PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item #9 (Rev. 1)
Agenda ID #21813

ENERGY DIVISION **RESOLUTION E-5287**
September 21, 2023

R E S O L U T I O N

Resolution E-5287. Southern California Edison requests Z-factor recovery of incremental 2020 vegetation management costs.

PROPOSED OUTCOME:

- This resolution approves Southern California Edison's (SCE) request in Advice Letter 4881-E and allows SCE to recover $35.4 million in incremental vegetation management expenses.

SAFETY CONSIDERATIONS:

- There are no safety considerations associated with this resolution.

ESTIMATED COST:

- This resolution approves recovery of approximately $35.4 million.

By Advice Letter 4881-E, Filed on October 6, 2022.

SUMMARY

This Resolution approves Southern California Edison (SCE)'s Advice Letter 4881-E requesting Z-factor treatment for incremental 2020 labor costs for vegetation management activities in the amount of $35.4 million.

BACKGROUND

Z-Factor History

The Commission has established a process for rate adjustments for unexpected and uncontrollable events in post-test year ratemaking. The adopted mechanism, called a "Z-factor," is designed to protect both the utility and customers by allowing for rate increases and decreases in the period between General Rate Cases (GRC). The Commission has addressed the Z-factor in multiple proceedings beginning with Decision (D.) 89-10-031. In that decision, the Commission adopted the Z-factor to allow rate adjustments for exogenous factors outside of the inflation index adopted for the utility. Subsequent decisions provided a comprehensive framework for Z-factor analysis establishing whether an alleged Z-factor event meets specific criteria. If it meets all the criteria, as detailed below, the cost in question is eligible for Z-factor cost recovery.

In the early 1990s, telecommunication companies on a number of occasions sought recovery for costs they considered to meet the definition of a Z-factor event. In considering these cases, the Commission established nine specific criteria for evaluating Z-factor events. These criteria were summarized in D.94-06-011. In D.04-07-022, the Commission established a Z-factor mechanism for SCE based on the nine criteria first identified in D.94-06-011. This mechanism included a $10 million deductible for each Z-factor event.

In Decision D.21-08-036, the Commission addressed the Test Year 2021 GRC application of SCE. This decision authorized SCE's existing Z-factor mechanism to continue through at least 2024.

In accordance with the decisions just described, nine criteria must be satisfied for an event affecting SCE to qualify for Z-factor treatment:

1. The event must be exogenous to the utility;
2. The event occurred after late 1989;
3. The costs are beyond the control of the utility management;
4. The costs are not a normal part of doing business;
5. The costs must have a disproportionate impact on the utility;
6. The costs must not be reflected in the escalation factors used in the GRC;
7. The costs must have a major impact on overall costs;
8. The cost impact must be measurable; and

9. The utility must incur the cost reasonably.

Senate Bill (SB) 247

On September 11, 2019, the California Legislature passed SB 247 and on October 2, 2019, Governor Gavin Newsom signed it into law. Among other requirements, SB 247 specifies qualifications for electrical line clearance tree trimmers performing work to comply with the vegetation management requirements in an electrical corporation's wildfire mitigation plan and requires that qualified line clearance tree trimmers be paid no less than a specified prevailing wage rate.

SB 247 added Public Utilities Code Section 8386.6, which provides:

> (a) All electrical line clearance tree trimmers performing work to comply with the vegetation management requirements in an electrical corporation's wildfire mitigation plan shall be qualified line clearance tree trimmers, or trainees under the direct supervision and instruction of qualified line clearance tree trimmers, as provided in the High-Voltage Electrical Safety Orders (Group 2 (commencing with Section 2700) of Subchapter 5 of Chapter 4 of Division 1 of Title 8 of the California Code of Regulations) of the Department of Industrial Relations.
>
> (b) All qualified line clearance tree trimmers shall be paid no less than the prevailing wage rate for a first period apprentice electrical utility lineman as determined by the Director of Industrial Relations.

SB 247 mandates the payment of at least the prevailing wage rate for all qualified line clearance tree trimmers, not just ones performing work in high-fire risk areas. SCE asserts that due to SB 247, SCE's vegetation management vendors had to set higher rates for qualified tree trimmers[1] working on vegetation management line clearance work.[2] The passage of SB 247 triggered a renegotiation between SCE tree trimming contractors and the local electrical workers unions across SCE's service area. The wage negotiations were completed in January 2020 and incorporated in the 2020-2021 contracts. SCE states there was an overall increase of 175 percent for vegetation management contract rates due to SB 247.[3]

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[1] SB 247 raised the rates for tree trimmers to match the first period apprentice linemen (Qualified Electrical Workers). *See* SCE AL 4881-E, Appendix B, Declaration of Melanie Jocelyn at Footnote 3.

[2] SCE AL 4881-E, Appendix B, Declaration of Melanie Jocelyn, p. 1.

[3] SCE AL 4881-E, Appendix B, Declaration of Melanie Jocelyn, p. 2.

February 28, 2020 Z-Factor Notification Letter

On February 28, 2020, SCE submitted a letter to the Executive Director notifying the Commission of its intention to track "the incremental costs of implementing SB 247 service territory-wide in the Fire Hazard Prevention Memorandum Account [FHPMA] together with the additional incremental vegetation management costs" and to pursue recovery of the incremental 2020 costs in Track 3 of its 2021 GRC.[4] SCE stated that "[i]n the event some or all of the SB 247-related incremental costs are deemed ineligible for recovery under the existing memorandum accounts, this Letter of Notification is intended to enable SCE to utilize the Z-factor mechanism in the alternative."[5]

The Notification Letter complies with SCE's Preliminary Statement AAA, Section 5 which requires the utility to provide a notification letter addressed to the Commission's Executive Director in response to a potential Z-factor.

SCE Test Years (TY) 2018 GRC and 2021 GRC Track 3

In SCE's TY 2018 GRC D.19-05-020 the Commission authorized $80.16 million for vegetation management activities in 2020.[6] SCE's TY 2018 GRC forecast was developed in 2016 based on its last year of recorded costs – i.e., 2015. The Commission authorized the entirety of SCE's forecast costs.[7]

Subsequently, the Commission issued D.17-12-024 which, among other things, established a new High Fire Threat Map and recommended increased clearance distances to mitigate the risk of ignitions from vegetation contacting energized equipment.[8]

SCE's expanded clearance practices, D.17-12-024, and the passage of SB 247 collectively increased the costs of vegetation management work beyond what was authorized in the TY 2018 GRC. In 2020, SCE incurred $332.48 million[9] in line clearance vegetation management activities, an increase of $252.32 million over what was authorized for

[4] SCE AL 4881-E, p. 3.
[5] SCE AL 4881-E, p. 3.
[6] D.19-050-020, pp. 64, 71-72 and D.22-06-032, pp. 53-54.
[7] A.19-08-013, Ex. SCE Tr.3-01, Vol. 01, p. 97.
[8] A.19-08-013, Ex. SCE Tr.3-01, Vol. 01, p.97.
[9] A.19-08-013, Ex. SCE T3-01, Vol. 03C, P.48, Table IV11

2020.[10] Of the $332.48 million, SCE attributes $207.53 million to work in high fire risk areas and the remaining $124.94 million to work in non-high fire risk areas.

In SCE's 2021 GRC A.19-08-013 Track 3, SCE sought reasonableness review and recovery of the $252.32 million of incremental 2020 line clearance costs, which SCE recorded in the Fire Hazard Prevention Memorandum Account (FHPMA).[11] SCE attributes $123.34 million of its incremental line clearance costs as being related to SB 247 and the remaining $128.97 million as non-SB 247 costs.[12]

The decision in SCE's 2021 GRC Track 3, D.22-06-032, determined that while costs incurred for work in the high fire risk areas (HFRA) were eligible for inclusion in the FHPMA, any costs incurred for work in the non-HFRA, including SB 247-related costs, were ineligible for inclusion in the FHPMA.[13] The Track 3 Decision found that D.17-12-024 authorized SCE to track costs to implement new fire regulations in the FHPMA.[14] However, because D.17-12-024 only authorized SCE to track costs related to activities in high fire threat districts, that decision does not provide authorization for SCE to record costs for non-high fire threat districts in the FHPMA.[15]

The 2018 GRC decision authorizing SCE's 2020 vegetation management-related costs of $80.16 million did not segregate the costs by geography/HFRA designation.[16] In SCE's Track 3 Decision the Commission split the $80.16 million 2018 GRC-approved vegetation management revenues evenly between HFRA and non-HFRA. The Commission found this results in incremental recorded costs of $167.46 million in HFRA[17] and authorized this amount (and none of the non-HFRA costs), instead of SCE's $252.32 million request.[18]

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[10] $332.48 million recorded - $80.16 authorized = $252.32 incremental

[11] D.22-06-032, p. 50.

[12] D.22-06-032, p. 50.

[13] D.22-06-032, p. 52.

[14] SCE uses HFRA and high fire threat districts (HFTD) synonymously. In D.20-12-030, the Commission approved most SCE's proposed changes to the Commission's official Fire-Threat Map to further synchronize SCE's HFRA and the Commission's HFTD, thereby effectively making the two regions essentially synonymous. *See* AL 4881-E, Declaration of Jael Gurrola, Footnote 4.

[15] D.22-06-032, p. 52.

[16] D.22-06-032, p. 52.

[17] $207.53 million recorded in HFRA in 2020 - $40.08 million previously authorized in TY 2018 GRC = $167.46 million incremental costs.

[18] D.22-06-032, p. 56.

<u>Advice Letter 4881-E</u>

On October 6, 2022 SCE filed Advice Letter 4881-E seeking Commission approval to recover approximately $35.4 million incurred in 2020 for vegetation management activities in the non-high fire risk areas (HFRA) due to the passage of SB 247. SCE's calculation of the total incremental costs from SB 247 in the non-HFRA was $45.4 million. SCE proposes to recover this cost in its CPUC-jurisdictional revenue requirement through its Z-factor mechanism, subject to a one-time deductible of $10 million. SCE's Preliminary Statement specifies "SCE will bear the risk of all potential Z-Factors which do not have a financial impact on SCE of more than $10 million." The total amount SCE seeks to recover through this advice letter is therefore $35.4 million.

In support of its request, SCE presented a declaration from its Principal Manager of Operational Finance, Jael Gurrola. Mr. Gurrola describes the incremental vegetation management costs and how SCE calculated the cost treatment sought in the GRC Track 3 and AL 4881-E.

SCE also presented a declaration from its Principal Manager of Vegetation Management, Melanie Jocelyn. Ms. Jocelyn describes the impact of the passage of SB 247 on SCE's vegetation management costs.

SCE's request in AL 4881-E is based on costs requested in its 2021 GRC Track 3. SCE argues the Track 3 Decision concluded the Z-factor proposal was not properly before the Commission in that proceeding but did not preclude SCE from making a future Z-Factor request via Advice Letter, pursuant to SCE's Preliminary Statement Part AAA. SCE emphasizes that it has excluded non-SB 247, non-HFRA costs from its request.

See Table 1 below for detail on SCE's 2020 line clearance cost request, which is based on its request in its GRC Track 3, as described above.

Table 1: 2020 Line Clearance Cost Breakdown ($Millions)

Line	2020 Line Clearance Costs	HFRA	Non-HFRA	Total
a	2020 Total Recorded CPUC-jurisdictional expenses	$207.53	$124.94	$332.48[19]
b	TY 2018 GRC D.19-05-020 Authorized – *GRC Track 3 Authorized Allocation between HFRA and non-HFRA*[20]	$40.08	$40.08	$80.16
c	TY 2018 GRC D.19-05-020 Authorized – *SCE Proposed Allocation between HFRA and non-HFRA*[21]	$0.60	$79.56	$80.16
d (a-c)	Incremental Spend Requested in Track 3 GRC Decision[22]	$206.94	$45.38	$252.32
e	Incremental Spend Authorized in Track 3 GRC D.22-06-32[23]	$167.46[24]	$0	$167.46
f	SCE's Request in AL 4881[25]	$0	$35.38[26]	$35.38

NOTICE

Notice of AL 4881-E was made by publication in the Commission's Daily Calendar. Southern California Edison states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

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[19] This amount excludes FERC-jurisdictional costs of $22.46 million. See A.19-08-013 SCE Opening Comments on PD, p. 8.

[20] D.19-05-020 authorized a total amount of $80.16 million for routine vegetation management activities and was not segregated by HFRA designation. The allocation of the $80.16 million between HFRA and non-HFRA was determined in Track 3 D.22-06-032, p. 55-56.

[21] D.22-06-032, p. 53-54.

[22] D.22-06-032, p. 54.

[23] D.22-06-032, p. 56.

[24] $207.53 (line a) - $40.08 (line b) = $167.46

[25] $45.38 million (see line c) - $10 million deductible = $35.4 million

[26] $45.38 (line d) - $10 million Z-factor deductible = $35.38

PROTESTS

SCE's Advice Letter 4881-E was protested by the Public Advocates Office of the Public Utilities Commission (Cal Advocates) on November 14, 2022 and The Utility Reform Network (TURN) on November 15, 2022.

SCE responded to the protests of Cal Advocates and TURN on November 22, 2022.

Cal Advocates' protest argues that 30% of SCE's requested costs in AL 4881-E fail to meet two of the nine Z-factor criteria: 1) that the cost is beyond management's control; and 2) that the cost is not a normal part of doing business.

Cal Advocates asserts that SCE fails to demonstrate that 30% of the work performed outside of the HFRA was beyond SCE's control. The protest states that SCE acknowledges that 30% of the work done outside of the HFRA was not required in this time period, because the trees were slow growing and would not encroach upon the revised line clearances.[27]

SCE Response: SCE reiterates the argument in its advice letter filing that the minimum four-foot clearance at the time of trim is frequently insufficient to maintain the required 18 inches of clearance throughout the ensuing year. SCE's reply asserts that SCE trimmers would be required to deviate from the standard practice a large majority of the time in order to maintain the 18-inch buffer. SCE argues such deviations would create operational inefficiencies, including additional tree trimming trips after mid-year inspections, more trims handled on an expensive, emergency basis, and increased disruptions to customers.

Second, Cal Advocates asserts that vegetation management is a normal cost of doing business and therefore not eligible for recovery under the Z-factor mechanism. The protest argues SCE already requested and received funding through the GRC for tree trimming activities, demonstrating vegetation management is a normal cost of doing business for the utility.

SCE Response: SCE's response argues that unforeseen costs due to the passage of SB 247 were not normal expense increases that could have been incorporated into SCE's Test Year 2018 GRC forecast. SCE further asserts that Commission precedent provides that

[27] Cal Advocates Protest, p. 2.

cost increases due a change in law are precisely the type of exogenous factors that may be recoverable through the Z-factor mechanism.[28]

TURN's protest recommends the Commission reject the entirety of SCE's $35.4 million, arguing the costs are the result of voluntary decisions made by SCE management and does not meet the Z-factor criteria that the utility must reasonably incur the costs.

TURN argues that in the GRC Track 3 Decision, the Commission reviewed the costs for line clearance work in non-HFRA and concluded that SCE had not established that the costs were prudently incurred.[29] TURN further argues that the increase in non-HFRA costs was driven by SCE's voluntary choice to conduct more tree trimming work in 2020.

SCE Response: In its response, SCE states it did provide the $45.4 million figure requested in this AL first in the Track 3 proceeding and that no party contested the breakdown of costs. SCE argues the basis for the disallowance in GRC Track 3 Decision was that SCE improperly tracked non-HFRA costs in a wildfire mitigation-specific memorandum account, but the decision did not preclude SCE from making a Z-factor request in an Advice Letter. SCE's response refers to the declarations attached to its advice letter, arguing that its line clearance work was not voluntary but rather reasonable and necessary to ensure adequate clearances to reduce ignition risk. SCE also asserts that it is not seeking recovery of the $39.5 million of non-SB 247 costs that were driven by expanded clearance practices in the non-HFRA and other factors.

DISCUSSION

For the Commission to approve this advice letter, SCE must demonstrate that its incremental labor costs for vegetation management due to the passage of SB 247 meet all nine Z-factor criteria:

1. The event must be exogenous to the utility;
2. The event occurred after late 1989;
3. The costs are beyond the control of the utility management;
4. The costs are not a normal part of doing business;
5. The costs must have a disproportionate impact on the utility;
6. The costs must not be reflected in the escalation factors used in the GRC;

[28] Reply of SCE to Protests to AL 4881-E, p. 6.

[29] TURN Protest, p. 2-3.

7. The costs must have a major impact on overall costs;
8. The cost impact must be measurable; and
9. The utility must incur the cost reasonably.

Application of Z-factor Criteria

A. The event must be exogenous to the utility and beyond the control of management

Similar arguments apply to the analysis of these two criteria and they will therefore be discussed together. We agree with SCE that the increase in labor costs for vegetation management activities in 2020 are in part the result of an exogenous event, namely the Legislature's passage of SB 247. We also agree with SCE that it had no control over the passage of SB 247 and its requirements that caused labor costs for vegetation management activities to increase. The cost increases for qualified tree trimmer are beyond SCE's control, because SCE cannot dictate the price of contracted labor. To the extent that SCE can negotiate these costs, it cannot control the negotiation positions of others. The wage negotiation efforts between SCE tree trimming contractors and the local electrical workers unions across SCE's service area does not equate to a high degree of control over the costs. We conclude SCE has met the criteria demonstrating that costs were exogenous and beyond utility management control.

B. The event occurred after late 1989

Considered in the context of D.94-06-011 and subsequent Commission interpretation,[30] this criterion refers to the requirement the Z-factor event occurred after the revenue requirement was last updated.[31] In this instance, the events giving rise to this vegetation management expense took place in the post-test year of SCE's TY 2018 GRC and were unknown at the time rates were last implemented.

C. The costs are not a normal part of doing business

Although SCE has forecasted costs for vegetation management activities in its GRCs, it could not have predicted an increase of 175 percent for vegetation management contract rates due to SB 247. While the need for line clearance work is a foreseeable expense, the magnitude of the cost increases due to SB 247 could not have been anticipated at the

[30] D.10-12-053, p. 32.
[31] D.94-06-011.

time SCE developed its Test Year 2018 GRC forecast, and thus the additional costs were not a normal part of doing business.

D. The costs must have a disproportionate impact on the utility and a major impact on overall costs

We combine the discussion of these criteria given the criteria involve similar arguments. The $252.3 million in incremental vegetation management costs in 2020, $84.9 million of which has not at this time been authorized, is significantly more than SCE has had to pay in the past for tree clearance work. SCE asserts absorbing these types of pass-through expenses would drive up financing costs for company operations and impact credit rating agencies perceptions. Accordingly, we find these criteria have been met.

E. The costs must not be reflected in the escalation factors used in the GRC

The costs are not within the escalation factors adopted by the Commission in D.19-05-020, SCE's TY 2018 GRC.

F. The cost impact must be measurable

We agree the documentation of the amount of increased vegetation management costs were measurable and sufficient to meet this criterion.

G. The utility must incur the cost reasonably

SB 247 mandated increased pay requirements for qualified tree trimmers, resulting in increases to the cost to perform line clearance tree trimming work across SCE's service area in 2020. Accordingly, SCE negotiated new contracts with its vendors to reflect these higher wage rates. We agree this is a reasonably incurred cost under the circumstances.

SCE also incurred $39.5 million in incremental non-SB 247 costs in its non-HFRA attributable to expanded clearance practices and other factors. These costs are excluded from SCE's request in Advice Letter 4881-E.

We approve Z-factor treatment for labor costs incurred for incremental SB-247 vegetation management activities in the amount of $35.4 million.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this Resolution must be served on all parties and subject to at least 30 days public review. Any comments are due within 20 days of the date of its mailing and publication on the Commission's website and in accordance with any instructions accompanying the notice. Section 311(g)(2) provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 20-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comment on August 16, 2023.

One comment was timely received: the Coalition of Utility Employees on September 5, 2023, wrote in support of the draft resolution as written.

FINDINGS

1. SCE's Z-factor mechanism was most recently authorized by the Commission as part of a SCE's last general rate case in D.21-08-036.
2. The Commission has previously adopted the following criteria for Z-factor recovery for SCE:
    a. The event must be exogenous to the utility;
    b. The event occurred after late 1989;
    c. The costs are beyond the control of the utility management;
    d. The costs are not a normal part of doing business;
    e. The costs must have a disproportionate impact on the utility;
    f. The costs must not be reflected in the escalation factors used in the GRC;
    g. The costs must have a major impact on overall costs;
    h. The cost impact must be measurable; and
    i. The utility must incur the cost reasonably.
3. In response to SB 247, SCE incurred higher 2020 costs for vegetation management activities than forecast in its TY 2018 GRC.
4. The Legislature's passage of SB 247 is exogenous to SCE and beyond the control of SCE.
5. The passage of SB 247 occurred after late 1989, took place in the post-test year of SCE's TY 2018 GRC and were unknown at the time rates were last implemented.

6. The impact of the SB 247 on SCE's vegetation management costs was not known at the time SCE filed its TY 2018 GRC.
7. The increase of 175 percent for contractor vegetation management work was not a normal part of doing business.
8. The costs at issue will have a disproportionate impact on SCE such that if they are covered by previously authorized revenues, it may increase financing costs and impact credit ratings agencies perception of SCE.
9. The costs are not within the escalation factors adopted in SCE's last GRC.
10. The costs will have a major impact on overall costs due to their large amount and non-inclusion in previously authorized revenues.
11. The incremental recorded costs for vegetation management activities in the non-high fire risk areas due to SB 247 was $45.4 million.
12. SCE shareholders are responsible for a $10 million deductible applied to Z-factor costs per the terms of Preliminary Statement AAA, Section 5.
13. SCE seeks to recover $35.4 million for its incremental labor costs for vegetation management activities in 2020.
14. Given the statutory requirements to pay the prevailing wage for vegetation management work, SCE's costs were reasonably incurred.
15. The incremental 2020 SB 247-related vegetation management costs meet the Z-factor criteria for inclusion in regulated revenue requirement and recovery from ratepayers.

THEREFORE IT IS ORDERED THAT:

1. Southern California Edison's request for Z-factor recovery of $35.4 million for incremental labor costs for vegetation management activities in Advice Letter 4881-E is approved.
2. Southern California Edison shall file a Tier 1 Advice Letter to recover from ratepayers $35.4 million amortized in rates over a 12-month period. This filing may be consolidated with other revenue requirement changes and shall be filed no later than 90 days from the date of this resolution.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 21, 2023; the following Commissioners voting favorably thereon:

Rachel Peterson
Executive Director