

Decision _____

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 2025, Among Other Things, and to Reflect That Increase in Rates.

Application 23-05-010

DECISION GRANTING JOINT MOTION TO EXTEND SOUTHERN CALIFORNIA EDISON COMPANY'S WILDFIRE LIABILITY CUSTOMER-FUNDED SELF-INSURANCE PROGRAM

Summary

This decision grants the uncontested joint motion by Southern California Edison Company (SCE), the Public Advocates Office at the California Public Utilities Commission, and The Utility Reform Network to continue SCE's wildfire liability customer-funded self-insurance program through the 2025 General Rate Case period (i.e., through December 31, 2028).

This proceeding remains open.

1. Background

On February 22, 2023, Southern California Edison Company (SCE), the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), and The Utility Reform Network (TURN) (collectively, Petitioners) entered into an agreement to jointly petition to modify Decision (D.) 21-08-036, SCE's 2021 General Rate Case (GRC) Decision, to establish a

wildfire liability customer-funded self-insurance program (Wildfire Self-Insurance Program) for SCE covering July 1, 2023 through December 31, 2024, and to advocate for continuation of the program during the 2025 GRC period (Agreement).¹ Pursuant to the Agreement, on February 22, 2023, the Petitioners filed a joint petition for modification of D.21-08-036 seeking expedited approval and adoption of the Agreement (Joint Petition) in the 2021 GRC proceeding, Application (A.) 19-08-013.

On May 12, 2023, while the Joint Petition was still pending, SCE filed its 2025 GRC application initiating this proceeding. As part of its 2025 GRC direct testimony, SCE proposes to extend the Wildfire Self-Insurance Program, if adopted in the 2021 GRC, through the 2025 GRC cycle.²

On May 18, 2023, the Commission adopted D.23-05-013 granting the Joint Petition and approving the Agreement to establish the Wildfire Self-Insurance Program. D.23-05-013 adopts the Agreement through December 31, 2024, while acknowledging that the Petitioners may seek to extend the Agreement as part of SCE's 2025 GRC.³

A prehearing conference (PHC) was held in this proceeding on July 12, 2023, to determine the parties and discuss the scope of issues, categorization, schedule of the proceeding, and other procedural matters.

On September 5, 2023, the assigned Commissioner issued a Scoping Memo and Ruling setting forth the schedule and scope of issues for this proceeding.

On February 29, 2024, intervenors served their prepared direct testimony. No party contested SCE's request to extend the Wildfire Self-Insurance Program

¹ A copy of the Agreement is included as an attachment to D.23-05-013.

² Ex. SCE-06, Vol. 3 at 31-32 and 36.

³ D.23-05-013 at 16-17 and Ordering Paragraph (OP) 2.

while TURN and Cal Advocates submitted testimony in support of SCE's request.⁴

On March 25, 2024, the Petitioners filed a joint motion requesting that the Commission approve and adopt an early decision in this proceeding extending the Wildfire Self-Insurance Program through the 2025 GRC period (Joint Motion). The Joint Motion states that, in the absence of an early decision extending SCE's current wildfire liability self-insurance coverage, SCE would need to open negotiations with commercial insurance companies by August 2024 to procure third-party wildfire liability coverage by January 1, 2025.⁵ The Commission did not receive any responses to the Joint Motion.

This decision addresses the continuation of the Wildfire Self-Insurance Program as described in the Joint Motion and Agreement. All other issues in this proceeding will be addressed through a separate decision in accordance with the schedule contained in the September 5, 2023 Assigned Commissioner's Scoping Memo and Ruling.

2. The Joint Motion is Granted Without Modification

The Joint Motion is granted without modification, extending SCE's Wildfire Self-Insurance Program through the 2025 GRC period (i.e., through December 31, 2028). As described below, we find it likely that customers will continue to receive greater overall cost savings and benefits from wildfire liability self-insurance through the 2025 GRC period, as compared to commercial insurance, and believe the Petitioners are executing the Agreement in good faith.

⁴ Ex. CA-17-E; Ex. TURN-15E and TURN-15E2 at 30.

⁵ Joint Motion at 2.

2.1. Summary of Agreement

The Agreement sets forth a framework and structure that would have SCE rely entirely on self-insurance for wildfire liability insurance coverage during the period between July 1, 2023, and December 31, 2028 (Program Period).⁶ Full self-insurance for SCE is capped at \$1 billion to capture wildfire exposure below the California wildfire fund established by Assembly Bill 1054 (Stats. 2019, ch. 79).⁷ As described in D.23-05-013 and in the Agreement, key elements of the Agreement for the Program Period between 2025-2028 include:

- SCE's 2025 baseline revenue requirement for the period January 1, 2025 to December 31, 2025 will be \$300 million as described in the Agreement, subject to the annual Adjustment Mechanism described below. (Section 3.2.3)⁸
- SCE's 2026 baseline revenue requirement for the period January 1, 2026 to December 31, 2026 will be \$274 million as described in the Agreement, subject to the annual Adjustment Mechanism described below. (Appendix B)
- In each year of the Program Period, SCE would have a shareholder contribution of 2.5 percent of any self-insurance costs ultimately paid for wildfire events that occur and result in claims that exceed \$500 million, in aggregate, up to \$1 billion. The total amount of the contribution will not exceed \$12.5 million annually (*i.e.*, 2.5 percent of \$500 million). No rate recovery of such shareholder contribution costs will be permitted. (Section 3.2.4)

⁶ D.23-05-013 adopts the Agreement through December 31, 2024, while acknowledging that the Parties may seek to extend the Agreement as part of SCE's 2025 GRC. (*See* D.23-05-013 OP 2.)

⁷ Ex. SCE-06, Vol. 3 at 29. The California wildfire fund is a form of self-insurance that is available when third-party damage claims for an eligible wildfire exceed a minimum of \$1 billion. (Public Utilities Code Section 3280(f).)

⁸ Also, Ex. SCE-17, Vol. 2 at 16-17.

- The accrued self-insurance funds will be invested and the resulting returns used to offset a portion of the cost to Commission-jurisdictional customers. (Section 3.6)
- To the extent recovery is available from transmission customers under SCE's Federal Energy Regulatory Commission (FERC) formula rate, the amounts recovered would be applied toward achieving a total, available self-insurance accrual amount of \$1 billion. (Section 3.5)
- The following mechanism for annual adjustments for 2025 and subsequent years of the Program Period would apply:⁹
 - Beginning in 2025 and through the remainder of the Program Period, if the estimated self-insurance costs for wildfire events from the immediately preceding year (including any increase or decrease in estimated Self-Insurance Costs for Wildfire Events in prior years of the Program Period) exceed the amount collected for self-insurance in that same year, the self-insurance amount authorized to be collected in rates during the following year would increase by 50 percent of the difference between the self-insurance amount collected and the estimated self-insurance costs for wildfire events in the immediately preceding year. The increase in revenue requirement would become effective January 1 of the following year, or as soon thereafter as practicable. (Section 3.2.3.1)
 - The amount of any SCE shareholder contribution (Section 3.2.4) or any one-time credit (Section 3.2.2.2) described above would not be considered in determining whether an increase is triggered under the Adjustment Mechanism.
 - The self-insurance amount to be collected in rates annually shall be no greater than the amount that would achieve a total available self-insurance accrual amount of \$1 billion as of the end of the year, assuming

⁹ Illustrative calculations of the Adjustment Mechanism and shareholder contribution are included in Appendix A and Appendix B to the Agreement.

no wildlife liability self-insurance costs are incurred that year. The amount collected for self-insurance in the annual revenue requirement would be reduced for subsequent years if, when added to the self-insurance fund balance, the total would exceed \$1 billion as of the end of that year. (Section 3.2.3.2)

- The Agreement includes provisions for addressing the balance of self-insurance funding at the end of the Program Period, whether the funding is overcollected (such that the amount of wildfire-related claims over the cycle is less than the amount of self-insurance) or undercollected (the amount of claims exceeds the amount of self-insurance). (Section 3.3)
- For the Program Period, no reimbursement of self-insurance funding or self-insurance costs will be subject to reasonableness reviews. (Section 3.4)
- A Tier 2 advice letter process will be used for implementing necessary revenue requirement adjustments under the Agreement, as well as resolution of the overcollection or undercollection that may exist at the end of the Program Period. (Section 3.7)
- SCE's Risk Management Balancing Account shall be modified as necessary to support administration of the Agreement and, more broadly, the shift to reliance on 100 percent self-insurance for wildfire liability insurance during the Program Period. (Section 3.8)
- The Petitioners will meet and confer twice annually and can make modifications to the Agreement terms, if and only if mutually agreed upon by all parties; SCE agrees to a 100 percent self-insurance model unless parties unanimously agree that third-party insurance is in customers' interest and should be pursued (which modification to the Agreement would be presented via a Tier 1 advice letter). (Sections 3.4 and 3.10.2)

2.1.1. Discussion

In D.23-05-013, the Commission found the Agreement and corresponding details of the Wildfire Self-Insurance Program to be reasonable in light of the whole record, in the public interest, and consistent with the law and with SCE's participation in the Wildfire Fund.¹⁰ No party contested SCE's proposal or the Joint Motion in this proceeding to continue the Wildfire Self-Insurance Program through the 2025 GRC cycle, or notified the Commission of any changes in the Public Utilities Code, Commission decisions, or in general law that would be contravened or compromised by the Agreement.

Concerning the potential benefits of the Wildfire Self-Insurance Program, we find it likely that customers will continue to receive greater overall cost savings and benefits from self-insurance during the 2025-2028 period compared to commercial insurance. In California, wildfire liability insurance expense experienced a 90 percent increase between 2018 and 2020, and remained at that high level through 2022.¹¹ The significant increase in wildfire liability insurance for third-party claims was recognized by the Commission in Pacific Gas and Electric Company's (PG&E's) 2023 GRC, where the Commission found that "wildfire liability insurance for third-party claims has risen to the point that self-insurance is likely to achieve sufficient insurance coverage at a lower overall cost to PG&E's customers than commercial insurance."¹² No party presented evidence in this proceeding to indicate that the premiums for commercial wildfire insurance would decrease during the 2025 GRC period, or that

¹⁰ D.23-05-013 Conclusions of Law 1-3.

¹¹ Ex. SCE-06, Vol. 3 at 41.

¹² D.23-01-005 at 1.

commercial wildfire insurance would result in greater benefits as compared to the continuation of SCE's Wildfire Self-Insurance Program.

Furthermore, since the Wildfire Self-Insurance Program became effective on July 1, 2023, SCE has been able to reduce customer rates through an \$80 million reduction in revenue requirement for calendar year 2023 and a \$160 million reduction for calendar year 2024, compared to the amount authorized in D.21-08-036, without any rate increase triggered by the adjustment mechanism. SCE is expected to reduce rates further by an additional one-time credit of \$24 million in its June 2024 rate change.¹³ Unlike with commercial insurance, under a self-insurance framework if funds are not needed to cover losses each year the self-insurance revenue requirement remains available for subsequent years.¹⁴

Lastly, the Petitioners are executing the Agreement in good faith. Since the adoption of D.23-05-013, SCE formed Edison Wildfire Insurance, Inc., a wholly-owned subsidiary of SCE and a captive insurance company incorporated in Hawaii, to hold and invest accrued self-insurance funds. Pursuant to Section 3.7.1 of the Agreement, on November 21, 2023, SCE submitted a Tier 2 consolidated rate change advice letter to include the claims activity for the prior year and show the calculation of the revenue requirement to be included in rates for the following year under the Adjustment Mechanism. The Petitioners have also held regular meet and confer sessions pursuant to Section 3.10.2 of the Agreement.¹⁵

¹³ Joint Motion at 6.

¹⁴ D.23-05-013 Finding of Fact 4.

¹⁵ *Id.* at 4-5.

For the reasons stated above, we find the Joint Motion should be granted without modification. The term of SCE's Wildfire Self-Insurance Program, as detailed in the Agreement attached to D.23-05-013, is approved through the 2025 GRC period.

3. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, as provided in Rule 14.6(c)(2), the otherwise applicable 30-day public review and comment period for this decision is waived.

4. Assignment of Proceeding

Karen Douglas is the assigned Commissioner and Ehren D. Seybert and Sophia J. Park are the assigned Administrative Law Judges in this proceeding.

Findings Of Fact

1. The details of the Wildfire Self-Insurance Program are set forth in D.23-05-013 and in the Agreement attached to D.23-05-013.
2. In D.23-05-013, the Commission found the Agreement and corresponding details of the Wildfire Self-Insurance Program to be reasonable in light of the whole record, in the public interest, and consistent with the law and with SCE's participation in the Wildfire Fund.
3. D.23-05-013 adopts the Wildfire Self-Insurance Program through December 31, 2024, while acknowledging that the Petitioners may seek to extend the Agreement as part of SCE's 2025 GRC.
4. No party contested SCE's proposal or the Joint Motion to continue the Wildfire Self-Insurance Program through the 2025 GRC period, or notified the Commission of any changes in the Public Utilities Code, Commission decisions, or in general law that would be contravened or compromised by the Agreement.

5. Unlike with commercial insurance, under a self-insurance framework if funds are not needed to cover losses in a given year the self-insurance revenue requirement remains available for subsequent years.

6. In California, wildfire liability insurance expense experienced a 90 percent increase between 2018 and 2020, and remained at that high level through 2022.

7. Since the Wildfire Self-Insurance Program became effective on July 1, 2023, SCE has been able to reduce customer rates through an \$80 million reduction in revenue requirement for calendar year 2023 and a \$160 million reduction for calendar year 2024, compared to the amount authorized in D.21-08-036, without any rate increase triggered by the adjustment mechanism, and SCE is expected to reduce rates further by an additional one-time credit of \$24 million in its June 2024 rate change.

8. No party presented evidence in this proceeding to indicate that the premiums for commercial wildfire insurance would decrease during the 2025 GRC period, or that commercial wildfire insurance would result in greater benefits as compared to the continuation of SCE's Wildfire Self-Insurance Program.

9. The Petitioners are executing the Agreement in good faith.

Conclusions Of Law

1. The Joint Motion should be granted without modification.

2. Continuation of SCE's Wildfire Self-Insurance Program, as detailed in the Agreement attached to D.23-05-013, should be approved through the 2025 GRC period.

O R D E R

IT IS ORDERED that:

1. The March 25, 2024, Joint Motion of Southern California Edison Company, the Public Advocates Office at the California Public Utilities Commission, and The Utility Reform Network for an early decision extending the wildfire liability customer-funded self-insurance program is granted without modification.

2. The term of the Agreement Between Southern California Edison Company (SCE), The Utility Reform Network, and the Public Advocates Office at the California Public Utilities Commission to Jointly Petition to Modify Decision (D.) 21-08-036 on Wildfire Liability Insurance Issues, dated February 22, 2023, and as set forth in D.23-05-013, is approved through SCE's 2025 General Rate Case period.

3. Application 23-05-010 remains open.

This order is effective today.

Dated _____, 2024, at San Francisco, California