *Ibid.*

³³⁵ *Id.* at 69.

³³⁶ Ex. SCE-T3-01, Vol. 3 at 83, Appendix B at 73.

³³⁷ *Id.* at 83-84, Table VII-21.

³³⁸ See further discussion in Section 7.1 (Enhanced Inspection Practices).

11.3. B Material

B Material refers to miscellaneous items used as part of remediation work activities, including cross arms, fuses, insulators, bolts, nuts, pins, etc. that are critical for safe repair and construction. SCE purchases these items in bulk and allocates the costs to relevant work orders as part of the material costs at the time of purchase.³³⁹ SCE contends that because of the nature of B Material and its use in small amounts for thousands of active work orders, it is not realistic or practical to track these items on an individual basis.³⁴⁰

SCE procured \$25.3 million of miscellaneous B Material in 2019 for Distribution Enhanced Overhead Inspection O&M remediations. SCE obtained cost recovery for \$9.1 million of these costs in Track 2 of this proceeding. The approved Track 2 settlement authorized SCE to seek recovery of up to an additional \$16.2 million of the remaining B Material costs during Track 3.³⁴¹

SCE seeks cost recovery of \$5.8 million of the remaining \$16.2 million in Track 3, consisting of a \$2.5 million true-up for B material used in 2019 and \$3.3 million for B Material used in 2020.³⁴² SCE calculates these amounts by calculating the ratio of total B Material to total T&D capital costs excluding B Material for 2019 and 2020 and applying this ratio to its Distribution O&M Remediation costs for each year.³⁴³ SCE uses 2019 data to calculate the 2019 true-up and 2020 data to calculate the 2020 costs.

³³⁹ Ex. SCE-T3-01, Vol. 1 at 170-171.

³⁴⁰ *Id.* at 171.

³⁴¹ D.21-01-012 at 11.

³⁴² Ex. SCE-T3-01, Vol. 1 at 185. SCE recorded these costs as remediation O&M expense in the WMPMA.

³⁴³ *Id.* at 185, Table IV-63.

Cal Advocates recommends disallowing the \$2.5 million true-up of 2019 B Material costs and \$0.6 million of B Material costs allocated to 2020.³⁴⁴

Cal Advocates argues that SCE's methodology for calculating B Material cost fails to identify actual B Material used, relies on inconsistent calculations, and includes a significant increase in 2019-2020 B Material spending that cannot be verified.³⁴⁵ Cal Advocates notes that in Track 2, SCE used a three-year average of 2016-2018 data to estimate the total cost of B Material used in 2019.³⁴⁶

Cal Advocates calculates its recommended disallowance for 2019 costs using the same methodology SCE used in Track 2. To calculate its recommended disallowance for 2020 costs, Cal Advocates uses the three-year average of 2017-2019 data to calculate the ratio of B Material to total capital costs and applies this ratio to the 2020 Distribution O&M Remediation costs.³⁴⁷

SCE states that it used a three-year historical average in Track 2 due to the lack of other available data but that using historical 2016 and 2017 spend does not reflect the reality of SCE's T&D spend in 2019 and 2020.³⁴⁸ SCE argues that 2019 and 2020 have different cost profiles compared to 2016-2018 because 2019 was the first full year for the full roll-out of SCE's wildfire mitigation activities. SCE states that between 2016 and 2017 to 2019 and 2020, SCE experienced an increase of approximately \$500 million per year in T&D capital expenditures, which led to an increase in the use of B Materials.³⁴⁹

³⁴⁴ Cal Advocates OB at 70.

³⁴⁵ *Ibid.*

³⁴⁶ *Id.* at 75.

³⁴⁷ *Ibid.*

³⁴⁸ SCE OB at 74.

³⁴⁹ *Id.* at 73.

Given the increase in wildfire mitigation activities and T&D work in 2019 and 2020, we would expect that costs for B Material, which is needed for repair and construction work, would also have increased in 2019 and 2020 compared to prior years. Given the increase in work during this period, we do not find that using historical spend prior to 2019 would result in an accurate estimate of costs incurred in 2019 and 2020. Rather, we find that using the present year data results in a more accurate estimate.

Given the nature of B Material and use in small amounts for thousands of active work orders, we also find it reasonable for SCE to use an allocation methodology to approximate the amount of B Material used in wildfire mitigation work. We find it reasonable to assume that a similar percentage of B Material used in overall T&D work would also apply to wildfire mitigation work. Therefore, we find it reasonable to allocate B Material costs to wildfire mitigation remediation work based on the ratio of total B material to capital costs for T&D work.

However, we find that one modification to SCE's methodology is warranted. SCE deducts B Material costs from its total capital costs prior to calculating the ratio of B Material to total capital costs.³⁵⁰ SCE does not explain why B Material costs should be deducted from total capital costs when B Material costs are recorded as O&M, and therefore, not included in capital costs.³⁵¹ In the absence of an explanation provided by SCE, we find it reasonable

³⁵⁰ Ex. SCE-T3-01, Vol. 1 at 185, Table IV-63.

³⁵¹ *Id.* at 180, Table IV-61.

for the ratio to be based on total capital spend without deducting B Material costs. This results in the following ratios:³⁵²

	2019	2020
Total Material Purchase (a)	\$536.4	\$557.0
Direct Material Purchase (b)	\$346.9	\$362.5
B Material (c=a-b)	\$189.5	\$194.5
Total Capital Costs (d)	\$2,523.8	\$2,401.1
% B Material vs. Total Capital Costs (e=c/d)	7.51%	8.10%

Applying the 2019 ratio (7.51%) to the 2019 EOI Distribution O&M Remediation costs excluding B Material (\$143.0 million), then deducting the \$9.1 million authorized in Track 2, results in a 2019 true-up of \$1.6 million. Applying the 2020 ratio (8.10%) to 2020 Distribution O&M Remediation costs (\$37.8 million) results in \$3.1 million for 2020. Based on the foregoing, we approve total B Material costs of \$4.7 million.

12. Comments on Proposed Decision

The proposed decision (PD) of ALJ Sophia J. Park in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on June 6, 2022, by SCE, TURN, SBUA, and CUE. Reply comments were filed on June 13, 2022 by SCE and CUE.

We have carefully reviewed and considered the parties' comments and made appropriate changes to the proposed decision where warranted. We find that all further comments not specifically addressed by revisions to the proposed

³⁵² 2019 and 2020 costs are in millions and taken from Ex. SCE-T3-01, Vol. 1 at 185, Table IV-63.

decision do not raise any factual, legal, or technical errors that would warrant modifications to the proposed decision.

SCE and CUE argue that the PD errs in disallowing SCE's SB 247-related costs for vegetation management line clearance work in non-HFRA. In its Track 3 request, SCE requested reasonableness review and recovery of \$252.32 million recorded in FHPMA for line clearance activities. It is this request that was litigated by the parties and is before the Commission. In considering SCE's Track 3 request, the PD found that SCE did not have authorization to record line clearance costs for non-HFRA activities in the FHPMA. There is nothing in SCE's or CUE's comments that demonstrates this finding is in error.

SCE proposes that if the Commission believes recovery of non-HFRA costs is not appropriate via the FHPMA, then the Commission should permit SCE to transfer and recover these costs via the FRMMA or permit recovery via the Z-Factor mechanism.³⁵³ These proposals, which SCE makes for the first time after submission of Track 3 in comments on the PD, were not litigated or considered during Track 3, and are not properly before the Commission.

In any event, SCE has not met its burden of establishing that it prudently incurred the costs for line clearance work in non-HFRA.³⁵⁴ Although SCE characterizes the SB 247-related costs as legally mandated, the increase in all non-HFRA costs, including the SB 247-related costs, was also driven by SCE's

³⁵³ SCE PD Comments at 5.

³⁵⁴ SCE argues that the PD's proposed disallowance of nearly \$85 million is almost double the largest disallowance proposed by any party for this cost category. (SCE PD Comments at 1.) TURN, in fact, had proposed an overall disallowance of \$97.92 million for SCE's line clearance costs. In any event, irrespective of whether an issue is contested by other parties, SCE, as the applicant, has the burden of affirmatively establishing the reasonableness of its request.

voluntary decision to significantly increase work in areas not deemed HFRA.³⁵⁵ SCE does not make the case that this increase in the level of non-HFRA work was pursuant to a statutory mandate, Commission requirement, approved WMP, or otherwise prudent and justified. The extent to which this work in non-HFRA was needed to mitigate wildfire risk has also not been established.

SCE also argues that the PD's determination to allocate the 2018 GRC authorized vegetation management budget 50/50 between HFRA and non-HFRA is not supported by the record evidence and constitutes legal error.³⁵⁶ If the Commission decides to allocate the GRC costs between HFRA and non-HFRA, SCE argues the Commission should adopt a 25/75 allocation between HFRA and non-HFRA based on the relative proportion of SCE's overhead distribution circuit miles located in those respective areas.³⁵⁷ There is no evidence that the percentage of SCE's overhead distribution circuit miles in HFRA versus non-HFRA corresponds to the relative proportion of vegetation management costs for those areas. In fact, the evidence in the record concerning SCE's recorded line clearance costs reflects that approximately 62.5% of SCE's total costs for 2020 was for work in HFRA.³⁵⁸ Although a 62.5% allocation to HFRA could be supported based on these known costs, we find the 50/50 allocation to be reasonable in light of the lack of specific evidence in the record concerning SCE's 2015 recorded costs, which formed the basis of SCE's 2018 GRC-authorized costs, and considering that data from 2016-2020 indicates SCE's percentage of trims in HFRA versus non-HFRA has varied through the years with a lower

³⁵⁵ See fn. 192, *supra*.

³⁵⁶ SCE PD Comments at 7.

³⁵⁷ *Ibid*.

³⁵⁸ Ex. SCE-T3-01, Vol. 3E2 at 48, Table IV-11.

percentage of trims in HFRA in 2016-2018 compared to 2020.³⁵⁹ Moreover, absent more specific information, we do not find further disallowance of SCE's non-HFRA costs, which increased in part due to the requirements of SB 247, to be warranted.

SCE argues that the PD improperly calculates a disallowance for the brushing of poles not located within HFRA because SCE's average unit cost for these poles was \$47.10 per pole as opposed to the \$44 per pole used in the PD to calculate the costs to be recovered.³⁶⁰ During the proceeding, SCE indicated that the "low cost of pole brushing, at roughly \$44 per unit" justified its expanded scope of pole brushing and did not dispute Cal Advocates' representation that the average unit cost for the 125,000 poles disputed by Cal Advocates was \$44 per pole.³⁶¹ Therefore, we find the PD's use of an average unit cost of \$44 per pole to be reasonable and adequately justified.

SCE also argues that the PD errs in disallowing \$1.045 million in costs related to contractor costs for aerial HFRI inspections performed in 2019.³⁶² For the reasons discussed in Section 7.1.1, above, the PD has been modified to allow SCE recovery of these costs.

In addition, the PD has been modified to correct the total amount of capital expenditures found to be reasonable based on correcting the conversion of certain budgets to constant dollars.

³⁵⁹ Ex. SCE-T3-01, Vol. 1 at 101, Table II-33. The percentage of the number of trims in HFRA versus non-HFRA does not equate to the percentage of vegetation management costs in HFRA versus non-HFRA since the cost per trim in HFRA is higher. (See Ex. SCE-T3-01, Vol. 3E2 at 48, Table IV-11.)

³⁶⁰ SCE PD Comments at 14.

³⁶¹ Ex. SCE-T3-01, Vol. 3 at 54 and 55.

³⁶² SCE PD Comments at 14-15.

13. Assignment of Proceeding

Genevieve Shiroma is the assigned Commissioner and Sophia J. Park and Ehren D. Seybert are the assigned ALJs in this proceeding.

Findings of Fact

1. With respect to individual uncontested issues in this proceeding, we find that SCE has made a prima facie just and reasonable showing, unless otherwise stated in this opinion.

Grid Hardening

2. SCE installed 1,132 circuit miles of covered conductor between 2018-2020 compared to the approved GSRP forecast of 592 miles.

3. In Track 1 of this proceeding, the Commission approved a cumulative scope of covered conductor of 4,500 circuit miles for 2019-2023 and nearly all the 1,132 miles SCE installed during the GSRP period are within the cumulative 4,500-mile scope authorization.

4. SCE's risk modeling evolved during the GSRP period.

5. SCE scoped and selected 99.6% of all covered conductor projects installed during the GSRP period pursuant to then-current risk methodologies.

6. The general lead time to scope, design, engineer, and install a covered conductor project takes approximately 16-22 months depending on the size and complexity of the work.

7. SCE's selection and scoping of covered conductor work installed through 2020 did not occur after July 2019.

8. SCE did not revert to using the GSRP criteria for risk assessment in 2020.

9. Although less precise at ranking risk than later risk models, use of the GSRP criteria still results in reducing risk for circuits with elevated risks of ignition in SCE's HFRA.

10. SCE did not act imprudently in relying on the GSRP criteria in selecting, scoping, and designing work for the WCCP through March 2019.

11. Given that the completed covered conductor projects were scoped based on a risk assessment and reduce risk in SCE's HFRA, SCE's decision to complete the in-flight projects is reasonable taking into account "cost effectiveness, safety, and expedition."

12. Based on SCE's recorded average unit cost of \$488,613 per circuit mile of covered conductor, the total cost for the completed 1,132 miles of covered conductor is \$553.11 million.

13. Costs of \$553.11 million associated with the 1,132 circuit miles of covered conductor SCE installed between 2018-2020 are reasonable.

14. SCE is unable to demonstrate that CWIP costs of \$135.11 million associated with approximately 1,970 circuit miles of covered conductor will meet the 115% average unit cost threshold adopted in the GSRP settlement.

15. SCE is unable to demonstrate the reasonableness of CWIP costs of \$135.11 million associated with approximately 1,970 circuit miles of covered conductor because the CWIP costs represent costs for incomplete projects and the costs for the completed projects are not in the record.

16. The \$111.83 million CWIP balance associated with 644 miles of covered conductor completed in the first half of 2021 is reasonable.

17. The average recorded unit cost for the 644 miles of covered conductor completed in the first half of 2021 is below the GSRP settlement authorized unit cost threshold.

18. The completed 644 miles of covered conductor completed in the first half of 2021 are within the scope of work deemed reasonable in Track 1 for the 2019-2023 period.

19. SCE installed potentially defective fuses at approximately 5,300 locations during the 2018-2020 period.

20. SCE replaced 385 of the potentially defective fuses in 2020 and plans to replace the additional potentially defective CLF units over the next five to seven years.

21. SCE's method for calculating its average recorded unit cost for fusing mitigation is reasonable and consistent with the terms of the GSRP settlement.

22. SCE provides reasonable justification for the increase in unit cost for fusing mitigation over the GSRP authorized unit cost.

23. SCE has failed to demonstrate it was prudent in selecting and installing the 5,300 potentially defective CLFs.

24. SCE does not provide adequate information regarding how it selected or installed the potentially defective fuses that would enable the Commission to make a finding that SCE acted prudently.

25. Ratepayers would not receive the full value of the costs for the 5,300 potentially defective fuses since the fuses will be replaced within five to seven years whereas the average operational life for a branch line fuse is ordinarily 12 years.

26. SCE does not present any information in the record that would enable the Commission to determine what percentage of the recorded costs for the 5,300 fuses are for the fuse itself as opposed to other components.

27. Some of the costs for installation of the potentially defective fuses are included in the GSRP funding SCE has previously been authorized to recover in rates.

Enhanced Operational Practices

28. The scope of HFRI inspections is incremental to the scope of traditional inspections and there is no evidence that the straight-time labor costs SCE is requesting for HFRI inspections were funded in the 2018 GRC.

29. Although SCE reassigned existing employees to conduct new wildfire mitigation activities, SCE also on-boarded more contractor resources to complete routine, non-wildfire work.

30. SCE's overall costs for normal time labor and contractor costs increased between 2018 and 2020.

31. SCE's requested labor costs for Enhanced Inspection Practices recorded in the WMPMA are incremental to costs approved in the GRC.

32. SCE has provided sufficient evidence demonstrating that the 2019 contractor invoices for Enhanced Inspection Practices included as part of its Track 3 request totaling \$3.855 million are distinct from those included in its Track 2 request.

33. Although Cal Advocates recommends a \$4.9 million disallowance related to SCE's 2019 contractor costs for Enhanced Inspection Practices, SCE's 2019 contractor costs included in Track 3 total \$3.855 million and Cal Advocates does not provide any justification for disallowing the remaining \$1.045 million.

34. SCE has demonstrated the reasonableness of \$88.35 million in incremental O&M expense for Enhanced Inspection Practices recorded in the WMPMA.

35. SCE launched EDFI in late 2020 and there is no evidence that the labor costs SCE is requesting for EDFI inspections were funded in the 2018 GRC.

36. SCE's requested costs of \$1.59 million in incremental O&M expense recorded in FRMMA for EDFI inspections are incremental and reasonable.

37. Based on our finding that HFRI inspection activities are incremental to activities forecast in the 2018 GRC, we find that the remediations resulting from those inspections are also incremental.

38. SCE's requested labor costs for Remediations recorded in the WMPMA are incremental to costs approved in the GRC.

39. The purpose of the WMPMA is to track costs incurred to implement SCE's approved WMP, *i.e.*, wildfire mitigation work activities.

40. P3 notifications do not pose material, safety, reliability, or fire risks and there is no indication this work was conducted to implement SCE's approved WMP.

41. Since remediation costs are recorded for work orders as a whole, not for individual repairs contained within those work orders, it is not possible for SCE to separately identify costs for P3 items.

42. P2 notifications involve more extensive work than P3 notifications and it is not reasonable to equally weight costs to remediate a P2 and P3 notification.

43. SCE takes on average an additional 15 minutes to perform a P3 notification, which on average is 3% of the total remediation time of a bundled P2/P3 project.

44. SCE performed approximately 4% of the P3 remediations on a stand-alone basis.

45. Based on the evidence in the record regarding the types of work and average time involved to remediate P2 versus P3 notifications and the percentage of P3 remediations SCE conducted on a stand-alone basis, it is reasonable to assign 5% of SCE's total distribution remediation costs to P3 remediations.

46. A disallowance of \$1.49 million to account for distribution P3 remediations is reasonable.

47. Cal Advocates' recommended disallowance of \$0.078 million to account for transmission P3 remediations is reasonable.

48. SCE has failed to justify the reasonableness of the \$19.092 million in CWIP for remediation projects that remained incomplete by the end of 2020.

49. The total costs to complete the CWIP remediation projects remain unknown and it is uncertain when the projects will provide a benefit to ratepayers.

50. SCE launched EDFI in late 2020 and there is no evidence that SCE's requested labor costs for EDFI-related remediations were funded in the 2018 GRC.

51. SCE's requested costs of \$2.13 million in incremental O&M expense recorded in FRMMA for EDFI remediations are incremental and reasonable.

52. 47 of SCE's EDFI capital remediation projects are associated with deferred maintenance projects that SCE identified as requiring remediation between five to 20 years ago.

53. SCE has failed to demonstrate that the costs associated with the 47 remediations are incremental given that the remediation notifications are between five to 20 years old.

54. Since SCE could not provide a breakdown of the costs associated with the 47 remediations, Cal Advocates' recommendation to calculate a disallowance by multiplying the 47 remediations by the average cost of the 414 total remediations for a total disallowance of \$0.42 million is reasonable.

55. The \$18.75 million SCE paid to Deloitte for work performed from September 22, 2019 through December 5, 2020 reflects a 2% discount for eight of the invoices.

56. SCE has adequately demonstrated that the costs for Deloitte's services it is requesting in Track 3 are distinct from the costs it requested in Track 2.

57. It is reasonable to use the 40/60 allocation between Organizational Support and HFRI PMO for all Deloitte costs incurred between September 22, 2019 through December 5, 2020, even if a single invoice may not necessarily reflect that 60% of the costs were for HFRI PMO activities.

58. \$11.25 million in consulting and contract costs for HFRI PMO is adequately substantiated and reasonable.

59. SCE does not adequately substantiate costs for HFRI PMO beyond \$11.25 million.

60. SCE confirms an overpayment of \$0.14 million to Cellco Partnership and has reduced its O&M request for HFRI Technology Solutions from \$2.58 million to \$2.44 million to account for the overpayment.

61. Based on our finding that costs for HFRI inspections are incremental, we find that the technology solutions supporting that work are also incremental.

62. SCE has adequately demonstrated that its labor costs for HFRI technology solutions are incremental.

63. SCE's requested costs of \$29.06 million in incremental capital and \$2.44 million in incremental O&M recorded in the WMPMA for HFRI Technology Solutions are reasonable.

Vegetation Management

64. The Commission in D.17-12-024 authorized SCE to track costs incurred to implement the regulations adopted by D.17-12-024 in the FHPMA.

65. In D.17-12-024, the Commission adopted new regulations to enhance the fire safety of overhead electric power lines and communication lines located in high fire-threat areas.

66. D.17-12-024 did not consider or adopt any new regulations with respect to non-HFTD areas.

67. SCE's request for vegetation management funding in the 2018 GRC included funding for work in high fire risk areas.

68. In SCE's 2018 GRC, the Commission approved SCE's vegetation management request in full, and therefore, the authorized funding included funding for SCE to perform vegetation management work in high fire risk areas.

69. It is unreasonable to assume that only 1% of the vegetation management costs authorized in the 2018 GRC (or \$0.60 million) was for work in HFRA.

70. In the absence of more specific information in the record, TURN's proposal to allocate 50% of the vegetation management costs authorized in the 2018 GRC to HFRA work is reasonable based on review of SCE's recorded costs for 2020 and data regarding number of trims for 2016-2020.

71. Allocating 50% of the GRC-authorized vegetation management costs of \$80.16 million to SCE's HFRA costs results in incremental HFRA costs of \$167.46 million.

72. SCE's line clearance costs of \$167.46 million for work in HFRA is incremental and reasonable.

73. TURN's arguments concerning anticipated future savings in 2022 and 2023 from tree trimming contract negotiations are not relevant to whether SCE's 2020 recorded costs for line clearance activities are reasonable.

74. If savings from tree trimming contract negotiations materialize during the 2021 GRC cycle, they will be captured through the recorded operation of the two-way Vegetation Management Balancing Account authorized in the Track 1 Decision.

75. SCE's \$252.3 million request for line clearance costs already excludes FERC-jurisdictional costs.

76. SCE's requested line clearance costs do not include costs for straight time labor.

77. The purpose of the WMPMA is to track costs incurred to implement SCE's approved WMP.

78. Costs for QC inspections outside of HFRA were not incurred to implement SCE's approved WMP.

79. SCE has adequately justified the reasonableness of the costs associated with its QC inspections within HFRA.

80. The QC program likely played a role in the increase in RCD and CCD conformance rates.

81. In addition to an improvement in conformance rates, an additional benefit of the QC program is that it results in the remediation of trees found not to conform to the RCD or CCD.

82. SCE's 2020 WMP, which the Commission and Wildfire Safety Division approved, included an expanded scope of pole brushing beyond what is required by Pub. Res. Code Section 4292 and forecast this program would reduce ignitions by 3.4% in 2020.

83. Pole brushing, at roughly \$44 per unit, can eliminate the need for a more expensive pole replacement, which can cost approximately \$20,000 per unit.

84. Given the cost effectiveness and reduction in wildfire risk, SCE's expanded pole brushing in HFRA is reasonable.

85. SCE does not explain how brushing of poles in non-HFRA implements its 2020 WMP.

86. SCE's costs of \$6.83 million for brushing 155,250 poles in HFRA at an average unit cost of \$44 per pole are adequately justified and reasonable.

87. SCE undertook reasonable steps to compare the rates of multiple comparable vendors prior to negotiating a contract extension with Bain for vegetation management project management.

88. Bain was already engaged to develop an operating model for SCE's vegetation work and the selection of another vendor likely would have resulted in inefficiencies and delay.

89. SCE did not act imprudently in extending the contract for vegetation management project management with Bain and its recorded costs are reasonable.

90. SCE has failed to demonstrate that its sole source procurement of Clearion VMS was prudent.

91. SCE did not collect information or evaluate Clearion VMS for scalability (*i.e.*, maximum number of data users and maximum volume of trees trimmed), capability to support enhanced trims, or data synchronization performance characteristics.

92. It is unclear that SCE identified or evaluated any performance standards that Clearion VMS had to meet.

93. SCE did not obtain any performance guarantee from the Clearion VMS vendor and the warranty provisions for Clearion VMS never came into effect because SCE never provided final acceptance of the software.

94. SCE fails to demonstrate that it reasonably considered alternatives to Clearion VMS prior to procurement.

95. SCE's costs related to Survey123 are directly the result of the failure of Clearion VMS.

96. Had SCE prudently procured and implemented a VMS solution in 2018, the interim solution of Survey123 would not have been necessary.

97. It is not reasonable for ratepayers to fund Survey123.

98. In SCE's 2015 GRC, the Commission authorized \$9.7 million for a VM software project for the years 2014-2016, which SCE did not implement.

99. In SCE's 2018 GRC, the Commission authorized SCE's recorded costs of \$0.916 million for 2016 and adopted a forecast of \$4.75 million for 2017, which would have been included in rates for 2018-2020.

100. VMS capital costs of at least \$4.2 million were included in the Track 2 settlement.

101. In D.21-10-025, the Commission authorized SCE to recover its Track 2 capital costs through a fixed recovery charge.

102. SCE fails to provide a clear accounting of its previously authorized capital costs for VM software and how much of the Track 3 requested costs are incremental to previously authorized amounts.

103. The Commission has authorized SCE capital funding for VMS projects for several GRCs (and during Track 2) and SCE has been unable to demonstrate that ratepayers have received the intended benefits of these ratepayer funded projects.

104. It is not reasonable to approve any additional capital funding for VM technology solutions for 2020.

105. There is no evidence that SCE was authorized O&M funding for VMS projects in 2020.

106. SCE demonstrates that Arbora has a broader scope and wider functionality than was intended for Clearion VMS.

107. Although at least some of Arbora's functionalities (*e.g.*, support for routine vegetation management) are functionalities that were expected to be delivered by Clearion, SCE is not requesting any funds for these functionalities in Track 3.

108. SCE's request of \$1.06 million in incremental O&M expense for Arbora is reasonable.

Organizational Support

109. The OCM program targeting new wildfire mitigation workstreams that were not included in the 2018 GRC is new and incremental to OCM activities authorized in the 2018 GRC.

110. SCE's requested costs of \$1.20 million for OCM activities are incremental and reasonable.

111. \$7.50 million in Deloitte consulting and contract costs for Organizational Support is adequately substantiated and reasonable.

112. SCE has adequately demonstrated that the costs for UCG and KPMG services it is requesting in Track 3 are distinct from the costs it requested in Track 2.

113. Cal Advocates' recommended disallowances to SCE's requested costs for UCG and KPMG services are not adequately justified.

114. SCE fails to explain what accounts for the \$0.08 million for Other O&M Organizational Support costs identified by Cal Advocates.

115. SCE's requested costs for PMO support are reasonable with the following adjustments: (1) a reduction of \$0.08 million for Other O&M Organizational Support costs, and (2) the addition of \$0.09 million to accurately reflect the 40/60 allocation of Deloitte invoices between Organizational Support and HFRI PMO.

PSPS

116. SCE's total recorded GSRP O&M costs are below the total O&M costs approved in the GSRP settlement.

117. SCE is not seeking recovery of any incremental GSRP O&M costs in Track 3.

Financial Considerations

118. In a GRC, the Commission generally authorizes a scope of work and associated labor and non-labor costs to complete that scope of work.

119. SCE's Track 3 overhead request is for DOH within its T&D business unit and not for company overhead costs.

120. DOH are not fixed costs but increase as work volume increases.

121. SCE's historical DOH costs for T&D increased in 2019 and 2020, which correlate with increases in its capital and O&M costs for T&D.

122. SCE's scope of work for Enhanced Inspection Practices and associated Remediations is incremental to the scope of traditional inspections and maintenance work funded in the 2018 GRC.

123. SCE has adequately demonstrated that DOH costs for Enhanced Inspection Practices, Remediations, and HFRI Technology Solutions are incremental.

124. B Material refers to miscellaneous items used as part of remediation work activities, including cross arms, fuses, insulators, bolts, nuts, pins, etc. that are critical for safe repair and construction.

125. Given the increase in wildfire mitigation activities and T&D work in 2019 and 2020, costs for B Material, which is needed for repair and construction work, would also have increased in 2019 and 2020 compared to prior years.

126. Using historical spend prior to 2019 would not result in an accurate estimate of B Material costs incurred in 2019 and 2020.

127. Given the nature of B Material and use in small amounts for thousands of active work orders, it is reasonable for SCE to use an allocation methodology to approximate the amount of B Material used in wildfire mitigation work.

128. It is reasonable to allocate B Material costs to wildfire mitigation remediation work based on the ratio of total B material to capital costs for T&D work.

129. SCE's method of deducting B Material costs, which are O&M costs, from total capital costs for T&D work to calculate the amount of B Material used in wildfire mitigation work is not justified.

130. A 2019 true-up of \$1.6 million for B Material costs is adequately justified and reasonable.

131. B Material costs of \$3.1 million for 2020 is adequately justified and reasonable.

Conclusions of Law

1. As the applicant, SCE has the burden of affirmatively establishing the reasonableness of all aspects of its application.

2. The standard of proof the applicant must meet in rate cases is that of a preponderance of the evidence.

3. The Commission uses the prudent manager standard to evaluate whether cost recovery requests are just and reasonable.

4. SCE is required to demonstrate that its Track 3 costs are incremental to costs approved in other Commission proceedings.

5. Determining incrementality on an activity-by-activity basis is consistent with established prospective ratemaking principles and Commission-approved guidelines for determining incrementality.

6. All of the costs found to be reasonable in this decision should be approved.

Grid Hardening

7. Pursuant to the GSRP settlement, average recorded covered conductor unit costs exceeding 115% of the average authorized unit cost are subject to reasonableness review.

8. Pursuant to the GSRP settlement agreement, the average recorded covered conductor unit cost must be based on recorded costs, not a forecast of what the costs are likely to be.

9. Deferring review of the \$135.11 million covered conductor CWIP balance is not inconsistent with the plain language and intent of AB 1054.

10. SCE has failed to meet its burden of demonstrating that the fusing mitigation capital costs incremental to the authorized GSRP budget are reasonable and should be recovered from ratepayers.

11. In the event SCE receives recovery from the manufacturer or supplier for the defective fuses, SCE should provide an accounting in its next GRC of the amounts of the recovery, as well as the number and costs of the defective units. To the extent ratepayers have funded some of these fuses, ratepayers should be credited their fair share of any recovery from the manufacturer or supplier.

Enhanced Operational Practices

12. SCE's request of \$88.35 million for incremental O&M expense for Enhanced Inspection Practices recorded in the WMPMA should be approved.

13. SCE's requested costs of \$1.59 million in incremental O&M expense recorded in FRMMA for EDFI inspections should be approved.

14. Notifications categorized as P3 involve routine work that is not appropriate for recovery via the WMPMA.

15. SCE's requested \$29.77 million in distribution remediation O&M costs recorded in the WMPMA should be reduced by \$1.49 million.

16. SCE's requested transmission remediation O&M costs recorded in the WMPMA should be reduced by \$0.078 million.

17. SCE's requested costs of \$2.13 million in incremental O&M expense recorded in FRMMA for EDFI remediations should be approved.

18. \$0.42 million of SCE's FRMMA remediation capital expenditures should be disallowed.

19. \$11.25 million of SCE's O&M request for HFRI PMO activities should be approved.

20. SCE's request of \$29.06 million in incremental capital and \$2.44 million in incremental O&M recorded in the WMPMA for HFRI Technology Solutions should be approved.

21. SCE should be approved \$6.83 million for brushing 155,250 poles in HFRA.

Vegetation Management

22. Since D.17-12-024 only authorized SCE to track the costs incurred to implement the regulations adopted by D.17-12-024, that decision does not provide authorization for SCE to track costs in the FHPMA for activities SCE conducted in non-HFTD areas.

23. There is no authorization for SCE to track costs for work conducted in non-HFTD areas in the FHPMA.

24. Consistent with the rule against retroactive ratemaking, any costs for work in the non-HFTD, including SB 247-related costs, were improperly recorded in the FHPMA and not eligible for recovery in Track 3.

25. SCE's line clearance costs of \$167.46 million for work in HFRA should be approved.

26. Costs for QC inspections outside of HFRA are improper for recovery through the WMPMA.

27. SCE's requested costs of \$2.83 million for QC inspections in HFRA should be approved.

28. SCE's costs associated with brushing of poles in non-HFRA should be disallowed.

29. SCE's costs of \$6.83 million for pole brushing in HFRA should be approved.

30. SCE was not required to conduct a competitive solicitation prior to awarding the vegetation management program management contract.

31. SCE's recorded costs of \$6.66 million for vegetation management project management should be approved.

32. The Track 2 settlement agreement resolved issues related to SCE's Track 2 costs but there is nothing in the settlement agreement that settled issues related to the reasonableness of SCE's requested costs for Track 3.

33. It is consistent with Commission precedent to disallow costs related to remedial actions due to utility imprudence.

34. SCE's request of \$1.06 million in incremental O&M expense for Arbora should be approved.

Organizational Support

35. SCE's requested costs of \$1.20 million for OCM activities should be approved.

36. SCE should be approved \$22.19 million for PMO support.

PSPS

37. The GSRP settlement agreement does not provide for a separate reasonableness review of SCE's PSPS costs if SCE's total recorded GSRP O&M costs are below the total authorized GSRP O&M costs.

38. TURN's recommendation to disallow SCE's costs for PSPS IMT is not consistent with the terms of the approved GSRP settlement agreement.

Financial Considerations

39. In determining whether SCE's straight-time labor costs were incremental, we should examine whether the relevant categories and type of work were funded in the GRC.

40. SCE's requested DOH costs for Enhanced Inspection Practices, Remediations, and HFRI Technology Solutions should be approved.

41. \$4.7 million in B Material costs should be approved in Track 3.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company's (SCE's) Track 3 Request is granted to the extent set forth in this Decision. SCE is authorized to recover through rates the revenue requirement associated with the approved Track 3 incremental Operations and Maintenance expenses of \$385.24 million and the approved Track 2 capital-related revenue requirement for 2020 of \$15.12 million.

2. Upon the effective date of this Decision, Southern California Edison Company is authorized to transfer the authorized revenue requirement, including interest, to the distribution subaccount of the Base Revenue Requirement Balancing Account for recovery from customers, amortized over a 36-month period.

3. Southern California Edison Company's (SCE's) Track 3 request to find reasonable incremental capital expenditures recorded in the Wildfire Mitigation Plan Memorandum Account, Fire Risk Mitigation Memorandum Account, Fire Hazard Prevention Memorandum Account, and Grid Safety and Resiliency Program Memorandum/Balancing Account is granted to the extent set forth in this Decision. SCE may seek future recovery of these capital expenditures in a separate financing order application.

4. Application 19-08-013 remains open.

This order is effective today.

Dated June 23, 2022, at San Francisco, California.

ALICE REYNOLDS

President

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

DARCIE L. HOUCK

JOHN R.D. REYNOLDS

Commissioners