

Application No.: A.19-08-13 Tr. 3

Exhibit No.: SCETr.03-11

Witnesses: J. Wilson



(U 338-E)

***SCE's Track 2 Settlement Agreement  
Appendix A and D2101012***

Before the

**Public Utilities Commission of the State of California**

Rosemead, California

**Appendix A**

**Track 2 Settlement Agreement**

**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.

A.19-08-013 (Track 2)

**TRACK 2 SETTLEMENT AGREEMENT BETWEEN SOUTHERN CALIFORNIA  
EDISON COMPANY, THE PUBLIC ADVOCATES OFFICE, THE UTILITY REFORM  
NETWORK, AND SMALL BUSINESS UTILITY ADVOCATES**

**A. Parties**

1. The Parties to this Settlement Agreement are Southern California Edison Company (SCE), the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), The Utility Reform Network (TURN), and Small Business Utility Advocates (SBUA). SCE, Cal Advocates, TURN, and SBUA are at times collectively referred to as Settling Parties, or individually as a Settling Party.
2. SCE is an investor-owned public utility and is subject to the jurisdiction of the California Public Utilities Commission (Commission or CPUC), including with respect to providing electric service to SCE's CPUC-jurisdictional customers.

3. Cal Advocates is a consumer advocacy organization at the Commission whose statutory mission includes obtaining the lowest possible rate for service consistent with reliable and safe service levels, and the state's environmental goals.
4. TURN is an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.
5. SBUA is a nonprofit organization that represents, protects, and promotes the interests of small business utility customers.

**B. Definitions**

1. When used in initial capitalization in this Settlement Agreement, whether in singular or plural, the following terms shall have the meanings set forth below. If the definition is not set forth below, then the term shall have the meaning as specifically defined elsewhere in this Settlement Agreement:
  - a. "Track 2" means Track 2 of SCE's General Rate Case for Test Year 2021, which has been docketed by the Commission as A.19-08-013, as set forth in the Scoping Memo therein.
  - b. "Track 3" means Track 3 of SCE's General Rate Case for Test Year 2021, which has been docketed by the Commission as A.19-08-013, as set forth in the Scoping Memo therein.
  - c. "Settlement Agreement Revenue Requirement" means the Track 2 revenue requirement of \$392.3 million that is adopted in this Settlement Agreement.
  - d. "Fire Mitigation Memorandum Accounts" means SCE's Wildfire Mitigation Memorandum Account, Fire Risk Mitigation Memorandum Account, and Fire Hazard Prevention Memorandum Account, collectively,

as established in SCE's Commission-approved preliminary statement Part N.

- e. "WMPMA" means SCE's Wildfire Mitigation Plan Memorandum Account.
- f. "FRMMA" means SCE's Fire Risk Mitigation Memorandum Account.
- g. "FHPMA" means Fire Hazard Prevention Memorandum Account.
- h. "O&M" means Operations and Maintenance expense.
- i. "VMS" means Vegetation Management System.
- j. "HFRA" means High Fire Risk Area.
- k. "EOI" means SCE's Enhanced Overhead Inspection initiative.
- l. "PSPS" means Public Safety Power Shutoffs.
- m. "PwC" means PricewaterhouseCoopers, LLP.
- n. "B-Material" means miscellaneous items used as part of SCE's remediation activities, including cross arms, fuses, insulators, bolts, nuts, pints, etc. These materials are not purchased directly for specific work orders the way that larger assets (such as poles or conductors) are, but rather the costs of these bulk purchases are allocated to relevant work orders and recorded as part of the material costs at the time of purchase.
- o. "Audit Report" means PwC's April 1, 2020 *Summary of Wildfire Memorandum Account Operations & Maintenance and Capital Costs: Management's Assertion for Independent Audit*.

**C. Recitals**

1. In Track 2 of the 2021 GRC, SCE initially requested the Commission deem as just and reasonable the 2018-2019 O&M expense and capital expenditure costs recorded in the following Commission-approved memorandum accounts: WMPMA, FRMMA, and FHPMA. SCE's Track 2 initial request asked the

Commission to deem as just and reasonable total incremental spending of approximately \$302 million in capital expenditures and approximately \$509 million in O&M expense that SCE recorded in the Fire Mitigation Memorandum Accounts. Second, SCE requested authority to recover a portion of those costs in rates, equal to \$500 million expressed as a revenue requirement.

2. On April 1, 2020, PwC issued its Audit Report. The Audit Report stated that PwC's "engagement was limited to the subject matter related to the Summary of Wildfire Costs as described in management's assertion. Our engagement did not address the prudence of the costs incurred or whether the costs were probable of recovery from ratepayers. In [PwC's] opinion, management's assertion that the accompanying Summary of Wildfire Costs includes costs which were: (i) incurred for the activities set forth in the corresponding, relevant California Public Utilities Commission (CPUC) approved Preliminary Statements describing the contents of the memorandum accounts as further described in the footnotes to this report; (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 Decision (D.) 19-05-020; and (iv) incurred for separate activities is fairly stated, in all material respects."
3. On September 4, 2020, Cal Advocates served its direct testimony. Cal Advocates' testimony recommended disallowance of certain costs recorded in SCE's Fire Mitigation Memorandum Accounts. Specifically, Cal Advocates recommended disallowances of \$92 million in O&M associated with EOI, \$1.4 million in O&M associated with vegetation management activities, \$7 million in O&M associated with organization support costs, and \$1.7 million in capital associated with EOI.
4. On September 4, 2020, TURN served its direct testimony. TURN's testimony recommended disallowance of certain costs recorded in SCE's Fire Mitigation

Memorandum Accounts. Specifically, TURN recommended disallowances of \$88.8 million in O&M recorded in WMPMA associated with EOI, and \$75.1 million in O&M recorded in FHPMA associated with vegetation management activities.

5. On September 4, 2020, SBUA served its direct testimony. SBUA's testimony recommended disallowance of certain costs recorded in SCE's Fire Mitigation Memorandum Accounts. Specifically, SBUA recommended disallowances of \$75.1 million in O&M and \$4.2 million in capital associated with vegetation management software costs.
6. On September 25, 2020, SCE served its rebuttal testimony. SCE's rebuttal testimony revised its proposal to request reasonableness review of approximately \$491 million in O&M costs and \$302 million in capital expenditures, and cost recovery for a resulting revenue requirement of \$482.3 million,
7. On October 9, 2020, in response to a request from the Settling Parties, assigned Administrative Law Judge Park issued an email ruling cancelling the scheduled evidentiary hearings and otherwise suspending the Track 2 procedural schedule.
8. After multiple verbal settlement negotiations and written exchanges of proposed settlement terms, the Settling Parties wish to resolve all issues in contention between them in Track 2, and avoid the expense and burden of protracted litigation. Accordingly, the Settling Parties have reached an agreement that resolves all Track 2 issues, as indicated in Section E of this Settlement Agreement.

**D. Agreement**

In consideration of the mutual obligations, covenants and conditions contained herein, the Settling Parties agree to the terms of this Settlement Agreement. Nothing in this Settlement Agreement shall be deemed to constitute an admission by any Settling Party that its position on

any issue lacks merit, or that its position has greater or lesser merit than the position taken by the other Settling Party. This Settlement Agreement is subject to the express limitation on precedent described in Commission Rule of Practice and Procedure 12.5, and as set forth in Section I of this Settlement Agreement.

### **1. *SCE's Track 2 O&M Expenses and Capital Expenditures***

This Settlement Agreement seeks Commission approval as just and reasonable SCE's proposed O&M costs and capital expenditures subject to the revenue requirement reductions explained below. Specifically, the Settlement Agreement adopts \$401 million in O&M (i.e., \$491 million minus \$90 million in revenue requirement reductions) and \$301.9 million in capital (i.e., \$301.9 million minus \$0 million in disallowances), for a total revenue requirement of \$391.3 million. The revenue requirement is less than the total O&M amount because of the negative revenue requirement effects of the approved capital expenditures in 2019. The Settlement Agreement adopts the *entire* \$301.9 million capital expenditure amount as just and reasonable. "SCE's Track 2 rate request does not include any revenue requirement associated with the \$1.575 billion [in AB 1054-excluded capital expenditures]."<sup>1</sup>

### **2. *Revenue Requirement Reductions***

The Settlement Agreement adopts a \$90 million revenue requirement reduction effectuated through a reduction to SCE's O&M requests in the following Fire Mitigation Memorandum Accounts:

- WMPMA -- \$50.97 million reduction
- FHPMA -- \$37.71 million reduction
- FRMMA -- \$1.32 million reduction

By reducing the amounts of O&M recorded in these memorandum accounts as set forth in this section, SCE agrees that it will not seek recovery of the associated costs or revenue requirements from ratepayers in any other future proceeding or application at the CPUC (subject

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<sup>1</sup> SCE Track 2 Request at p. 3, FN 8.



to the term set forth in Section G.4 below). The Settlement Agreement revenue requirement reductions and resulting Settlement Agreement Revenue Requirement amounts are shown in Table 1 below:

**Table 1**  
**Settlement Agreement Revenue Requirement O&M Reductions and Adopted Revenue Requirement**  
*(Nominal \$ millions)*

	<b>SCE Requested Revenue Requirement</b>	<b>Settlement Agreement O&amp;M Reductions</b>	<b>Settlement Agreement Revenue Requirement (excludes capital expenditures subject to AB 1054)</b>
<b>WMPMA</b>	\$286.4	(\$50.97)	
<b>FHPMA</b>	\$197.6	(\$37.71)	
<b>FRMMA</b>	\$7.0	(\$1.32)	
<b>Total</b>	<b>\$491.0</b>	<b>(\$90)</b>	<b>\$391.3 with Franchise Fee &amp; Uncollectibles)</b>

**3. Amortization Period**

After Commission approval of this Settlement Agreement, the Track 2 Settlement Agreement Revenue Requirement of \$391.3 million will be put into customer rates as of January 1, 2021 (or as soon as reasonably practicable thereafter) to be amortized over a period of not less than 12 months.

**4. B-Material Cost Recovery Treatment**

In Track 3, SCE will be entitled to seek a reasonableness review of, and the potential for cost recovery for, the \$16.2 million in “B Materials” EOI O&M concessions that SCE made in its rebuttal testimony.<sup>2</sup>

**E. Resolution of All Issues Raised by Cal Advocates, TURN and SBUA in Track 2**

The Settling Parties agree that this Settlement Agreement fully resolves all issues raised by Cal Advocates, TURN and SBUA in Track 2, with the exception of the term set forth in

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<sup>2</sup> See SCE Rebuttal Testimony at pp. 3, 24-25.

Section D.4, above. The Settling Parties confirm that further litigation between the Settling Parties in Track 2 on any issue will cease on the Signature Date referenced below. Following the Signature Date, Cal Advocates', TURN's and SBUA's participation in Track 2 will be limited to advocating for, and supporting final approval by the Commission of, this Settlement Agreement without modification. Notwithstanding the foregoing, if this Settlement Agreement is not approved by the Commission as set forth in Section G, then litigation between the Settling Parties in Track 2 may resume, and Cal Advocates', TURN's, and SBUA's participation in Track 2 GRC shall no longer be limited by this provision.

**F. Execution of Settlement Agreement**

Execution of this Settlement Agreement shall be complete as of the last signature date of the Settling Parties. This Settlement Agreement can be executed in counterparts, each of which shall be deemed an original. Each Settling Party represents and warrants that the individual executing this Settlement Agreement on behalf of the Settling Party is duly authorized to sign for that Settling Party.

**G. Regulatory Approval**

1. The Settling Parties, by signing this Settlement Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all the provisions of this Settlement Agreement. The Settling Parties shall jointly request that the Commission approve the Settlement Agreement without change, and that the Commission make a finding that this Settlement Agreement is reasonable, consistent with law, and in the public interest.

2. This Settlement Agreement shall become effective upon execution of this Settlement Agreement by the Settling Parties, and binding and final on the date it is approved by the Commission. If the Commission does not approve this Settlement Agreement as reasonable and declines to adopt it without modification, the Parties agree to renegotiate this Settlement Agreement in good faith with regard to any Commission-ordered changes in order to preserve

the balance of benefits and burdens. In the event such negotiations are unsuccessful, a Settling Party may, in its sole discretion, elect to terminate the Settlement Agreement. Such termination shall be effectuated through written notice that is signed by the Settling Party that has elected to terminate the Settlement Agreement.

3. Should any Proposed Decision (PD) or Alternate Proposed Decision (APD) seek a modification to this Settlement Agreement, and should any Settling Party be unwilling to accept such modification, that Settling Party shall so notify the other Settling Parties within five business days of issuance of the PD or APD. The Settling Parties shall thereafter promptly discuss the modification and negotiate in good faith to achieve a resolution acceptable to the Settling Parties, and shall promptly seek Commission approval of the resolution so achieved. Failure to resolve such approach to any modification to the satisfaction of Settling Parties, or to obtain Commission approval of such resolution promptly, thereafter, shall entitle any Settling Party to withdraw its support for this Settlement Agreement through prompt notice to all other Settling Parties. If SCE withdraws its support, this Settlement Agreement shall be terminated.

4. If the Settlement Agreement is terminated as to all Settling Parties, the signatories shall be released from any and all obligations and representations set forth in the Settlement Agreement, and shall be restored to their positions prior to having entered into the Settlement Agreement. If a party declines to support a Settlement Agreement renegotiated pursuant to Section G.2 or G.3, the particular Settling Party(ies) that declines to support the revised terms shall be released from any and all obligations and representations in the original or renegotiated Settlement Agreement.

#### **H. Compromise of Disputed Claims**

This Settlement Agreement represents a compromise of disputed claims between the Settling Parties after arm's-length negotiations. The Settling Parties have reached this Settlement Agreement after taking into account the possibility that each Settling Party may or

may not prevail on any given issue. The Settling Parties assert that this Settlement Agreement is reasonable, consistent with law, and in the public interest.

**I. Settlement is Not Precedential**

Consistent with Rule 12.5 of the Commission's Rules of Practice and Procedure, unless the Commission expressly provides otherwise, adoption of this Settlement Agreement does not constitute approval of or precedent regarding any issue or principle in this proceeding or in any future proceeding. This Settlement Agreement does not limit the discretion of any Settling Party to re-raise any issue resolved in this Settlement Agreement if this Settlement Agreement is terminated under Section G of this Settlement Agreement.

**J. Previous Communications**

The Settlement Agreement contains the entire agreement and understanding between the Settling Parties as to the subject matter of this Settlement Agreement. In the event there is any conflict between the terms and scope of this Settlement Agreement, the comparison exhibit, and the terms and scope of the accompanying joint motion in support of the Settlement Agreement, the Settlement Agreement shall govern.

**K. Term of the Agreement**

This Settlement Agreement shall be final and in full force on the date of Commission approval of this Settlement Agreement.

**L. Incorporation of Complete Settlement Agreement**

This Settlement Agreement is to be treated as a complete package and not as a collection of separate agreements on discrete issues. The Settling Parties acknowledge that changes, concessions, or compromises by a Settling Party or Settling Parties in one section of this Settlement Agreement resulted in changes, concessions, or compromises by a Settling Party or both Settling Parties in other sections. Consequently, the Parties agree to affirmatively oppose

any modification of this Settlement Agreement unless the Settling Parties jointly agree in writing to support such modification.

**M. Non-Waiver**

None of the provisions of this Settlement Agreement shall be considered waived by any Settling Party unless such waiver is given in a writing signed by that Settling Party. The failure of a Settling Party to insist in any one or more instances upon strict performance of any of the provisions of this Settlement Agreement or take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

**N. Effect of Subject Headings**

Subject headings in this Settlement Agreement are inserted for convenience only, and shall not be construed as interpretations of the text.

**O. Governing Law and Jurisdiction**

This Settlement Agreement shall be interpreted, governed and construed under the laws of the State of California, including Commission decisions, orders and rulings, as if executed and to be performed wholly within the State of California, notwithstanding otherwise applicable conflict of law principles. The Settling Parties agree that the Commission retains jurisdiction to enforce the terms of this Settlement Agreement and resolve any disputes regarding the Settling Parties' performance under the Settlement Agreement.

**P. Performance**

The Settling Parties agree to perform diligently, and in good faith, all actions required hereunder, including, but not limited to, the execution of any other documents and the taking of any other actions reasonably required to effectuate the terms of this Settlement Agreement, and the preparation of exhibits reasonably required for, and presentation of witnesses reasonably

required at, any required hearings to obtain approval and adoption of this Settlement Agreement by the Commission.

SOUTHERN CALIFORNIA EDISON COMPANY

Dated: November 2, 2020

/s/ Kevin Payne  
By: Kevin Payne  
Title: Chief Executive Officer

CALIFORNIA PUBLIC UTILITIES COMMISSION  
PUBLIC ADVOCATES OFFICE

Dated: November 2, 2020

/s/ Linda Serizawa  
By: Linda Serizawa  
Title: Deputy Director for Energy

THE UTILITY REFORM NETWORK

Dated: November 2, 2020

/s/ Marcel Hawiger  
By: Marcel Hawiger  
Title: Staff Attorney

SMALL BUSINESS UTILITY ADVOCATES

Dated: November 2, 2020

/s/ James Birkelund  
By: James Birkelund  
Title: President and General Counsel

Decision 21-01-012 January 14, 2021

**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 ADOPTING TRACK 2 SETTLEMENT AGREEMENT ADDRESSING SOUTHERN CALIFORNIA EDISON COMPANY'S RECORDED WILDFIRE MITIGATION COSTS**

**Summary**

This decision adopts the uncontested settlement as proposed by Southern California Edison Company (SCE), the Public Advocates Office at the California Public Utilities Commission, The Utility Reform Network, and Small Business Utility Advocates addressing SCE's recorded 2018-2019 wildfire mitigation costs being considered in Track 2 of this proceeding (Settlement Agreement), for a total revenue requirement of \$391.3 million. SCE is directed to file a Tier 1 Advice Letter within 30 days of the effective date of this decision to implement the specific terms of the Settlement Agreement approved in this decision. The revised rates will become effective no earlier than January 1, 2021, and shall be amortized over a period of not less than 12 months.

This proceeding remains open.

## **1. Background**

On August 30, 2019, Southern California Edison Company (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). This Application is commonly referred to as Phase 1 of a utility's General Rate Case (GRC). SCE's Application also included a request to recover certain recorded expenditures being tracked in various wildfire-related memorandum accounts (MAs). This decision solely addresses SCE's request to recover 2018-2019 wildfire mitigation MA costs.

Protests to SCE's GRC 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 filed by Pacific Gas & Electric Company, Small Business Utility Advocates (SBUA), California Choice Energy Authority and Clean Power Alliance California Energy (jointly), and Vote Solar and the Solar Energy Industries Association (jointly).

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 and Southern California Gas Company; the Agricultural Energy Consumers Association; Coalition of California Utility Employees; and the Energy Producers and Users Coalition.

On November 29, 2019, the assigned Commissioner issued a Scoping Memo and Ruling (Scoping Memo), and divided the proceeding schedule into different tracks: Track 1 considers SCE's forecast revenue request for 2021-2023, encompassing all the issues generally considered in Phase 1 GRC applications.



Track 2 includes review of 2019 recorded costs in the Wildfire Mitigation Plan MA, 2019 recorded costs in the Fire Risk Mitigation MA, and 2018-2019 recorded costs in the Fire Hazard Prevention MA. Track 3 includes review of any 2018-2020 recorded costs in the Grid Safety and Resiliency Program MA above the settlement amount being considered in A.18-09-002, recorded 2020 costs in Wildfire Mitigation Plan MA, recorded 2020 costs in the Fire Risk Mitigation MA, and recorded 2020 costs in the Fire Hazard Prevention MA. The Scoping Memo also directs SCE to hire an independent audit firm to evaluate whether each of the MAs recorded appropriate costs, and to ensure that there is no duplication of costs.<sup>1</sup>

On March 5, 2020, SCE served its 2021 GRC Track 2 request for recovery of its 2018-2019 wildfire mitigation MA balances (Track 2 Request).<sup>2</sup> Concurrent with the service of its Track 2 Request, SCE served direct testimony describing the 2018-2019 operations and maintenance (O&M) expense and capital expenditures recorded in the following Commission-approved accounts: the Wildfire Mitigation Plan MA, the Fire Risk Mitigation MA, and the Fire Hazard Prevention MA (collectively, the Fire Mitigation MAs).

On April 1, 2020, SCE served a copy of the independent audit report conducted by PricewaterhouseCoopers, LLP (PwC) on SCE's Track 2 Request, entitled "Summary of Wildfire Memorandum Account Operations & Maintenance and Capital Costs: Management's Assertion for Independent Audit, For the Periods ended December 31, 2018 and 2019" (Audit Report).<sup>3</sup>

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<sup>1</sup> Scoping Memo at 4.

<sup>2</sup> In accordance with the assigned Administrative Law Judges' November 30, 2020 email ruling, SCE filed its Track 2 Request on November 30, 2020.

<sup>3</sup> Ex. SCE Tr.2-03.

On September 4, 2020, Cal Advocates, TURN, and SBUA served intervenor testimony in Track 2. SCE served its Track 2 rebuttal testimony on September 25, 2020.

On October 8, 2020, SCE, on behalf of itself and Cal Advocates, TURN, and SBUA (Settling Parties), served notice of a settlement-in-principle, and requested that evidentiary hearings in Track 2 of the proceeding be cancelled. On October 9, 2020, the assigned Administrative Law Judges (ALJs) issued an email ruling granting the Track 2 Parties' request and suspending the Track 2 schedule.

On November 2, 2020 the Settling Parties held a conference to discuss the settlement and resolution of Track 2 issues. Later the same day, SCE, on behalf of itself and the Settling Parties, filed a joint motion for approval of the 2021 GRC Track 2 Settlement Agreement (Joint Motion for Approval of Track 2 Settlement Agreement). SCE concurrently filed a joint motion on behalf of itself and the Settling Parties to offer Track 2 prepared testimony into evidence (Joint Motion Offering Track 2 Testimony into Evidence).

## **2. Standard of Review**

The Commission has long favored the settlement of disputes among parties.<sup>4</sup> However, pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure, the Commission will not approve a settlement, whether contested or uncontested, unless it is found to be reasonable in light of the whole record, consistent with law, and in the public interest. Further, where a settlement agreement is contested, it will be subject to more scrutiny than an all-party settlement agreement.

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<sup>4</sup> D.17-08-030 at 9.

As discussed below, we find the record supports a finding that the settlement agreement before us is reasonable, consistent with law, and in the public interest. The record shows the settlement agreement was reached after review of testimony and good faith negotiations between parties that participated in Track 2 of this proceeding.

### **3. Independent Audit of Track 2 Request**

In its evaluation of SCE's Track 2 Request, PwC found that the costs in the Fire Mitigation MAs were "(i) incurred for the activities set forth in the corresponding, relevant California Public Utilities Commission (CPUC) approved Preliminary Statements describing the contents of the memorandum accounts as further described in the footnotes to this report; (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 Decision (D.) 19-05-020; and (iv) incurred for separate activities is fairly stated, in all material respects."<sup>5</sup> While the Audit Report finds that SCE accurately recorded expenses into each of the Track 2 MAs, PwC also notes that its engagement did not address the prudence of the costs incurred nor whether the costs were probable of recovery from ratepayers.<sup>6</sup>

### **4. Litigation Positions**

SCE's Track 2 Request sought two forms of relief: first, SCE asked the Commission to deem just and reasonable total incremental spending of \$809.1 million, comprised of \$301.9 million in capital expenditures and \$507.2 million in O&M expense that SCE recorded in the Fire Mitigation MAs.<sup>7</sup>

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<sup>5</sup> Audit Report at 1.

<sup>6</sup> *Ibid.*

<sup>7</sup> Ex. SCE Tr.2-01, Vol. 01E at 3.

SCE's Track 2 costs are predominately, but not exclusively, related to the following three categories of costs:

- 1) SCE's Enhanced Overhead Inspection (EOI) initiative that it undertook beginning in late 2018 to inspect all overhead infrastructure located in High Fire Threat Areas (HFRA), specifically for wildfire-related risks, before the start of the 2019.
- 2) SCE's expanded vegetation management program, implemented in 2018 in response to Commission Decision (D.) 17-12-024, and enhanced by SCE thereafter.
- 3) Expert consultant contract labor costs to support SCE's initial ramp up of wildfire mitigation activities and programs.

Second, SCE requested authority to recover a portion of those costs in rates, equal to \$498.7 million expressed as a revenue requirement.<sup>8</sup> 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).<sup>9</sup> SCE's share of the \$5 billion total is 31.5%, or \$1.575 billion. Approximately \$203.8 million of the \$301.9 million of capital expenditures, spent after August 1, 2019, is considered as subject to the AB 1054 exclusion from equity rate base.<sup>10</sup> Therefore, although SCE seeks a reasonableness review of all recorded 2018-19 wildfire mitigation expenses in its Track 2 Fire Mitigation MAs, it has excluded from its Track 2 rate recovery request the revenue requirement associated with capital expenditures that count towards the AB 1054 equity rate base exclusion.<sup>11</sup>

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<sup>8</sup> Ex. SCE Tr.2-01, Vol. 01E at 2.

<sup>9</sup> See California Public Utilities (Pub. Util.) Code § 8386.3(e).

<sup>10</sup> Ex. SCE Tr.2-01, Vol. 01E at 7-8.

<sup>11</sup> *Ibid.*

In its intervenor testimony, Cal Advocates recommended an O&M reduction of \$92 million and a capital expenditure reduction of \$1.7 million in SCE's EOI costs.<sup>12</sup> Cal Advocates' EOI-related proposals were based on an assertion that SCE miscalculated the authorized amounts in its 2018 GRC,<sup>13</sup> that SCE inappropriately deemed certain costs as "wildfire-related,"<sup>14</sup> and that SCE did not adequately quantify the amount of "B-Material" that SCE used during EOI operations in 2019.<sup>15</sup> B-Material refers to miscellaneous material that SCE procured to perform repairs, such as crossarms, fuses, insulators, pins, etc.<sup>16</sup> Cal Advocates also recommended a \$1.4 million reduction to vegetation management and a \$7 million reduction in organization support, based on assertions that those costs were not Track 2-eligible or incremental, respectively.<sup>17</sup>

TURN recommended an O&M reduction of \$78.1 million in EOI costs based on its assertion that the EOI program was programmatically similar to, and duplicative of, traditional maintenance programs authorized in the 2018 GRC.<sup>18</sup> In addition, TURN recommended disallowance of \$10.7 million in consultancy fees associated with EOI on the basis that SCE did not sufficiently support the costs. TURN also recommended a \$75 million O&M reduction for

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<sup>12</sup> Ex. PAO TR.2-01 at 13.

<sup>13</sup> Ex. PAO TR.2-03 at 4-5.

<sup>14</sup> Ex. PAO TR.2-04 at 6-9.

<sup>15</sup> Ex. PAO TR.2-03 at 5-9.

<sup>16</sup> Ex. SCE TR.2-01, Vol. 01 at 22.

<sup>17</sup> Ex. PAO TR.2-05 at 6-10.

<sup>18</sup> Ex. TURN Tr.2-01 at 12-14.

SCE's vegetation management costs on the basis that costs incurred in non-HFRA were per se ineligible for cost recovery in the Fire Mitigation MAs.<sup>19</sup>

SBUA recommended a \$75.1 million O&M reduction and a \$4.2 million capital expenditure disallowance in SCE's vegetation management costs based on its assertion that SCE undertook a flawed procurement process of its vegetation management system (VMS), that SCE failed to perform an adequate root-cause analysis after performance issues arose with the VMS, and that the VMS replacement software was only needed due to SCE's missteps with the VMS.<sup>20</sup>

In rebuttal testimony, SCE argued that the purpose, scope, approach and frequency of its EOI initiative was distinct from the traditional compliance-based line inspections authorized in the 2018 GRC, and that SCE's EOI program was identified and approved in SCE's 2019 Wildfire Mitigation Plan. In addition, SCE argued that Cal Advocates' recommendations for EOI reductions were largely based on misunderstandings and miscalculations of what costs are incremental, and how SCE's accounting system works. In response to Cal Advocates' "B-Material" recommendation, SCE agreed to defer to Track 3 of this proceeding consideration of \$16.2 million of costs for B-Material that was procured in 2019, but is expected to be used for wildfire mitigation activities in 2020.<sup>21</sup>

For vegetation management, SCE's rebuttal testimony asserted that new HFRA regulations led to severe vegetation management contract labor constraints, causing higher labor costs for the broader market, including those in

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<sup>19</sup> *Id.* at 14-18.

<sup>20</sup> Ex. SBUA Tr.2-01 at 23-26.

<sup>21</sup> Ex. SCE Tr.2-02, Vol. 02 at 3-4.

non-HFRA. SCE maintained that these costs were not foreseeable, and therefore were not considered in SCE's last GRC.<sup>22</sup>

The specific SCE proposals, and intervenors' initial proposed reductions thereto, are provided in Table 1:

**Table 1: Comparison of Party Positions (Nominal \$ Millions)<sup>23</sup>**

	Activity	SCE Request in Direct Testimony	Proposed Reduction			SCE Rebuttal Request
			Cal Advocates	TURN	SBUA	
O&M	EOI	272.3	(92.0)	(88.8)	n/a	256.1
	Vegetation Management	208.2	(1.4)	(75.1)	(75.1)	208.2
	Organizational Support	21.3	(7.0)	n/a	n/a	21.3
	Fire Science and Advanced Modeling	0.9	n/a	n/a	n/a	0.9
	Public Safety Power Shutoff	4.5	n/a	n/a	n/a	4.5
	<b>Total O&amp;M</b>	<b>507.2</b>				<b>491.0</b>
Capital	EOI	294.2	(1.7)	n/a	n/a	294.2
	Vegetation Management	4.2	n/a	n/a	(4.2)	4.2
	Distribution Fault Anticipation	2.3	n/a	n/a	n/a	2.3
	Public Safety Power Shutoff	1.2	n/a	n/a	n/a	1.2
	<b>Total Capital</b>	<b>301.9</b>				<b>301.9</b>

<sup>22</sup> *Id.* at 4.

<sup>23</sup> Joint Motion for Approval of Track 2 Settlement Agreement at 7.

## 5. Track 2 Settlement Agreement

The Settling Parties request the Commission deem as just and reasonable \$401 million in O&M costs (i.e., a \$90 million reduction to the O&M costs SCE requested in rebuttal testimony), and \$301.9 million in capital expense (i.e., \$0 in disallowances). The total requested revenue requirement is \$391.3 million, which is less than the total O&M amount due to the negative revenue requirement effects of approved capital expenditures in 2019.<sup>24</sup> Although the Settling Parties seek approval of the entire \$301.9 million capital expenditure *amount* as just and reasonable, SCE's Track 2 rate request does not include any revenue requirement associated with the \$1.575 billion in excluded AB 1054 capital expenditures.<sup>25</sup>

The \$90 million reduction proposed in the Settlement Agreement is effectuated through reductions to SCE's O&M requests, taken in proportion to SCE's rebuttal testimony O&M expense request. The Settlement Agreement revenue requirement reductions, and resulting settlement revenue requirement, are shown in Table 2:<sup>26</sup>

**Table 2: Settlement Agreement Revenue Requirement Reductions  
(Nominal \$ Millions)**

	SCE Requested Revenue Requirement	Settlement Agreement O&M Reductions	Settlement Agreement Revenue Requirement (excludes capital expenditures subject to AB 1054)
<b>Wildfire Mitigation Plan MA</b>	\$286.4	(\$50.97)	
<b>Fire Hazard Prevention MA</b>	\$197.6	(\$37.71)	
<b>Fire Risk Mitigation MA</b>	\$7.0	(\$1.32)	

<sup>24</sup> The negative capital-related revenue requirement is due to the impact of flow-through tax adjustments. (See Ex. SCE Tr.2-02, Vol. 2 at 5, footnote 5).

<sup>25</sup> *Id.* at 10-11.

<sup>26</sup> *Id.* at 11-12.



<b>Total</b>	<b>\$491.0</b>	<b>(\$90)</b>	<b>\$391.3 (with Franchise Fees &amp; Uncollectibles)</b>
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The Settling Parties request that the revenue requirement of \$391.3 million be put into customer rates as of January 1, 2021, or as soon as practicable thereafter, to be authorized over a period not less than 12 months.

Regarding the \$16.2 million in B-Material cost recovery treatment that SCE requested in rebuttal testimony, the Settling Parties assert that SCE will be entitled to seek a reasonableness review of, and potential cost recovery for, these costs in Track 3 of the proceeding.<sup>27</sup> The Settlement Agreement is attached to this decision as Attachment B.

#### **6. Is the Settlement Agreement Reasonable in Light of the Record?**

The Settling Parties assert that that they reached this settlement after reviewing discovery and investigation, preparation of prepared testimony exhibits, and arm's length negotiations and exchanges of proposals, and that the Settlement Agreement represents a reasonable resolution and compromise of the issues that the Track 2 intervenors raised in this proceeding.

The Settling Parties also assert that, absent reaching the settlement, Track 2 intervenors would have continued to litigate these issues, with attendant expense, burden, and drain on finite Commission resources.<sup>28</sup>

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<sup>27</sup> *Id.* at 12.

<sup>28</sup> *Id.* at 14.

### **7. Is the Settlement Agreement Consistent with the Law?**

The Settling Parties assert the terms of the Settlement Agreement comply with all applicable statutes, rules, prior Commission decisions, and interpretations thereof.<sup>29</sup>

### **8. Is the Settlement Agreement in the Public Interest?**

The Settling Parties assert that the Settlement Agreement involves all parties that participated in Track 2 of this proceeding, and that signatories to the Settlement Agreement fairly represented general customer advocacy interests (Cal Advocates and TURN), and small business customer interests (SBUA). The Settling Parties add that the Settlement Agreement, if adopted by the Commission, would avoid allocating further resources to this matter, and reduce the expense and risks of litigation.<sup>30</sup>

### **9. Discussion and Conclusion**

We find that the Settlement Agreement represents a fair compromise between parties in Track 2 of this proceeding, and that the agreement incorporates issues addressed by SCE's direct and rebuttal testimony and errata thereto; the direct testimony of Cal Advocates, TURN and SBUA; and PwC's audit report. Further, the proposed Fire Mitigation MA costs proposed in the Settlement Agreement strike a balance between the parties' positions, and are well within a reasonable range of litigated outcomes. Therefore, the proposed Settlement Agreement is reasonable within the light of the whole record.

We also find that the Settlement Agreement is consistent with the law. The process for conducting this settlement was in accordance with Article 12 of the Rules of Practice and Procedure, and we are unaware of any inconsistency with

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<sup>29</sup> *Ibid.*

<sup>30</sup> *Id.* at 14-15.

the Public Utilities Code, Commission decisions, or the law in general. The agreement appropriately excludes capital expenditures subject to AB 1054, while the Audit Report conducted by PwC finds that costs recorded in the Fire Mitigation MAs are accurate and incremental. Any further intervenor concerns regarding the incrementality of the Wildfire Mitigation MA costs have been addressed through the terms of the Settlement Agreement.

Finally, the Settling Parties provided notice of the November 2, 2020 Settlement Conference,<sup>31</sup> and no other party expressed an interest in the Track 2 issues or contested the Joint Motion for Approval of Track 2 Settlement. The Settling Parties represent both customer advocacy interests and small business customer interests, and the Settlement Agreement avoids the cost of further litigation while conserving party and Commission resources. We find that the Settling Parties have appropriately identified and resolved issues in Track 2 of this proceeding, and that the Settlement Agreement is in the public interest.

Therefore, the proposed Settlement Agreement is approved without modification. Consistent with the terms of the Settlement Agreement, the revised rates will become effective no earlier than January 1, 2021 and shall be amortized over a period of not less than 12 months.

#### **10. Joint Motion Offering Track 2 Testimony into Evidence**

Concurrent with the Joint Motion for Approval of the 2021 GRC Track 2 Settlement Agreement, on November 2, 2020 SCE, on behalf of itself and the Settling Parties, filed a Joint Motion to Offer Track 2 Prepared Testimony into Evidence. The joint motion is uncontested and is granted. The exhibits marked

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<sup>31</sup> *Id.* at 2.

and identified as set forth in Attachment A to this decision are admitted into evidence.

#### **11. Waiver of Comment Period**

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

#### **12. Assignment of Proceeding**

Genevieve Shiroma 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. SCE's Track 2 Request does not include any revenue requirement associated with the \$1.575 billion in capital expenditures subject to exclusion under AB 1054.
2. The independent audit conducted by PwC determined that SCE's Track 2 MA costs were accurately recorded, incremental to amounts previously authorized by the CPUC in D.19-05-020, and incurred for separate activities.
3. The November 2, 2020 Joint Motion for Approval of the 2021 GRC Track 2 Settlement Agreement is uncontested.
4. The Track 2 Settlement Agreement includes as signatories all parties that participated in Track 2 of this proceeding.
5. The Track 2 Settlement Agreement would result in a \$90 million revenue requirement reduction to the total O&M request in SCE's rebuttal testimony.
6. The November 2, 2020 Joint Motion Offering Track 2 Testimony into Evidence is uncontested.

### **Conclusions of Law**

1. The Track 2 Settlement Agreement is reasonable in light of the record, consistent with the law, and in the public interest.

2. The Track 2 Settlement Agreement complies with the requirement in AB 1054 to exclude certain capital expenditures from equity rate base.

3. The November 2, 2020 Joint Motion Offering Track 2 Testimony into Evidence is reasonable and should be approved.

#### **IT IS ORDERED** that:

1. The November 2, 2020 Joint Motion of Southern California Edison Company, the Public Advocates Office at the California Public Utilities Commission, The Utility Reform Network, and the Small Business Utility Advocates for Approval of the 2021 General Rate Case Track 2 Settlement Agreement is granted.

2. The November 2, 2020 Joint Motion of Southern California Edison Company, the Public Advocates Office at the California Public Utilities Commission, The Utility Reform Network, and the Small Business Utility Advocates to Offer Track 2 Prepared Testimony into Evidence is granted.

3. Southern California Edison Company shall file a Tier 1 Advice Letter within 30 days of the effective date of this decision to implement the specific terms of the Settlement Agreement approved in this decision.

4. Application 19-08-013 remains open.

This order is effective today.

Dated January 14, 2021, at San Francisco, California.

MARYBEL BATJER

President

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN  
GENEVIEVE SHIROMA  
Commissioners

## Attachment A

### SCE Track 2 GRC Exhibit List, A.19-08-013

<b>Exhibit No.</b>	<b>Title</b>	<b>Party</b>	<b>Date Served</b>
SCE Tr.2-01, Volume 01	Direct Testimony in Support of Recovery of 2018-2019 Wildfire Mitigation Costs Recorded in Various Memorandum Accounts.	SCE	8/1/2019
SCE Tr.2-01, Volume 01E	Direct Testimony in Support of Recovery of 2018-2019 Wildfire Mitigation Costs Recorded in Various Memorandum Accounts (Errata).	SCE	8/1/2019
SCE Tr.2-02, Volume 01	Supplemental Witness Qualifications.	SCE	8/1/2019
SCE Tr.2-02, Volume 02	Rebuttal Testimony in Support of Recovery of 2018-2019 Wildfire Mitigation Costs Recorded in Various Memorandum Accounts.	SCE	9/25/2020
SCE Tr.2-03	April 1, 2020, PricewaterhouseCoopers, LLP's Summary of Wildfire Memorandum Account Operations & Maintenance and Capital Costs: Management's Assertion for Independent Audit on SCE's Track 2 Request.	SCE	4/1/2020
PAO Tr.2-01	Track 2: 2018-2019 Wildfire Mitigation Incremental Costs Recorded in Various Memorandum Accounts –Executive Summary	Cal Advocates	9/4/2020
PAO Tr.2-02	Track 2: 2018-2019 Wildfire Mitigation Incremental Capital Expenditures Recorded in the Wildfire Mitigation Memorandum Account.	Cal Advocates	9/4/2020
PAO Tr.2-03	Track 2: 2018-2019 Wildfire Mitigation Incremental Operations and Maintenance Expense Recorded in the Wildfire Mitigation Plan Memorandum Account.	Cal Advocates	9/4/2020

PAO Tr.2-04	Track 2: 2018-2019 Wildfire Mitigation Incremental Operations and Maintenance Expense Recorded in the Wildfire Mitigation Plan Memorandum Account.	Cal Advocates	9/4/2020
PAO Tr.2-05	Track 2: 2018-2019 Wildfire Mitigation Incremental Operations and Maintenance Expense Recorded in the Wildfire Mitigation Plan and Fire Risk Mitigation Memorandum Accounts.	Cal Advocates	9/4/2020
PAO Tr.2-06	Track 2: 2018-2019 Wildfire Mitigation Incremental Operations and Maintenance Expense Recorded in the Fire Hazard Prevention Memorandum Account.	Cal Advocates	9/4/2020
PAO Tr.2-07	Track 2: 2018-2019 Wildfire Mitigation Incremental Operations and Maintenance Expense Recorded in the Fire Hazard Prevention Memorandum Account.	Cal Advocates	9/4/2020
PAO Tr.2-08	Track 2: 2018-2019 Wildfire Mitigation Incremental Costs Recorded in Various Memorandum Accounts – Financial Examination.	Cal Advocates	9/4/2020
TURN Tr.2-01	Prepared Testimony of Marcel Hawiger Addressing Southern California Edison’s Test Year 2021 Track 2 General Rate Case Memorandum Accounts.	TURN	9/4/2020; revised 10/5/20.
TURN Tr.2-01 (Attachments)	Prepared Testimony of Marcel Hawiger Addressing Southern California Edison’s Test Year 2021 Track 2 General Rate Case Memorandum Accounts -- Attachments.	TURN	9/4/2020; revised 10/5/20.
SBUA Tr.2-01	Direct Testimony of John D. Wilson on Behalf of Small Business Utility Advocates.	SBUA	9/4/2020

**(END OF ATTACHMENT A)**



**Attachment B**  
**Track 2 Settlement Agreement**