State of California – A Natural Resources Agency
Gavin Newsom, Governor

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Caroline Thomas Jacobs, Director

December 9, 2021

Steven D. Powell
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Mr. Powell,

On June 29, 2020, the California Public Utilities Commission's (CPUC) Wildfire Safety Division (WSD) engaged Crowe LLP (Crowe) to conduct an independent audit of wildfire mitigation expenditures by the six investor-owned utilities (IOUs), who submitted 2019 and 2020 Wildfire Mitigation Plans (WMPs). WSD, along with all its functions, transitioned to the Office of Energy Infrastructure Safety (Energy Safety), a new department under the California Natural Resources Agency on July 1, 2021. Crowe recently completed its audit and Energy Safety is publicly releasing Crowe's final audit reports.

The purpose of Crowe's audit was to examine IOUs' spending in the execution of its WMP programs and initiatives relative to its prior General Rate Cases (GRCs). Crowe assessed the relationship between expenses and/or investments identified in the 2019 and 2020 WMPs and operating and capital expenditures approved in previous GRCs.

Enclosed is Crowe's Performance Audit of Southern California Edison Company Wildfire Mitigation Plan Expenditures Final Report. The report identifies two findings and offers Crowe's recommendations on potential considerations for further action. Energy Safety may consider the final audit report in completing its annual report on compliance for the 2020 WMP. Energy Safety also provides this report to the CPUC for their review and consideration as the CPUC deems appropriate.

Sincerely,

Caroline Thomas Jacobs
Director
Office of Energy Infrastructure Safety

Crowe

Smart decisions. Lasting value.™

Performance Audit of Southern California Edison Wildfire Mitigation Plan Expenditures
Final Report

December 9, 2021

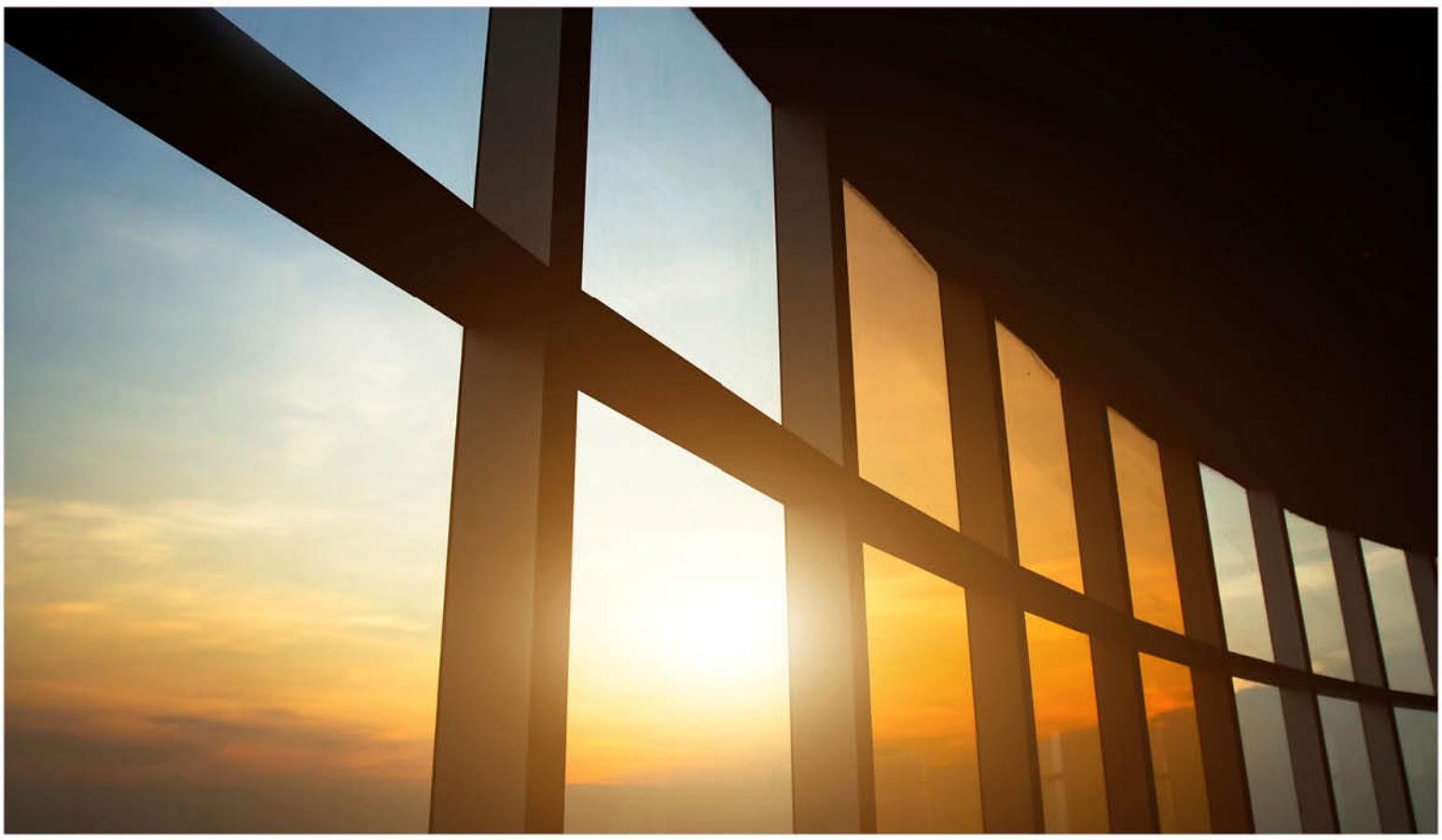


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Independent Auditor's Report

Crowe conducted a performance audit of Southern California Edison (SCE) for the period from January 1, 2018 through December 31, 2020 to determine whether SCE complied with General Rate Case (GRC) rules and regulations and to determine whether any expenses and/or investments identified in the 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating and capital expenditures approved in previous GRCs.

We have conducted our performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on our audit objectives.

Our audit was limited to the following three objectives**:**

- Determine whether actual expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations.
- Determine whether operating or capital expenditures identified in SCE's 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating or capital expenditures approved in the 2018 GRC.
- Determine whether SCE's actual expenditures to date, and documented future planned expenditures, comply with the 2019 and 2020 WMPs for activities that SCE received approval and funding from GRCs or similar applications submitted to California Public Utilities Commission (CPUC) between 2018 and 2020.

Solely to assist us in planning and conducting our performance audit, we obtained an understanding of the internal controls of SCE to determine the audit procedures that are appropriate for the purpose of providing a conclusion on SCE adherence to GRC rules and regulations and wildfire related accounting practices, as specified, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express any assurance on the internal control.

The results of our tests indicated that, SCE did not meet objective 2 or 3, but met objective 1 for the period of January 1, 2018 through December 31, 2020 in all significant respects.

SCE's written responses included to the Findings and Recommendations Section of this report were not subjected to the performance auditing procedures, accordingly, we express no conclusion on them.

Crowe LLP

Crowe LLP

San Francisco, California

Executive Summary

Crowe LLP (Crowe) conducted a performance audit of Southern California Edison (SCE) in accordance with Generally Accepted Government Auditing Standards (GAGAS). In this section we provide background on the performance audit, an overview of the project background and scope, and a summary of Crowe's findings and recommendations related to this examination.

A. Project Background and Scope

B. Crowe Findings and Recommendations

C. Report Organization

A. Project Background and Scope

The California Public Utilities Commission (CPUC) and its Wildfire Safety Division (WSD) (which is now the Office of Energy Infrastructure Safety (Energy Safety) within the California Natural Resources Agency[1]) engaged Crowe to conduct an independent performance audit, in accordance with Generally Accepted Government Auditing Standards (GAGAS), of SCE, and submitted 2019 and 2020 Wildfire Mitigation Plans (WMPs). The CPUC and the WSD wanted to determine whether actual SCE expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations. They were also interested to determine whether any expenses and/or investments identified in the 2019 and 2020 WMPs are duplicative of operating and capital expenditures approved in previous GRCs.

The audit period covers electric line of business expenditures from January 1, 2018 through December 31, 2020 and includes SCE's final and approved 2019 and 2020 WMPs and the most recent GRC application filed by SCE that is final and approved, any applications or advice letter requests that the IOU has filed with the CPUC as necessary to meet the scope of work.

Wildfire Mitigation Plan	Cost Data Presented in WMP		Applicable GRCs Used in Crowe Analysis
	2019	2020	
2019 Plan	Estimated	N/A	2018 GRC
2020 Plan	Actual	Projected	2018, 2021 GRC

B. Crowe Findings and Recommendations

This performance audit resulted in two (2) findings which we summarize in **Exhibit ES-1**. Neither of these findings were associated with questioned costs. We provide a number of recommendations to address these findings.

[1] During the course of this engagement, the CPUC's Wildfire Safety Division transitioned into the Office of Energy Infrastructure Safety, a new department under the California Natural Resources Agency.

Exhibit ES-1
Performance Audit Findings and Recommendations Summary

Description of Finding	Questioned Costs	Recommendation(s)
1. Due to Wildfire Related Activities, SCE Deferred Projects and Activities, Totaling $50.8M of Operating and $649.6M of Capital GRC Adopted Costs for 2018 to 2020, and Instead Used these Funds for Wildfire Activities which are Recorded in Incremental Accounts.	N/A	• SCE should provide the CPUC evidence that the deferred projects were completed prior to the 2021 GRC. In the case where these projects were not completed, the CPUC should not allow SCE future recovery of incremental wildfire expenditures from 2018 to 2020 that were funded as a result of SCE deferring and never completing GRC adopted projects or activities.
2. Wildfire Mitigation Cost Categories Provided in WMPs Do Not Align with How Wildfire Mitigation Costs are Categorized and Adopted as Part of GRCs, Making it Difficult to Monitor Incremental Wildfire Mitigation Costs.	N/A	• As part of the WMP process, SCE should provide wildfire mitigation costs separately for capital and for operating expenditures at the core work activity account code level for easier reconciliation to capital and operating costs adopted as part of the GRC process which are presented at core work activity code level.

C. Report Organization

The main body of this report includes the following components.

- Section 1
  In this section, immediately following the Executive Summary, we provide general information on the scope and objectives of this performance audit and contextual information about Southern California Edison.
- Section 2
  In this section, we outline our approach, including procedures and sampling methods applied.
- Section 3
  In this section, we provide our performance audit results, including our findings and recommendations.

Introduction

In this introduction section, we provide background on the performance audit of Southern California Edison (SCE). We describe the SCE wildfire mitigation program, recently applicable general rate case proceedings, and memorandum accounts. This introductory section also provides the scope of the audit and sampling methodology employed. The remainder of this section is organized as follows:

A. Project Background
B. Southern California Edison Wildfire Mitigation Program Profile
C. Southern California Edison General Rate Cases
D. Southern California Edison Memorandum Accounts
E. Performance Audit Scope.

A. Project Background

The CPUC and its WSD (now Energy Safety) engaged Crowe to conduct an independent performance audit, in accordance with Generally Accepted Government Auditing Standards (GAGAS), of SCE, who is regulated by the CPUC and submitted 2019 and 2020 Wildfire Mitigation Plans (WMPs). The CPUC and WSD wanted to determine whether actual SCE expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations. They also were interested to determine whether any expenses and/or investments identified in the 2019 and 2020 WMPs are duplicative of operating and capital expenditures approved in previous GRCs.

The audit period covers electric line of business expenditures from January 1, 2018 through December 31, 2020 and includes SCE's final and approved 2019 and 2020 WMPs and the most recent GRC application filed by SCE that is final and approved, any applications or advice letter requests that the IOU has filed with the CPUC as necessary to meet the scope of work.

B. Southern California Edison Wildfire Mitigation Program Profile

Senate Bill (SB) 901 required all California electric utilities to prepare plans on constructing, maintaining, and operating their electrical lines and equipment to minimize the risk of catastrophic wildfire. In its *Order Instituting Rulemaking to Implement Electric Utility Wildfire Mitigation Plans Pursuant to Senate Bill 901 (2018)*, Rulemaking (R.) 18-10-007 (Wildfire OIR), Energy Safety outlined wildfire mitigation plan requirements.

In accordance with Assembly Bill 1054, Energy Safety's Wildfire Safety Division (WSD) reviews and approves or denies WMPs prepared by each electrical corporation. Public Utilities Code Section 8386(b) requires each electrical corporation to annually prepare and submit a Wildfire Mitigation Plan (WMP) to the WSD for review and approval and for the WSD to establish a schedule for annual WMP submissions.

1. 2019 SCE Wildfire Mitigation Plan

On February 6, 2019, SCE submitted its 2019 Wildfire Mitigation Plan (referred to as the 2019 WMP). The 2019 WMP provides details on SCE's comprehensive strategic plan to prevent catastrophic wildfires. Programs included in SCE's 2019 WMP included:

- *Operational Practices*, including red flag warnings, aircraft and public safety power shut-offs
- *Inspections*, including an expanded number of inspections of distribution poles, transmission structures, and substations; and corrective actions to remediate imminent risks
- *System hardening*, including replacing bare overhead conductors with covered conductors, replacing equipment with low fire risk equipment, upgrading/replacing transformers with more fire-resistant fluids, and installing more resilient poles to increase pole strength and fire resistance
- *Vegetation management,* including expanded removal of trees and enhanced vegetation management in High Fire Threat District (HFTD) areas
- *Situational awareness*, including increasing knowledge of local weather and environmental conditions using weather stations and cameras, and developing fire spread model capabilities
- *Public Safety Power Shutoff (PSPS) support*, including initiating the program, expanding the program and evaluating criteria to reduce judgment, working with customers to alert them of impending PSPS events, and providing additional services and programs to support customers during the events.

The 2019 WMP was filed in the first quarter of 2019 with SCE's financial forecast for each identified mitigation at the time of filing. The 2019 WMP also included SCE's estimated 2019 capital and operating expenses required to support WMP efforts, with details as to the following:

- Whether the costs were currently reflected in the GRC revenue requirement (with Decision reference)
- Any aspects of the plan/strategy and associated funding that would be addressed in another case
- Any memorandum accounts where the costs of program/strategy were being tracked and explanations for how double tracking is prevented.

Exhibit 1 provides SCE's estimates of 2019 WMP capital and operating costs provided in the 2019 WMP. Total estimated 2019 capital costs were $1.03B and total estimated 2019 operating costs were $427M.

Exhibit 1
Southern California Edison
Estimated 2019 Capital and Operating Costs
Required to Support Wildfire Mitigation Programs
(Source: Amended 2019 Wildfire Mitigation Plan)[2]

Program	2019 Capital ($Nominal)	2019 O&M ($Nominal)	2019 Capital (Expansion/ Acceleration)	2019 O&M (Expansion/ Acceleration)
Alternative Technology	$200,000	$600,000	$1,400,000	$-
Inspections of Electrical Infrastructure	112,700,000	176,100,000	-	-
Wildfire Safety Inspection Program	575,000,000	66,600,000	-	-
Operational Practices	-	500,000	-	-
Protocols on Public Safety Power Shutoff	12,000,000	5,200,000	8,800,000	4,900,000
System Hardening to Achieve Highest level of safety, reliability, and resiliency	112,600,000	2,600,000	204,700,000	4,200,000
Vegetation Management Plan	-	99,600,000	-	66,500,000
Total	$812,500,000	$351,200,000	$214,900,000	$75,600,000

2. 2020 Wildfire Mitigation Plan

On March 8, 2020, SCE submitted its 2020 WMP. The 2020 WMP provided details on SCE's comprehensive Community Wildlife Safety Program (CWSP), incorporated lessons learned from the 2019 wildfire season and outlined the additional programs planned from 2020 to 2022 to prevent catastrophic wildfires.

Exhibit 2 provides SCE's estimates of combined WMP capital and operating costs, by program and activity, as provided in the 2020 WMP. Total estimated 2019 combined actual capital and operating costs were over $1.46B and total targeted 2020 combined capital and operating costs equaled $1.4B.

Exhibit 2
Southern California Edison
Estimated Actual 2019 and Targeted 2020 Capital and Operating Costs Combined
Required to Support Wildfire Mitigation Programs
(Source: 2020 Wildfire Mitigation Plan) [3]

Program	2019 Actual Capital and Operating Costs (Preliminary)	2020 Target Capital and Operating Costs
Situational Awareness and Forecasting	$20,305,967	$25,613,860
Grid Design and System Hardening	993,225,125	1,088,370,218
Asset Management and Inspections	123,851,750	85,641,579
Vegetation Management and Inspection	330,327,006	200,593,788
Total	$1,467,709,848	$1,400,219,445

[2] Source: 2019 Wildfire Mitigation Plan, Table 7-1.
[3] Source: 2020 Wildfire Mitigation Plan, Tables 21-30.

C. Southern California Edison General Rate Cases

Our scope of work required that we review whether SCE expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations. We reviewed the 2018 GRC which covered the 2018 to 2020 period. Below we provide an overview of GRC rules and regulations and background of each of the 2018 GRC.

1. General Rate Case Rules and Regulations

As specified on the CPUC website:

> *General rate cases (GRCs) are proceedings used to address the costs of operating and maintaining the utility system and the allocation of those costs among customer classes. For California's three large investor-owned utilities (IOUs), the GRCs are parsed into two phases. Phase I of a GRC determines the total amount the utility is authorized to collect, while Phase II determines the share of the cost each customer class is responsible and the rate schedules for each class. Each large electric utility files a GRC application every four years. For smaller utilities, authorized costs and allocation of costs are done in just one phase.*
>
> *The CPUC reviews detailed cost data for various areas of utility operations and approves a budget for the first year – called a test year – of the GRC cycle. For years 3 and 4 – called post-test years – the GRC decision prescribes how to adjust the test year budget for inflation and other factors that may affect costs, such as additional capital projects between test years. The Commission has put in place regulatory mechanisms to adjust the costs approved in GRCs for unforeseen circumstances. For example, the Catastrophic Event Memorandum Account allows utilities to record costs for state emergencies declared by the governor.*

Primary rules related to the GRC related to SCE rates/spending associated with the GRC are summarized in the GRC "Utility General Rate Case – A Manual for Regulatory Analysts," (Rate Manual) developed by the CPUC's Policy & Planning Division on November 13, 2017:

- GRCs establish revenue from customers to provide safe and reliable service at just and reasonable rates (costs).
- PUC Codes 451-4 and 728 hold the Commission responsible for ensuring that rates are just and reasonable.
- Major investor-owned utilities operating in California are required to file a GRC application with the Commission every 36 months (3 years).
- IOUs are required to submit a Risk Spending Accountability Report, in which the utility compares its GRC projected spending for approved risk mitigation projects with the actual spending on those projects, and explains any discrepancies.
- Cost of service regulation sometimes is referred to as rate of return regulation because in cost of service ratemaking utilities have an opportunity to earn authorized rate of return on prudently incurred capital investments. However, utilities are not guaranteed to earn their authorized return. Rates are set prospectively and an element of the authorized revenues is planned to repay investors for the use of their money. However, if the utility fails to manage its business efficiently and overspends, then it will likely fail to earn its authorized rate of return. This uncertainty is symmetrical, and if the utility spends less than authorized revenues it will earn greater than its authorized return.

Other notable aspects of the GRC process are identified below:

- The year in which the rate is set is referred to the "test year"
- The years between test years are referred to as "attrition years."

- Budgets within the GRC generally are based on a unit cost multiplied by a number of units.
- Budgets in the GRC are not reconciled later with actual results.
- At the time the GRC is approved, the unit costs in the GRC are not tied out to SCE's costs of doing business (e.g., labor or overheads) as there are multiple other sources of funding (e.g., federal TO funds) which SCE uses to cover its full revenue requirements
- Where unit costs evolve over time for a specific cost area, these unit costs are then adjusted through the ongoing GRC process during each test year.

2. 2018 SCE General Rate Case

On September 1, 2016, SCE filed its 2018 test year GRC for rates to become effective January 1, 2018 (A.16-09-001, 2018 GRC). In the 2018 GRC, SCE requested an increase of 5.5 percent over 2017 revenues. SCE also requested adjustments for the 2019 and 2020 attrition years. In Decision 19-05-020 (May 2019), the CPUC adopted a revenue requirement increase of 3.9 percent for 2018, and post-test year increases of 6.6 percent for 2019 and 7.5 percent for 2020. The 2018 GRC had the following proposed and adopted total revenue requirement for the entire electric distribution line of business for 2018 to 2020:

Description	2018 Revenue Requirement ($00's)	2019 Revenue Requirement ($00's)	2020 Revenue Requirement ($00's)
Electric Distribution LOB – Proposed (in Application)	$5,885,244	$6,418,388	$6,988,612
Electric Distribution LOB – Adopted[4]	$5,117,000	$5,452,000	$5,862,000

This 2018 GRC process was completed prior to the requirement for a WMP, which began in 2019.

D. Southern California Edison Memorandum Accounts

Utilities in California recover a large portion of their revenue requirement through balancing and memorandum accounts.[5] The Rate Manual indicates:

> *A balancing account is an account established to record certain authorized amounts for recovery through rates and to ensure that the revenue collected matches the authorized amounts. Balancing accounts usually accrue interest – to be additionally returned to ratepayers if the utility is over-collected, or to recover additional revenue if the utility is under-collected.*
>
> *Memorandum accounts are similar to balancing accounts except that they do not usually establish an authorized revenue requirement and are subject to further scrutiny by the CPUC. Upon Commission review expenses accrued in Memorandum accounts may or may not be recoverable through rates.*

Below are specific characteristics of a memorandum account:

- Requires approval from CPUC
- Approval is through an advice letter (AL)
- Captures costs with specific program needs (often unforeseen) and that are in excess of costs included in rates set through the GRC process
- Costs accounted for separately from GRC costs
- Typically, memorandum account costs incurred are subsequently "trued up" or recovered in the next GRC.

[4] Source: D. 19-05-020
[5] Source: GRC Manual, page 7.

Incrementality

- The basic idea of incrementality is that in order to recover any costs recorded in a memorandum account, those costs must be incremental, and not recovered in another way, such as in a GRC. For example, if SCE had forecast certain wildfire-related costs in a GRC, resulting in those costs being included in rates, they would not be incremental, and SCE could not record those same costs in a memorandum account and subsequently seek rate recovery. As further clarification, GRC's include forecasts for expenditures which could be a) authorized for recovery in rates through the GRC decision; b) authorized in the GRC to be collected (actual recorded costs) in a memorandum account, reviewed, and subsequently authorized for recovery in rates if deemed reasonable. Expenditures to be collected in a memorandum account are typically included in the GRC forecast.
- Commission 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 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.

SCE memorandum accounts applicable for this audit are shown in **Exhibit 3**.

Exhibit 3
Southern California Edison
Memorandum Accounts

SCE Memorandum Account	Abbrev.	Date Established	Reference	Purpose
Catastrophic Event Memorandum Account	CEMA	1991	CPUC Resolution E-3238; PUC Code 454.9	Establishes three categories of costs that are eligible for inclusion in the CEMA: (1) restoring utility services to customers; (2) repairing, replacing, or restoring damaged facilities; (3) complying with governmental agency orders in connection with events declared disasters by competent state or federal authorities.
Fire Hazard Prevention Memorandum Account	FHPMA	8/20/2009	AL2387-E	Record costs related to the implementation of fire hazard prevention measures as adopted in D.09-08-029.
GS&RP Memorandum Account	GS&RPMA	9/10/2018	A18-9-10	Record GS&RP costs designed to implement measures addressing emerging state policy directed at reducing wildfire risk, the increasing magnitude of which was brought to light in a series of devastating fires in the latter half of 2017.
Fire Risk Mitigation Memorandum Account	FRMMA	1/1/2019	AL 5419-E	Record incremental costs of fire risk mitigation work that is not otherwise recovered in the adopted revenue requirement; track costs before WMP finalized; remain open to track wildfire mitigation costs not included in an approved WMP. Such costs include expense and capital expenditures for: advanced system hardening and resiliency; expanded automation and protection; improved wildfire detection; enhanced event response capacity; and enhanced vegetation management activities.
Wildfire Expense Memorandum Account (ongoing)	WEMA	7/29/2010	AL 2385-E-A	Track specific incremental wildfire liability costs. Use for ongoing fire-specific tracking. WEMA eligible costs include insurance, claims, legal costs, and costs of financing those amounts.
Wildfire Mitigation Plan Memorandum Account	WMPMA	6/5/2019	AL 5555-E	Record, pursuant to Senate Bill (SB) 901 (Public Utilities Code Section 8386.4 (a)) and the Wildfire Mitigation Plan (also known as the Wildfire Safety Plan) approved by the Energy Safety, incremental costs incurred to implement an approved WMP that are not otherwise recovered in SCE's adopted revenue requirements. This account was established upon approval of the WMP. Such costs may include expense and capital expenditures for activities such as: operational practices, inspection programs, system hardening, enhanced vegetation management, enhanced situational awareness, public safety power shutoffs, and alternative technologies. Recovery of costs would occur through a GRC or future application at which time the CPUC would review costs for reasonableness.

E. Southern California Edison Accounting

SCE uses SAP as its accounting system. SAP is one of the world's largest suppliers of accounting software. Accounting transactions are created by the day-to-day activities SCE performs, such as timesheets, goods receipts, expense reports, journal entries and non-PO's, among other transactions. Each transaction will include applicable overhead allocations including general overheads, construction overheads, Transmission and Distribution specific allocations, and charge-backs. SCE's SAP system tracks transactions through cost objects and cost elements. SCE account coding is profiled in **Exhibit 4** below:

Exhibit 4
Southern California Edison
Account Code Descriptions

Account Code	Description
Cost Center	Cost centers are cost objects that identify "who" incurred the cost and are used to capture expenses such as operations, maintenance, overheads, and chargebacks. They are established in a standard hierarchy to represent the organizational and financial reporting relationship view of each business unit.
Home Cost Center	A home cost center (HCC) is a cost object used to record labor only. All labor costs are distributed out of the HCC to other cost objects at the end of the month, based on the timesheet. HCC balances are always zero at end of month.
Distribution Cost Center	A distribution cost center (DCC) is a cost object used to record allocated costs such as overheads or chargebacks. All costs in a DCC are distributed to other cost objects at the end of the month. DCC balances are always zero at end of month.
Final Cost Center	A final cost center (FCC) is a cost object for collecting non-capital costs. Costs that record in an FCC are translated to a Federal Energy Regulatory Commission (FERC) account, based on the assigned FERC indicator on the FCC and the cost element used. Costs remain in an FCC at the end of the month.
Work Order	Also known as a Plant Maintenance (PM). Used to collect costs related to work managed through the SAP work management functions. Work orders can be capital, operation & maintenance (O&M), a combination of capital and O&M. The type of order that will be charged is determined when the WO is created based on the type of work to be performed. Work orders are usually temporary objects and are closed once work is complete.
Internal Order	Provides further breakdown of costs within a cost center. Collecting costs for work done for another group, capital costs that are not associated with work management and costs funded through a regulatory balancing account such as energy efficiency and transmission access charge. Internal orders can either be short-term and be closed once the effort or project is completed or they can be on-going.
Profit Center	A Profit Center is assigned to every cost object to indicate which organization is responsible for the charge. Profit center reporting allow details regarding the activity posted to profit centers to be analyzed.
Cost Element	An account in Controlling (CO) that identifies the nature of the costs recorded in cost objects. There are two types of Cost Elements: Primary Cost Elements and Secondary Cost Elements.
Primary Cost Element	This category is the same as the General Ledger used to identify the original posting of expenditures. This is where the detail is included.
Secondary Cost Element	An account used to specifically identify costs settled or distributed within SAP. With the exception of timesheet labor, these records do not carry cost detail. The distribution of Department Overheads and Allocations use secondary cost elements. Costs flow out of "sender" objects and into "receiving" objects and are generally settled at month-end.
Cost Element Group	A cost element group is used to group similar cost elements, both primary and secondary, for reporting and planning. The Cost Element Summary Groups are Labor, Contract, Material, Overhead, Allocation, Indirect, Other.

F. Other Reports and Applications

In conducting our performance audit procedures, we relied on several additional SCE reports and applications which are described below.

1. Grid Safety and Resiliency Program

SCE filed an application on September 10, 2018 to record and recover reasonable costs of its Grid Safety and Resiliency Program (GS&RP). The GS&RP is designed to implement measures addressing state policy directed at reducing wildfire risk. Although SCE had previously implemented a number of measures to address wildfire risk across its service area, this application was to fund even greater efforts required to adapt to the "new normal" of a year-round, potentially catastrophic wildfire season. This includes making investments in wildfire-related safety enhancements, such as those pertaining to the design, construction, maintenance, and operation of electrical lines and equipment.

The application requested review of the GS&RP and authorization of 2018-2020 program costs incremental to those requested in the 2018 GRC. SCE also requested approval of the GS&RP Memorandum Account (GS&RPMA) to record incremental program costs prior to 2021.

Exhibit 5 (Table III-2 from the GS&RP Application)
Southern California Edison
Grid Safety and Resiliency Program (GS&RP) Application
Covering Rate Years 2018 to 2020
(Submitted to the CPUC September 10, 2018)

Table III-2
Forecast of Incremental Costs and Revenue Requirements of GS&RP in the Near Term (2018-2020)

Grid Safety & Resiliency Program					
Line	**Description**	**2018**	**2019**	**2020**	**Total**
1	Capital (2018 Constant $000)	54,371	112,137	240,781	$407,290
2	O&M (2018 Constant $000)	8,095	53,235	113,712	$175,042
3	Revenue Requirement (Nominal $000)	10,490	67,349	151,233	$229,072

Decision 20-04-013, dated April 2020, adopted and approved the GSRP Settlement Agreement, dated July 31, 2019. This decision approved $407 million in capital expenditures and $119 million for operation and maintenance. As part of its 2021 GRC, SCE submitted a request for incremental costs for the GSRP totaling $501 million in GSRP capital costs.

2. Risk Spending Accountability Reports

SCE is required to submit Risk Spending Accountability Reports (RSAR) on an annual basis. SCE submits RSARs in order to comply with the Phase Two Decision Adopting Risk Spending Accountability Report Requirements and Safety Performance Metrics for Investor-Owned Utilities and Adopting a Safety Model Approach for Small and Multi-Jurisdictional Utilities (Decision (D.) 19-04-020). RSARs provide a comparison of budgeted to actual spending at GRC activity level for safety, reliability, and maintenance activities. SCE includes explanations for budget to actual cost variances when they exceed a certain threshold.[6] **Exhibit 5** shows total imputed to actual costs for 2018, 2019 and 2020 as outlined in SCE's RSARs.

[6] The threshold variance for expenses is at least $10 million, or a percentage variance of at least 20 percent subject to a minimum variance of $5 million; for capital the threshold variance is at least $20 million, or a percentage variance of at least 20 percent subject to a minimum variance of $10 million; for units the threshold variance is at least 20 percent.

Exhibit 5
Comparison of Imputed to Adopted Expenditures ($000)
As Reported in RSAR for 2018, 2019 and 2020

Year	Imputed	Actual	Difference
2018 O&M	$1,010,565	$1,056,499	$45,934
2018 Capital	$3,332,718	$3,415,972	$83,254
Total	**$4,343,283**	**$4,472,471**	**$129,188**
2019 O&M	$1,039,350	$1,039,108	$(242)
2019 Capital	$3,459,377	$3,110,271	$(349,348)
Total	**$4,498,727**	**$4,149,379**	**($348,864)**
2020 O&M	$1,060,859	$1,047,707	$(13,152)
2020 Capital	$3,545,522	$3,247,505	$(298,017)
Total	**$4,606,381**	**$4,295,212**	**$(311,169)**

3. 2021 General Rate Case (various Tracks)

As part of the 2021 GRC, SCE proposed that the CPUC authorize 2018, 2019 and 2020 recorded expenditures currently being tracked in the Grid Safety and Resiliency Memorandum/Balancing Account (GSRPMA/BA), the Wildfire Mitigation Plan Memorandum Account (WMPMA), the Fire Risk Mitigation Memorandum Account (FRMMA), and the Fire Hazard Prevention Memorandum Account (FHMPA), collectively known as the "Wildfire Mitigation Accounts."

Expenditures captured in the Wildfire Mitigation Accounts are incremental to SCE's 2018 GRC-authorized revenues, and, in the case of GSRP costs, are in addition to those approved by the Commission in D.20-04-013 (approving a Settlement Agreement to the GS&RP Application A.18-09-002). SCE proposed that the CPUC review the specific recorded amounts in the Wildfire Mitigation Accounts on separate tracks, because, at the time of filing, the 2019 and 2020 wildfire related costs were not yet known. The CPUC approved and agreed to the proposed process in April 2020.

SCE's Track 2 Request sought two forms of relief: first, SCE requested that the CPUC authorize total incremental spending of $809.1 million ($301.9 million in capital and $507.2 million in O&M) that SCE recorded in Wildfire Mitigation Accounts. SCE's Track 2 costs are predominately, but not exclusively, related to the following three categories of costs:

- SCE's Enhanced Overheard Inspection (EOI) initiative, which began in late 2018 to inspect all overhead infrastructure located in High Fire Threat Areas (HFTA)
- SCE's expanded vegetation management program implemented in 2018 in response to Commission Decision 17-12-024
- 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.

Ultimately, the CPUC agreed to authorize $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 expenses (i.e., $0 in disallowances).

A November 25, 2019 Scoping Memo established a "Track 3" in the 2021 GRC to review the costs and activities of the following:

- 2018-2020 recorded costs in the GSRPMA above the settlement amount being considered in A.18-09-002
- Recorded 2020 costs in other Wildfire Mitigation Accounts.

In Track 3 of SCE's 2021 GRC, SCE is seeking two forms of relief. First, SCE requests that the CPUC authorize total incremental spending of approximately $679 million in capital expenditures and $476 million in Operations & Maintenance (O&M) expenses that reflect the following:

- Costs incurred from 2018-2020 in addition to the Commission-approved amounts from SCE's Grid Safety and Resiliency Program (GSRP) application recorded in the Grid Safety and Resiliency Balancing Account (GSRPBA); and
- Wildfire mitigation costs that SCE incurred in 2020 and recorded in various memorandum accounts that are incremental to SCE's 2018 GRC-authorized costs (collectively with the GSRPBA, the "Wildfire Mitigation Accounts").

Second, SCE requested authority to recover a portion of those costs in rates, equal to $497 million expressed as a revenue requirement.

The Track 3 costs are predominantly—but not exclusively—related to the following five categories of costs:

- Substantial grid hardening expenditures, most prominently related to SCE's Wildfire Covered Conductor Program (WCCP);
- SCE's enhanced inspections and maintenance activities and associated remediations, which include risk-based ground and aerial inspections, as well as inspections based on dry fuel-related risk factors;
- SCE's expanded vegetation management program, implemented in 2018 in response to Commission D.17-12-024, and as modified and enhanced by SCE thereafter to address the evolving wildfire threat;
- The costs of SB 247, which requires SCE to pay its vegetation management contractors wages substantially in excess of those forecast in the 2018 GRC; and
- The expert consultant contract labor costs necessary to support SCE's ambitious wildfire mitigation activities and programs to protect public safety.

The Track 3 request is currently under review by the CPUC.

Performance Audit Approach

The CPUC and its WSD (now Energy Safety) engaged Crowe to conduct this independent Performance Audit, in accordance with the Generally Accepted Government Auditing Standards (GAGAS). In accordance with GAGAS, Crowe followed 2018 Government Audit Standards (GAO-18-568G) which require us to establish an overall approach to apply in planning and performing this audit to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on audit objectives.[7]

Crowe developed our audit plan and procedures to meet specific Energy Safety objectives identified in the Request for Proposal for this project. In developing this audit plan, among other factors, we primarily considered the following:

- Understanding the CPUC GRC process and wildfire mitigation program, including other existing forms of SCE oversight (e.g., GRC review processes)
- Addressing audit objectives specified by Energy Safety
- Reducing audit risk to acceptable levels
- Designing a methodology to obtain sufficient audit evidence to provide a reasonable basis for findings and conclusions
- Developing suitable criteria to use to evaluate performance as it related to audit objectives
- Determining the significance or relative importance of the matter
- Communicating results to those in charge with governance or management.

A. Performance Audit Procedures Applied

Our performance audit objectives and procedures are detailed in **Appendix A.** Crowe also reviewed the documents identified in **Appendix B**. Energy Safety had three (3) objectives for this performance audit:

1. Determine whether actual expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations.
2. Determine whether operating or capital expenditures identified in SCE's 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating or capital expenditures approved in the 2018 GRC.
3. Determine whether SCE's actual expenditures to date, and documented future planned expenditures, comply with the 2019 and 2020 WMPs for activities that SCE received approval and funding from GRCs or similar applications submitted to the CPUC between 2018 and 2020.

We submitted a number of data requests to the company which were progressively more focused throughout the engagement as we obtained more detailed data and information on the company's wildfire mitigation accounting practices. We interviewed management to understand SCE accounting systems and use of supporting information systems. We conducted an internal controls assessment, in particular to obtain an understanding of SCE internal controls as it related to differentiating GRC-funded expenses from memorandum account funded expenses.[8] Finally, we also developed workpapers to document results of the performance audit.

As a basis for conducting our procedures, for the population we obtained and relied upon a database of capital and operating expenditures for 2018, 2019 and 2020. To test the veracity of SCE's cost database,

[7] Section 8.01 of GAO-18-568G.

[8] Where internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved (GAO-18-568, Fieldwork Standards for Performance Audits, Section 8.38c, page 164).

we reconciled the cost data in this database to cost data used by SCE in several published documents in the record, including the company's 10Q, GRC applications, WMPs, and GS&RP application.

Below, we identify several additional clarifications related to the scope of this performance audit:

1. Our scope of work did not serve to validate the process and outcomes associated with the CPUC's GRC proceedings. Our scope was targeted to determining how SCE spent funds approved in GRC's which provided funding for WMP programs.
2. The timeframe for our audit spanned actual SCE wildfire expenditures incurred between January 1, 2018 to December 31, 2020.
3. The audit did not cover SCE's 2021 Wildfire Mitigation Plan which was published on February 5, 2021. Wildfire mitigation plan requirements and priorities have evolved significantly over the 2019 to 2021 planning period with guidance from Energy Safety, actual program results, and lessons learned.

B. Sampling Methodology

We developed our sampling methodology for the examination using guidance from the American Institute of Certified Public Accountants (AICPA). Specifically, we relied on Chapter 11 (Audit Sampling) of the AICPA's Government Auditing Standards and Single Audits – Audit Guide (hereafter referred to as the AICPA Audit Guide).

The AICPA Audit Guide's minimum sample level threshold for obtaining a high level of assurance for a higher risk of material non-compliance was 60 sampling units. We stratified the population into the expense and capital populations.

After obtaining a database of SCE cost data, Crowe selected a random sample of 60 wildfire related transactions for operating expenditures and 60 for capital expenditures. The initial 120 selections yielded a significant number of transactions and Crowe felt that it was necessary to select a subset to more effectively and efficiently perform detailed testing. From this initial sample, Crowe selected a subset of 120 transaction (60 Operating and 60 Capital). Crowe conducted a more targeted selection process to capture transactions across various categories.

Crowe requested invoices, timesheets, business cases and other relevant documentation to test whether expenditures were allowable wildfire related costs. The selection represented $49M in capital and $512M in operating activity reflective of 60 expense orders and 60 capital cost orders, over the 2018 to 2020 period for purposes of conducting detailed testing to determine whether:

- Costs were supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, timesheets, overhead tables and records, and correctly charged to account, amount, and period.
- Transactions were for an allowable activity under SCEs wildfire mitigation plan and memorandum account.
- Services were provided in the location or event identified by SCE.
- Transactions were consistent with policies and procedures (internal procedures, contract agreement, etc.)

Performance Audit Results

Our performance audit resulted in two (2) findings as presented in the remainder of this section. We have identified observations of controls and processes related to SCE wildfire mitigation related expenditures.

In performance audits, a deficiency[9] in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis.

Each finding includes a recommendation to correct the issue, and is organized into the following six (6) components:

- *Condition* – includes the error observed based on facts revealed from the examination.
- *Criteria* – the basis for our evaluation; in this case a specific policy, procedure, or leading practice.
- *Cause* – the underlying reason for why the non-compliance or error occurred.
- *Effect* – the impact on the organization and/or the ratepayer from the error.
- *Recommendation* – a suggested action to correct the deficiency; or what can be done to address both the cause and condition.
- *Management Response* – an opportunity for the company to provide its response to the finding and/or recommendation.

Findings and recommendations from this performance audit are provided beginning on the next page. In **Exhibit 7** below we summarize each finding.

Exhibit 7
Summary of Findings

Description of Finding	Failure to Meet Which of the 3 Audit Objectives
1. Due to Wildfire Related Activities, SCE Deferred Projects and Activities, Totaling $700.4 Million of GRC Adopted Operating and Capital Costs for 2018 to 2020, and Instead Used these Funds for Wildfire Activities which are Recorded in Incremental Accounts.	2, 3
2. Wildfire Mitigation Cost Categories Provided in WMPs Do Not Align with How Wildfire Mitigation Costs are Categorized and Adopted as Part of GRCs, Making it Difficult to Monitor Incremental Wildfire Mitigation Costs.	2, 3

[9] Where a “significant deficiency” is deemed significant to the audit objectives and a “deficiency” is not deemed significant to the audit objectives, but warrants the attention of those charged with governance in accordance with the 2018 version of *Government Auditing Standards* - Chapter 9: Reporting Standards for Performance Audits, paragraphs 9.29 through 9.31.

Finding 1 - Due to Wildfire Related Activities, SCE Deferred Projects and Activities, Totaling $700.4 Million of GRC Adopted Operating and Capital Costs for 2018 to 2020, and Instead Used these Funds for Wildfire Activities which are Recorded in Incremental Accounts.

Significant Deficiency

Condition:
SCE's Risk Spending Accountability Report (RSAR) for years 2018, 2019 and 2020 presents recorded aggregate operating and capital expenditures relative to what was authorized in SCE's Test Year 2018 General Rate Case (2018 GRC) for applicable safety, reliability and maintenance activities.

SCE identified $50.8 in operating and $649.6 in capital costs that were for projects or activities that SCE deferred due to a need to fund wildfire mitigation related activities. SCE recorded this wildfire related activity in various memorandum accounts which it has later requested recovery of through the ongoing 2021 GRC process.

If the deferred 2018 GRC projects were never completed in order to fund newly required wildfire activities, then SCE effectively has used GRC-authorized funding, intended for other purposes, to pay for wildfire mitigation activities. In the current 2021 GRC process, SCE also is requesting recovery of the same wildfire costs it funded through underspent 2018 GRC funds within the incremental wildfire memorandum accounts.

Criteria:
The purpose of the Wildfire Mitigation Plan Memorandum Account (WMPMA) is to record, pursuant to Senate Bill (SB) 901 (Public Utilities Code Section 8386.4 (a)) and the Wildfire Mitigation Plan (also known as the Wildfire Safety Plan) approved by the Commission, incremental costs incurred to implement an approved wildfire mitigation plan that are not otherwise recovered in SCE's adopted revenue requirements. Such costs may include expense and capital expenditures for activities including but not limited to: operational practices, inspection programs, system hardening, enhanced vegetation management, enhanced situational awareness, public safety power shutoffs, and alternative technologies. Costs recorded to the WMPMA will not include costs approved for recovery in SCE General Rate Cases (GRCs) or recovered through SCE's Catastrophic Event Memorandum Account (CEMA), Fire Hazard Prevention Memorandum Account (FHPMA), Fire Risk Mitigation Memorandum Account (FRMMA), or other cost recovery mechanisms.

Cause:
Due to the requirement to fund unforeseen wildfire related activities, SCE deferred 2018 GRC approved operating and capital costs for 2018, 2019 and 2020 and may not have completed the original projects or activities funded through the 2018 GRC.

Effect:
There is a potential for SCE to over-recover from customers in rates when the utility redirected GRC authorized funds to wildfire mitigation activities that are authorized through memorandum account recovery during the time between GRC periods.

Recommendation:
SCE should provide the CPUC evidence that the deferred projects were completed prior to the 2021 GRC. In the case where these projects were not completed, SCE should not be allowed future recovery of incremental wildfire expenditures from 2018 to 2020 that were funded as a result of SCE deferring and never completing GRC adopted projects or activities.

Management Response:
SCE's full management response can be found in Appendix D of this report. SCE identified two primary issues with this finding as follows:

1. The Crowe Audit's View of Incrementality for Authorized and Recorded Costs is Fundamentally Flawed and Inconsistent with Commission Precedent
2. Crowe's Conclusion that SCE Deferred Projects and Activities, Totaling $700.4 Million of GRC Adopted Operating and Capital Costs for 2018 to 2020 Due to Deferral of Authorized Dollars to Wildfire Related Activities is Incorrect

Crowe Rebuttal

Crowe continues to support Finding #1 as presented. At a minimum, and as part of any future proceeding regarding recovery of incremental costs, SCE should provide sufficient quantifiable and detailed analysis to substantiate that any underspend has been returned to ratepayers or is planned to be used as originally intended prior to requesting additional rate recovery. This is to avoid a situation where GRC-funded amounts were significantly underspent (e.g., by not meeting the intended activity levels or diverting funds for other purposes) and these costs were instead tracked in the incremental wildfire memorandum accounts.

Crowe notes that this finding is an outcome of differences in the timing of the GRC ratemaking process and Wildfire Mitigation Plan (WMP) implementation. Crowe agrees with SCE's definition of incrementality and does not dispute that costs captured in the memorandum accounts are reasonable. However, GRC approval cycles did not align with the requirements for additional work outlined in the WMPs. We acknowledge that during this transitional period between GRC cycles, we understand that management prioritized certain WMP activities that were critical or emergency in nature to defend against wildfires and adhere to WMP requirements and that these new incremental WMP costs be recorded in memorandum accounts. However, we continue to recommend that in cases where GRC funds that were previously approved for certain projects/activities and time periods were instead used to fund incremental new wildfire related projects/activities, the CPUC should carefully consider whether to provide future rate recovery of these same incremental new wildfire-related costs in a subsequent proceeding. In evaluating the potential impacts of this finding, the CPUC should consider whether GRC capital projects which were planned/approved and not completed during the time period of the audit were ultimately completed at a later date without additional rate funding. The CPUC should also consider to what extent underspent GRC O&M funding, which may have been diverted to fund WMP activities, is ultimately "trued up" prospectively in a subsequent GRC cycle.

In response to the three categories SCE identified as flawed or incorrect we provide the following rebuttal:

1. Category 1, where there are multiple reasons for deferring work. SCE argues that the entire underspend identified by Crowe should be removed from the finding, which would be incorrect given SCE identified deferrals related to wildfire activity as part of the reason for not completing this work. In addition, SCE did not provide a breakdown of each factor's influence on the total underspend for that category. Crowe has no way to identify the amount deferred specifically because of wildfire mitigation activity, therefore Crowe included the entire amount and recommends CPUC request a detailed breakdown from SCE.
2. Category 2, SCE argued that the activities were not wildfire related. Crowe maintains that these costs and explanations are ambiguous and should be included in this finding because 1) the $29M in OM was for realigning staff to work on Grid Modernization (a WMP activity) and by deferring several O&M projects that did not directly impact safety or reliability among other reasons. ; 2) The $62M in capital was for a deferred project (because of a wildfire) that we are not certain was completed because the project was deferred into 2021. CPUC should confirm this project was completed prior to granting recovery for incremental costs.
3. Category 3, SCE argued that Crowe did not include overspend due to wildfire mitigation activities as an offset to the underspend analysis. SCE states that "SCE has not sought separate recovery of that overspending through any of its wildfire mitigation balancing or memorandum accounts". Given these costs are incremental in nature and SCE did not state they have no plans to request recovery, Crowe cannot be certain that these costs will be excluded from a future rate recovery application. Because of this uncertainty, Crowe did not include these costs as part of this analysis and finding. CPUC should monitor these costs and review the reasonableness if the costs are included in a future recovery application.

Finding 2 - Wildfire Mitigation Cost Categories Provided in WMPs Do Not Align with How Wildfire Mitigation Costs are Categorized and Adopted as Part of GRCs, Making it Difficult to Monitor Incremental Wildfire Mitigation Costs

Deficiency

Condition:
In the past, SCE's Wildfire Mitigation Plans (WMPs) have included cost information at the following levels:

2019 Plan

- Plan section and program strategy/area (estimated-actual 2019 costs). These costs were presented separately for both capital and operating expenditures.

2020 Plan

- Wildlife mitigation activity (2019 actual spend, 2020 to 2022 spend target), organized into situational awareness and forecasting, grid design and system hardening, asset management and inspections, vegetation management and inspection, grid operations and protocols, data governance, resource allocation methodology, and emergency planning and preparedness. These costs were presented as both capital and operating expenditures.

We find that approved SCE WMP capital and operating costs provided at these levels alone are inadequate for purposes of reconciling these costs to those adopted as part of the GRC process. During the course of the GRC process, SCE provides costs at the Core Work Activity level separately for capital and operating expenditures. However, as noted above for the 2019 through 2021 WMPs costs are only provided at the general program area level or activity level.

Criteria:
WMP requirements are delineated in the following documents:

- 2019 WMP – D1905036 Guidance Decision on 2019 Wildfire Mitigation Plans
- 2020 WMP – RES WSD-002 Final Guidance Resolution, and Guidance Appendices
- 2021 WMP – 2021 WMP Guidelines Template.

Cause:
The CPUC has not required capital and operating expenditures delineated to the Core Work Activity level as part of WMP content requirements. Additionally, WMP content requirements are evolving as Energy Safety gains more experience and knowledge of program needs.

Effect:
Energy Safety will have difficulty reconciling future SCE wildfire mitigation related capital and operating expenditures approved as part of the WMPs to those funded through the GRC process.

Recommendation
As part of the WMP process, SCE should provide wildfire mitigation separately for capital and for operating expenditures at the Core Work Activity level for easier reconciliation to capital and operating costs adopted as part of the GRC process.

Management Response:
SCE takes note of this finding and has been working to better align WMPs with the GRC funding requests. SCE complies with the requirements from Energy Safety for how it structures its WMP showing. It should also be noted however, that the time period for which this audit covered corresponded to the funding authorized in SCE's 2018 GRC, and many of the wildfire activities set forth in the subsequent WMPs were not even contemplated at the time SCE filed its 2018 GRC or the work was comingled with other broader activities.

Crowe Rebuttal
None.

Appendix A – Procedures Performed

The CPUC and its WSD (now Energy Safety) specified three (3) objectives for this performance audit of SCE. In **Exhibit A-1,** we list these three (3) objectives. **Exhibit A-2** provides a list of nineteen (19) tests we performed to meet the three (3) objectives.

Exhibit A-1
Performance Audit Objectives

Number	Objective
1	Determine whether actual expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations.
2	Determine whether operating or capital expenditures identified in SCE's 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating or capital expenditures approved in the 2018 GRC.
3	Determine whether SCE's actual expenditures to date, and documented future planned expenditures, comply with the 2019 and 2020 WMPs for activities that SCE received approval and funding from GRCs or similar applications submitted to the CPUC between 2018 and 2020.

Exhibit A-2
Performance Audit Procedures

Objective	Procedures
1 - Determine whether actual expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations.	1. Obtain and review GRC guidelines available in resolutions, decisions, and GRC proceedings (for the 2018 rate cases) applicable to spending GRC funds for wildfire mitigation.
	2. Interview SCE regulatory and finance management to assess how the IOU is complying with applicable GRC resolutions, decisions, and proceedings related to wildfire mitigation spending.
	3. Compare actual SCE wildfire mitigation activity spending practices with GRC rules and regulations and assess compliance.
	4. Document non-compliance with GRC rules and regulations related to wildfire mitigation activity spending.
2 - Determine whether operating or capital expenditures identified in SCE's 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating or capital expenditures approved in the 2018	1. Request and obtain a database of actual SCE capital and operating expenditures covering the period from January 1, 2018 through the present, including expenses for electric operations (transmission and distribution).
	2. Reconcile expenditure amounts included in the database with amounts reported in SCEs audited financial statements.
	3. Reconcile GRC-funded expenditure amounts included in the database to amounts approved by the CPUC in the GRCs. To perform this test, obtain and review workpapers and exhibits associated with GRC rate case proceedings.

Objective	Procedures
GRC.	4. Reconcile capital and operating expenditure amounts included in the database to amounts approved in the 2019 and 2020 WMPs.
	5. Perform analytical procedures to determine whether expenditures reported as GRC funded in the database are also captured as incremental in a memorandum account.
	6. Perform risk assessment of transaction types to inform risk-based sample selection in cost categories with potential duplication between GRC and memorandum accounts. Develop a sample of transactions to test to determine that wildfire mitigation activity expenditures are recorded properly as either GRC funded or incremental in a memorandum account or similar account.
	7. Interview SCE regulatory and finance management and document procedures used by SCE to establish approved GRC expenditures by cost category and to track actual expenditures up to approved amounts. This includes potential imputing of approved GRC costs into subordinate cost categories.
	8. Document and quantify instances of duplication between GRC-funded expenditures and incremental (memorandum account) expenditures.
3 - Determine whether SCE's actual expenditures to date, and documented future planned expenditures, comply with the 2019 and 2020 WMPs for activities that SCE received approval and funding from GRCs or similar applications submitted to the CPUC between 2018 and 2020.	1. Using prior GRCs or similar applications, and supporting workpapers and exhibits, create a data set of approved wildfire mitigation related expenditures by cost category.
	2. Using data provided in approved 2019 and 2020 WMPs, create a data set of actual and planned capital and operating wildfire mitigation expenditures by planned funding source.
	3. Link the data sets in item 7a and 7b above to identify funding for 2019 and 2020 WMP activities where SCE has received approval for in prior GRCs or similar applications.
	4. Link the database in Item 6a to compare approved WMP capital and operating expenditures with actual WMP capital and operating expenditures.
	5. Assess whether SCE is spending or plans to spend funds approved for in past GRCs or similar applications.
	6. Perform risk assessment of transaction types to inform risk-based sample selection in cost categories with ambiguity between approved amounts and actual spend amounts. Develop a sample of transactions to test to assess whether actual recorded wildfire mitigation activity expenditures are aligned with approved expenditures.
	7. Assess whether actual SCE wildfire mitigation spending is in accordance with the 2019 and 2020 WMPs and consistent with funding provided in past GRCs or similar applications. Document exceptions.

Appendix B – List of Records Examined

1. 2019 Wildfire Mitigation Plan, dated February 6, 2019
2. 2020 Wildfire Mitigation Plan Report, dated March 18, 2020
3. Risk Spending Accountability Reports (RSAR)
   a. 2018 RSAR, July 23, 2019
   b. 2019 RSAR, June 1, 2020
   c. 2020 RSAR, April 1, 2021
4. Grid Safety and Resiliency Program Application filed September 10, 2018
5. Initial application, testimony, and exhibits associated with 2018 General Rate Case
6. Initial application, testimony and exhibits associated with 2021 General Rate Case including Track 2 and Track 3
7. Audited Financial Statements for calendar years 2018, 2019 and 2020
8. Internal policies and procedures related to accounting and vendor management
9. Capital and Operating expenditures for the electric line of business for calendar years 2018, 2019 and 2020

Appendix C – Comparison of 2018 GRC Adopted Costs to Actual Costs (2018-2020)

In this appendix we compare costs adopted as part of the 2018 General Rate Case for the 2018 to 2020 period with actual costs incurred by SCE. This appendix includes the following six (6) exhibits:

- Exhibit C-1 - Comparison of Imputed to Actual O&M Expenses (2018)
- Exhibit C-2 - Comparison of Imputed to Actual O&M Expenses (2019)
- Exhibit C-3 - Comparison of Imputed to Actual O&M Expenses (2020)
- Exhibit C-4 - Comparison of Imputed to Actual Capital Costs (2018)
- Exhibit C-5 - Comparison of Imputed to Actual Capital Costs (2019)
- Exhibit C-6 - Comparison of Imputed to Actual Capital Costs (2020)

Exhibit C-1
Southern California Edison
2018 General Rate Case
Comparison of Imputed to Actual O&M Expenses
(Calendar Year 2018)

GRC Activity	2018 Imputed	2018 Actual	Difference
All Hazards Assessment, Mitigation and Analytics	$2,254	$2,271	$17
Asset Reliability Risk Analytics	-	128	128
Business Planning	36,089	36,319	230
Catalina - Diesel	4,720	5,166	446
Circuit Breaker Inspections and Maintenance	5,712	4,803	(909)
Customer Contact Center	47,479	45,394	(2,085)
Cyber Software License and Maintenance	3,322	2,367	(955)
Cybersecurity Delivery and IT Compliance	15,467	14,872	(595)
Dead, Dying and Diseased Tree Removal	1,369	35,621	34,252
Develop and Manage Policy and Initiatives	17,263	14,744	(2,519)
Distribution Apparatus Inspection and Maintenance	5,576	5,697	121
Distribution Intrusive Pole Inspections	5,077	5,003	(74)
Distribution Overhead Detail Inspections	7,582	8,027	445
Distribution Pole Loading Assessments	21,121	21,877	756
Distribution Pole Loading Repairs	3,202	2,562	(640)
Distribution Preventive and Breakdown O&M Maintenance	99,716	78,215	(21,501)
Distribution Request for Attachment Inspections	-	2,039	2,039
Distribution Routine Vegetation Management	64,212	72,434	8,222
Distribution Storm Response O&M	7,585	19,421	11,836
Distribution Underground Detail Inspections	4,473	6,762	2,289
Education, Safety and Operations	8,780	6,768	(2,012)
Emergency Preparedness and Response	2,177	3,383	1,206
Employee and Contractor Safety	3,173	4,330	1,157
Enhanced Overhead Inspections and Remediations	-	4,863	4,863
Enhanced Situational Awareness	-	(278)	(278)
Environmental Management and Development	9,316	11,208	1,892
Environmental Programs	14,641	23,016	8,375
Equipment Washing	1,257	1,100	(157)
External Communications	10,540	11,139	599
Facility and Land Operations	58,749	51,796	(6,953)
Fire Hazard Prevention	-	30,824	30,824
Fire Science and Advanced Modeling	-	1,873	1,873
Grid Mod Cybersecurity	-	3,193	3,193
Hydro	41,888	44,347	2,459
Infrared Inspection Program	-	-	-
Insulator Washing	1,248	664	(584)
Load Side Support	1,058	383	(675)
Logistics, Graphics, and Center of Excellence	4,652	4,170	(482)
Monitoring and Operating Substations	47,397	41,888	(5,509)
Monitoring Bulk Power System	51,102	46,457	(4,645)
Mountainview	24,418	25,596	1,178
Operational Compliance	430	-	(430)
Other Substation Equipment Inspections and Maintenance	2,786	1,316	(1,470)
Outage Management	-	991	991

GRC Activity	2018 Imputed	2018 Actual	Difference
Palo Verde	82,860	77,619	(5,241)
Patrolling and Locating Trouble	21,050	22,029	979
Peakers	7,818	7,351	(467)
Planning, Continuity and Governance	609	768	159
PSPS Execution	-	169	169
PSPS Protocol Support Functions	-	-	-
Public Safety	(15)	295	310
Relay Inspections and Maintenance	2,711	3,723	1,012
Reliability Must-Run and Exceptional Dispatch	-	-	-
Roads and Rights of Way	3,797	4,665	868
Safety Activities - Transmission & Distribution	13,027	18,182	5,155
Safety Culture Transformation	2,230	1,812	(418)
Security Technology Operations and Maintenance	4,031	22,547	18,516
Software Maintenance and Replacement	61,474	73,213	11,739
Solar	1,600	1,298	(302)
SONGS	998	-	(998)
Streetlight Operations, Inspections, and Maintenance	7,315	6,575	(740)
Substation - Inspections and Maintenance	2,040	1,264	(776)
Substation O&M Breakdown Maintenance	2,183	2,525	342
Technology Delivery	36,347	10,941	(25,406)
Technology Infrastructure Maintenance and Replacement	14,049	26,681	12,632
Telecommunication Inspection and Maintenance	2,901	2,419	(482)
Telecommunication Storm Response O&M	-	103	103
Training Delivery and Development - Transmission and Distribution	13,265	16,398	3,133
Training Seat-Time - Transmission and Distribution	26,183	21,484	(4,699)
Training, Drills and Exercises	3,469	2,015	(1,454)
Transformer Inspections and Maintenance	1,423	1,048	(375)
Transmission Intrusive Pole Inspections	883	592	(291)
Transmission Line Patrols	5,418	4,378	(1,040)
Transmission Line Rating Remediation (TLRR)	7,883	471	(7,412)
Transmission O&M Maintenance	8,695	7,358	(1,337)
Transmission Pole Loading Assessments	2,139	1,976	(163)
Transmission Pole Loading Repairs	354	99	(255)
Transmission Request for Attachment Inspections	270	378	108
Transmission Trim and Remove Trees	10,559	10,379	(180)
Transmission Underground Structure Inspection	1,311	1,943	632
Transmission/Substation Storm Response O&M	1,606	628	(978)
Weather Stations	-	253	253
Wildfire Vegetation Management	-	5	5
Work Force Protection/Insider Threat	24,251	166	(24,085)
Total	**$1,010,565**	**$1,056,499**	**$45,934**

Exhibit C-2
Southern California Edison
2018 General Rate Case
Comparison of Imputed to Actual O&M Expenses
(Calendar Year 2019)

GRC Activity	2019 Imputed	2019 Actual	Difference
All Hazards Assessment, Mitigation and Analytics	$2,307	$8,910	$6,603
Asset Reliability Risk Analytics	-	50	50
Business Planning	36,916	35,963	(953)
Catalina - Diesel	4,856	5,083	227
Circuit Breaker Inspections and Maintenance	5,872	5,038	(834)
Customer Contact Center	48,258	41,657	(6,601)
Cyber Software License and Maintenance	3,397	7,100	3,703
Cybersecurity Delivery and IT Compliance	15,894	14,537	(1,357)
Dead, Dying and Diseased Tree Removal	1,403	2,723	1,320
Develop and Manage Policy and Initiatives	17,769	15,217	(2,552)
Distribution Apparatus Inspection and Maintenance	5,737	5,958	221
Distribution Intrusive Pole Inspections	5,194	5,425	231
Distribution Overhead Detail Inspections	7,788	7,655	(133)
Distribution Pole Loading Assessments	21,608	20,796	(812)
Distribution Pole Loading Repairs	3,274	4,010	736
Distribution Preventive and Breakdown O&M Maintenance	102,349	124,933	22,584
Distribution Request for Attachment Inspections	-	1,621	1,621
Distribution Routine Vegetation Management	65,724	60,370	(5,354)
Distribution Storm Response O&M	7,781	2,780	(5,001)
Distribution Underground Detail Inspections	4,602	7,738	3,136
Education, Safety and Operations	9,037	7,530	(1,507)
Emergency Preparedness and Response	1,927	4,196	2,269
Employee and Contractor Safety	3,266	5,768	2,502
Enhanced Situational Awareness	-	338	338
Environmental Management and Development	9,579	11,756	2,177
Environmental Programs	14,972	20,696	5,724
Equipment Washing	1,291	1,353	62
External Communications	10,794	11,248	454
Facility and Land Operations	60,359	55,064	(5,295)
Grid Mod Cybersecurity	-	1,008	1,008
Hydro	43,057	41,634	(1,423)
Insulator Washing	1,285	596	(689)
Load Side Support	1,089	929	(160)
Logistics, Graphics, and Center of Excellence	4,780	3,844	(936)
Meter System Maintenance Design	2,183	3,009	826
Monitoring and Operating Substations	48,746	41,769	(6,977)
Monitoring Bulk Power System	54,330	50,849	(3,481)
Mountainview	25,252	17,319	(7,933)
Operational Compliance	443	-	(443)
Organizational Support	-	1,605	1,605
Other Substation Equipment Inspections and Maintenance	2,866	1,560	(1,306)
Palo Verde	84,545	76,692	(7,853)
Patrolling and Locating Trouble	21,665	23,847	2,182
Peakers	8,039	6,308	(1,731)
Planning, Continuity and Governance	1,961	851	(1,110)

GRC Activity	2019 Imputed	2019 Actual	Difference
PSPS Execution	-	710	710
Public Safety	(16)	1,377	1,393
Relay Inspections and Maintenance	2,790	3,001	211
Roads and Rights of Way	3,880	3,363	(517)
Safety Activities - Transmission & Distribution	13,401	15,725	2,324
Safety Culture Transformation	2,284	1,892	(392)
Security Technology Operations and Maintenance	4,133	5,710	1,577
Software Maintenance and Replacement	62,906	72,802	9,896
Solar	1,650	1,068	(582)
Streetlight Operations, Inspections, and Maintenance	7,511	7,828	317
Substation - Inspections and Maintenance	2,096	1,872	(224)
Substation O&M Breakdown Maintenance	2,241	2,175	(66)
Technology Delivery	37,299	10,191	(27,108)
"Technology Infrastructure Maintenance and Replacement"	14,409	22,849	8,440
Telecommunication Storm Response O&M	-	50	50
Telecommunication Inspection and Maintenance	2,968	2,855	(113)
Training Delivery and Development - Transmission and Distribution	13,621	15,302	1,681
Training Seat-Time - Distribution Personnel	-	12	12
Training Seat-Time - Transmission and Distribution	26,927	21,702	(5,225)
Training, Drills and Exercises	2,540	2,969	429
Transformer Inspections and Maintenance	1,461	1,163	(298)
Transmission Intrusive Pole Inspections	899	490	(409)
Transmission Line Patrols	5,560	2,709	(2,851)
Transmission Line Rating Remediation (TLRR)	8,062	22	(8,040)
Transmission O&M Maintenance	8,920	12,440	3,520
Transmission Pole Loading Assessments	2,180	1,910	(270)
Transmission Pole Loading Repairs	360	159	(201)
Transmission Pole Loading Work Order Related Expense	205	10	(195)
Transmission Request for Attachment Inspections	277	356	79
Transmission Routine Vegetation Management	10,765	36,360	25,595
Transmission Underground Structure Inspection	1,349	1,999	650
Transmission/Substation Storm Response O&M	1,640	2,141	501
Wildfire Work Order Related Expense Transmission	-	2,218	2,218
Wildfire Work Order Related Expense Distribution	-	432	432
Work Force Protection/Insider Threat	24,837	15,913	(8,924)
Total	**$1,039,350**	**$1,039,108**	**$(242)**

Exhibit C-3
Southern California Edison
2018 General Rate Case
Comparison of Imputed to Actual O&M Expenses
(Calendar Year 2020)

GRC Activity	2020 Imputed	2020 Actual	Difference
All Hazards Assessment, Mitigation and Analytics	$2,358	$4,025	$1,667
Business Planning	38,003	35,298	(2,705)
Catalina - Diesel	4,973	4,662	(311)
Circuit Breaker Inspections and Maintenance	6,047	4,675	(1,372)
Customer Contact Center	49,730	40,836	(8,894)
Cyber Software License and Maintenance	3,470	5,171	1,701
Cybersecurity Delivery and IT Compliance	16,369	16,074	(295)
Dead, Dying and Diseased Tree Removal	1,433	3,031	1,598
Develop and Manage Policy and Initiatives	18,331	18,656	325
"Distribution Apparatus Inspection and Maintenance"	5,918	4,863	(1,055)
Distribution Intrusive Pole Inspections	5,285	5,561	276
Distribution Overhead Detail Inspections	8,003	12,308	4,305
Distribution Pole Loading Assessments	21,998	14,667	(7,331)
Distribution Pole Loading Repairs	3,329	8,898	5,569
Distribution Preventive and Breakdown O&M Maintenance	104,984	121,452	16,468
Distribution Request for Attachment Inspections	-	1,919	1,919
"Distribution Routine Vegetation Management"	66,985	78,752	11,767
Distribution Storm Response O&M	7,972	12,617	4,645
"Distribution Underground Detail Inspections"	4,748	8,394	3,646
Education, Safety and Operations	9,334	7,313	(2,021)
Preparedness and Response"	1,990	6,699	4,709
Employee and Contractor Safety	3,373	4,368	995
Environmental Management and Development	9,875	11,563	1,688
Environmental Programs	15,270	26,003	10,733
Equipment Washing	1,327	888	(439)
"Expense Transmission"	-	-	-
External Communications	11,051	12,878	1,827
Facility and Land Operations	61,681	56,918	(4,763)
Grid Mod Cybersecurity	-	542	542
Hydro	44,092	44,138	46
"Inspections, and Maintenance"	-	-	-
Insulator Washing	1,327	1,011	(316)
Load Side Support	1,124	842	(282)
Meter System Maintenance Design	2,242	3,280	1,038
Monitoring and Operating Substations	50,254	45,514	(4,740)
Monitoring Bulk Power System	55,922	51,779	(4,143)
Mountainview	25,706	22,873	(2,833)
"Other Substation Equipment Inspections and Maintenance"	2,955	2,018	(937)
Palo Verde	86,907	73,719	(13,188)
"Patrolling and Locating Trouble"	22,362	23,395	1,033
Peakers	8,218	7,994	(224)
Planning, Continuity and Governance	2,027	870	(1,157)
Public Safety	(16)	756	772

GRC Activity	2020 Imputed	2020 Actual	Difference
Relay Inspections and Maintenance	2,879	2,947	68
Roads and Rights of Way	3,957	4,573	616
"Safety Activities - Transmission & Distribution"	13,820	8,626	(5,194)
Safety Culture Transformation	2,341	2,066	(275)
Security Technology Operations and Maintenance	4,241	4,454	213
Software Maintenance and Replacement	64,303	74,913	10,610
Solar	1,690	1,024	(666)
Streetlight Operations,	7,711	6,324	(1,387)
"Substation - Inspections and Maintenance"	2,158	1,325	(833)
"Substation O&M Breakdown Maintenance"	2,302	1,958	(344)
Technology Delivery	38,322	9,035	(29,287)
"Technology Infrastructure Maintenance and Replacement"	14,789	22,266	7,477
Telecommunication Storm Response O&M	-	36	36
"Telecommunication Inspection and Maintenance"	3,034	4,859	1,825
Training Delivery and Development - Transmission and Distribution	13,993	14,878	885
Training Seat-Time - Transmission and Distribution	27,750	14,617	(13,133)
Training, Drills and Exercises	2,600	1,830	(770)
"Transformer Inspections and Maintenance"	1,500	1,389	(111)
"Transmission Intrusive Pole Inspections"	911	545	(366)
Transmission Line Patrols	5,714	3,544	(2,170)
Transmission Line Rating Remediation (TLRR)	8,233	44	(8,189)
Transmission O&M Maintenance	9,161	12,048	2,887
Transmission Pole Loading Repairs	365	345	(20)
Transmission Pole Loading Work Order Related Expense	208	13	(195)
Transmission Pole Loading Assessments	2,213	1,373	(840)
Transmission Request for Attachment Inspections	284	461	177
"Transmission Routine Vegetation Management"	10,933	23,395	12,462
"Transmission Underground Structure Inspection"	1,391	2,452	1,061
Transmission/Substation Storm Response O&M	1,671	664	(1,007)
Wildfire Work Order Related	-	1,005	1,005
Wildfire Work Order Related Expense Distribution	-	-	-
Work Force Protection/Insider Threat	25,428	17,478	(7,950)
Total	**$1,060,859**	**$1,047,707**	**$(13,152)**

Exhibit C-4
Southern California Edison
2018 General Rate Case
Comparison of Imputed to Actual Capital Expenses
(Calendar Year 2018)

GRC Activity	2018 Imputed	2018 Actual	Difference
4 kV Cutovers	$89,809	$116,586	$26,777
4 kV Cutovers - Load Growth Driven	36,946	38,537	1,591
4 kV Substation Eliminations	2,121	5,521	3,400
Agricultural New Service Connections	5,382	3,831	(1,551)
Air Operations	6,354	3,109	(3,245)
All Hazards Assessment, Mitigation and Analytics	34,183	26,649	(7,534)
Asset Reliability Risk Analytics	-	-	-
Cable Life Extension (CLE) Program	24,176	31,258	7,082
Cable-in-Conduit (CIC) Replacement Program	41,964	50,723	8,759
Capacitor Bank Replacement Program	14,126	19,386	5,260
Catalina - Diesel	451	6,994	6,543
Circuit Breaker Replacement	45,289	44,467	(822)
Communications	28,562	21,493	(7,069)
Communications Equipment	1,897	691	(1,206)
Community Resiliency Programs	-	-	-
CRE Project Management	94,438	36,882	(57,556)
CS Replatform	-	77,422	77,422
Cybersecurity Delivery and IT Compliance	41,861	33,485	(8,376)
Digital Enhancements	-	-	-
Distribution Circuit Upgrades	60,988	54,378	(6,610)
Distribution Deteriorated Pole Replacement	159,638	195,887	36,249
Distribution Plant Betterment	15,950	82,172	66,222
Distribution Pole Loading Program Pole Replacement	111,903	116,849	4,946
Distribution Preventive and Breakdown Capital Maintenance	276,069	255,748	(20,321)
Distribution Storm Response Capital	37,061	32,647	(4,414)
Distribution Substation Plan (DSP) Circuits	60,903	43,580	(17,323)
Distribution Substation Plan Substations	98,100	87,084	(11,016)
Distribution Tools and Work Equipment	4,888	3,256	(1,632)
Distribution Transformers	96,207	86,811	(9,396)
Distribution Volt VAR Control and Capacitor Automation Program	11,513	2,451	(9,062)
Engineering and Planning Software Tools	13,544	24,490	10,946
Environmental Programs	678	706	28
Facility Asset Management	29,422	69,456	40,034
Fleet Operations and Maintenance	467	468	1
Grid Management System	39,760	18,726	(21,034)
Grid Mod Cybersecurity	8,138	21,267	13,129
Grid Reliability Projects	265,332	252,786	(12,546)
HFRA Sectionalizing Devices	-	-	-
Hydro - Dams and Waterways	15,086	14,422	(664)
Hydro - Decommissioning	3,023	575	(2,448)
Hydro - Electrical Equipment	5,583	8,127	2,544
Hydro - Prime Movers	24,266	7,503	(16,763)
Hydro - Relicensing	11,707	4,452	(7,255)
Hydro - Structures and Grounds	1,265	4,093	2,828

GRC Activity	2018 Imputed	2018 Actual	Difference
Laboratory Operations	3,594	2,566	(1,028)
Meter System Maintenance Design	907	228	(679)
Monitoring Bulk Power System	41,035	59,541	18,506
Mountainview	322	13,194	12,872
New Capacitors	7,379	8,752	1,373
New DER-Driven DSP Circuits	-	-	-
Oil Containment Diversion System	544	423	(121)
Other Transmission Projects	-	344	344
Overhead Conductor Program (OCP)	98,081	181,503	83,422
Palo Verde	39,805	37,824	(1,981)
PCB Transformer Removal	1,460	2,533	1,073
Peakers	2,822	4,194	1,372
Prefabrication	14,559	16,789	2,230
Preventive Maintenance	47,041	42,975	(4,066)
Protection of Grid Infrastructure Assets	27,716	12,806	(14,910)
Protection of Major Business Assets	-	-	-
Protection of Major Business Functions	10,837	13,022	2,185
Relays, Protection and Control Replacements	56,144	32,245	(23,899)
Reliability-Driven Distribution Automation	69,373	64,081	(5,292)
Software Maintenance and Replacement	11,387	65,912	54,525
Solar	202	-	(202)
Streetlight Maintenance and LED Conversions	50,450	54,833	4,383
Substation Capital Breakdown Maintenance	8,552	11,376	2,824
Substation Claim	938	295	(643)
Substation Emergency Equipment	4,700	7,953	3,253
Substation Equipment Replacement Program	26,931	19,378	(7,553)
Substation Load Information Monitoring System	-	3	3
Substation Switchrack Rebuild	18,970	21,096	2,126
Substation Tools and Work Equipment	5,623	7,379	1,756
Substation Transformer Bank Replacement	68,528	84,588	16,060
Technology Delivery	2,636	-	(2,636)
Technology Infrastructure Maintenance and Replacement	52,401	52,155	(246)
Technology Solutions	106,539	120,850	14,311
Telecommunication Inspection and Maintenance	6,526	4,646	(1,880)
Transmission Capital Maintenance	36,732	35,959	(773)
Transmission Claim	2,907	3,681	774
Transmission Deteriorated Pole Replacement	59,897	77,002	17,105
Transmission Emergency Equipment	107	-	(107)
Transmission Line Rating Remediation (TLRR)	162,635	116,693	(45,942)
Transmission Pole Loading Program Replacement	22,900	24,653	1,753
Transmission Substation Plan (TSP)	221,150	118,829	(102,321)
Transmission Tools and Work Equipment	1,968	1,292	(676)
Transmission/Substation Storm Response Capital	6,098	4,668	(1,430)
Underground Structure Replacements	73,292	56,730	(16,562)
Underground Switch Replacements	12,799	9,714	(3,085)
Worst Circuit Rehabilitation (WCR)	127,181	118,299	(8,882)
Total	**$3,332,718**	**$3,415,972**	**$83,254**

Exhibit C-5
Southern California Edison
2018 General Rate Case
Comparison of Imputed to Actual Capital Expenses
(Calendar Year 2019)

GRC Activity	2019 Imputed	2019 Actual	Difference
4 kV Cutovers	$92,046	$58,414	$(33,632)
4 kV Cutovers - Load Growth Driven	37,866	19,492	(18,374)
4 kV Substation Eliminations	2,173	5,857	3,684
Automatic Reclosers Replacement Program	2,446	1,488	(958)
Automation	78,341	44,368	(33,973)
Cable Life Extension (CLE) Program	24,778	11,235	(13,543)
Cable-in-Conduit (CIC) Replacement Program	43,009	19,973	(23,036)
Capacitor Bank Replacement Program	14,478	9,736	(4,742)
DER-Driven Grid Reinforcement	-	139	139
Distribution Circuit Upgrades	62,507	53,160	(9,347)
Distribution Claim	30,597	41,848	11,251
Distribution Deteriorated Pole Replacement	163,613	196,678	33,065
Distribution Plant Betterment	16,347	28,892	12,545
Distribution Pole Loading Program Pole Replacement	114,689	157,950	43,261
Distribution Preventive and Breakdown Capital Maintenance	282,943	364,392	81,449
Distribution Storm Response Capital	37,984	40,941	2,957
Distribution Substation Plan (DSP) Circuits	62,420	30,758	(31,662)
Distribution Substation Plan Substations	98,182	73,063	(25,119)
Distribution Tools and Work Equipment	5,009	2,947	(2,062)
Distribution Transformers	98,602	102,432	3,830
Distribution Volt VAR Control and Capacitor Automation Program	4,559	2,023	(2,536)
Distribution Wood Pole Disposal	2,232	4,669	2,437
Distribution Wood Pole Disposal - Pole Loading Program	1,432	-	(1,432)
Engineering and Planning Software Tools	13,881	36,998	23,117
Meter System Maintenance Design	929	288	(641)
New Capacitors	7,562	6,968	(594)
Overhead Conductor Program (OCP)	100,523	125,029	24,506
PCB Transformer Removal	1,496	2,114	618
Prefabrication	14,921	18,267	3,346
Preventive Maintenance	48,212	65,438	17,226
Streetlight Maintenance and LED Conversions	51,706	52,895	1,189
"Substation Emergency Equipment"	4,817	21,598	16,781
Substation Equipment Replacement Program	29,963	11,806	(18,157)
Substation Tools and Work Equipment	5,763	7,398	1,635
Underground Structure Replacements	75,117	48,247	(26,870)
Underground Switch Replacements	13,118	8,594	(4,524)
Worst Circuit Rehabilitation (WCR)	130,347	75,231	(55,116)
Circuit Breaker Replacement	46,417	39,148	(7,269)
Grid Reliability Projects	271,939	185,738	(86,201)
Monitoring Bulk Power System	42,056	51,412	9,356
NERC Compliance Programs	10,083	31,572	21,489
Protection of Grid Infrastructure Assets	28,406	12,952	(15,454)
Protection of Major Business Functions	11,107	9,581	(1,526)
Relays, Protection and Control Replacements	57,542	36,402	(21,140)

GRC Activity	2019 Imputed	2019 Actual	Difference
Substation Capital Breakdown Maintenance	8,765	17,259	8,494
Substation Claim	962	(23)	(985)
Substation Transformer Bank Replacement	70,234	39,442	(30,792)
Telecommunication Deteriorated Pole Replacement	-	1,817	1,817
Telecommunication Inspection and Maintenance	6,688	5,384	(1,304)
Telecommunication Pole Loading Program Replacement	-	1	1
Transmission Capital Maintenance	37,646	32,865	(4,781)
Transmission Claim	2,979	4,315	1,336
Transmission Deteriorated Pole Replacement	61,388	88,766	27,378
Transmission Emergency Equipment	110	-	(110)
Transmission Line Rating Remediation (TLRR)	166,684	116,321	(50,363)
Transmission Pole Loading Program Replacement	23,471	41,471	18,000
Transmission Substation Plan (TSP)	226,656	73,942	(152,714)
Transmission Tools and Work Equipment	2,017	812	(1,205)
Transmission/Substation Storm Response Capital	6,250	9,555	3,305
Catalina - Diesel	463	5,186	4,723
Hydro - Dams and Waterways	15,462	14,964	(498)
Hydro - Decommissioning	3,098	790	(2,308)
Hydro - Electrical Equipment	5,722	5,501	(221)
Hydro - Prime Movers	24,870	3,086	(21,784)
Hydro - Relicensing	11,998	7,804	(4,194)
Hydro - Structures and Grounds	1,296	7,123	5,827
Mountainview	330	2,992	2,662
Palo Verde	40,796	37,553	(3,243)
Peakers	2,892	1,244	(1,648)
Protection of Generation Assets	-	1,794	1,794
Solar	207	3,878	3,671
Air Operations	6,513	2,320	(4,193)
All Hazards Assessment, Mitigation and Analytics	35,034	44,981	9,947
Communications	29,273	13,483	(15,790)
Communications Equipment	1,945	744	(1,201)
CRE Project Management	96,790	56,847	(39,943)
Cybersecurity Delivery and IT Compliance	42,903	44,701	1,798
Environmental Programs	694	680	(14)
Facility Asset Management	30,154	58,458	28,304
Fleet Asset Management	2,404	2,232	(172)
Fleet Operations and Maintenance	479	445	(34)
Grid Management System	40,750	32,217	(8,533)
Grid Mod Cybersecurity	8,341	26,136	17,795
Laboratory Operations	3,683	776	(2,907)
Oil Containment Diversion System	558	635	77
Software Maintenance and Replacement	11,671	19,100	7,429
Substation Switchrack Rebuild	19,443	13,382	(6,061)
Technology Infrastructure Maintenance and Replacement	53,706	51,778	(1,928)
Technology Solutions	111,894	99,383	(12,511)
Total	**$3,459,377**	**$3,110,271**	**$(349,106)**

Exhibit C-6
Southern California Edison
2018 General Rate Case
Comparison of Imputed to Actual Capital Costs
(Calendar Year 2020)

GRC Activity	2020 Imputed	2020 Actual	Difference
4 kV Cutovers	$94,337	$62,573	$(31,764)
4 kV Cutovers - Load Growth Driven	38,809	25,376	(13,433)
4 kV Substation Eliminations	2,228	2,988	760
Automatic Reclosers Replacement Program	2,507	957	(1,550)
Automation	80,292	39,135	(41,157)
Cable Life Extension (CLE) Program	25,395	77	(25,318)
Cable-in-Conduit (CIC) Replacement Program	44,080	22,954	(21,126)
Capacitor Bank Replacement Program	14,838	5,261	(9,577)
DER-Driven Grid Reinforcement	-	54	54
Distribution Circuit Upgrades	64,064	43,565	(20,499)
Distribution Claim	31,358	41,190	9,832
Distribution Deteriorated Pole Replacement	167,687	182,108	14,421
Distribution Plant Betterment	16,754	26,924	10,170
Distribution Pole Loading Program Pole Replacement	117,545	97,192	(20,353)
Distribution Preventive and Breakdown Capital Maintenance	289,989	386,216	96,227
Distribution Storm Response Capital	38,930	117,622	78,692
Distribution Substation Plan (DSP) Circuits	63,974	47,538	(16,436)
Distribution Substation Plan Substations	100,627	67,776	(32,851)
Distribution Tools and Work Equipment	5,134	3,437	(1,697)
Distribution Transformers	101,057	96,432	(4,625)
Distribution Volt VAR Control and Capacitor Automation Program	4,673	2,326	(2,347)
Distribution Wood Pole Disposal	2,288	4,383	2,095
Distribution Wood Pole Disposal - Pole Loading Program	1,468	-	(1,468)
Engineering and Planning Software Tools	14,227	29,105	14,878
Meter System Maintenance Design	952	788	(164)
New Capacitors	7,751	4,790	(2,961)
Overhead Conductor Program (OCP)	103,026	30,067	(72,959)
PCB Transformer Removal	1,534	1,994	460
Prefabrication	15,293	21,472	6,179
Preventive Maintenance	49,413	73,696	24,283
Streetlight Maintenance and LED Conversions	52,993	36,233	(16,760)
Substation Emergency Equipment	4,937	19,754	14,817
Substation Equipment Replacement Program	30,709	24,781	(5,928)
Substation Tools and Work Equipment	5,906	8,586	2,680
Underground Structure Replacements	76,987	49,458	(27,529)
Underground Switch Replacements	13,444	6,465	(6,979)
Worst Circuit Rehabilitation (WCR)	133,593	85,597	(47,996)
Circuit Breaker Replacement	47,573	51,010	3,437
Grid Reliability Projects	278,710	248,090	(30,620)
Monitoring Bulk Power System	43,104	56,166	13,062
NERC Compliance Programs	10,334	10,744	410
Protection of Grid Infrastructure Assets	29,113	13,554	(15,559)
Protection of Major Business Functions	11,384	11,563	179
Relays, Protection and Control Replacements	58,975	54,815	(4,160)

GRC Activity	2020 Imputed	2020 Actual	Difference
Substation Capital Breakdown Maintenance	8,984	24,143	15,159
Substation Claim	985	245	(740)
Substation Transformer Bank Replacement	71,983	46,416	(25,567)
Telecommunication Deteriorated Pole Replacement	-	1,300	1,300
Telecommunication Inspection and Maintenance	6,855	6,612	(243)
Telecommunication Pole Loading Program Replacement	-	3	3
Transmission Capital Maintenance	38,584	37,459	(1,125)
Transmission Claim	3,053	4,887	1,834
Transmission Deteriorated Pole Replacement	62,917	89,443	26,526
Transmission Emergency Equipment	112	-	(112)
Transmission Line Rating Remediation (TLRR)	170,835	108,847	(61,988)
Transmission Pole Loading Program Replacement	24,055	23,796	(259)
Transmission Substation Plan (TSP)	232,300	89,875	(142,425)
Transmission Tools and Work Equipment	2,068	1,113	(955)
Transmission/Substation Storm Response Capital	6,406	4,270	(2,136)
Catalina - Diesel	474	1,437	963
Hydro - Dams and Waterways	15,847	10,024	(5,823)
Hydro - Decommissioning	3,176	762	(2,414)
Hydro - Electrical Equipment	5,864	4,684	(1,180)
Hydro - Prime Movers	25,489	2,375	(23,114)
Hydro - Relicensing	12,297	5,191	(7,106)
Hydro - Structures and Grounds	1,328	3,554	2,226
Mountainview	339	1,133	794
Palo Verde	41,812	36,376	(5,436)
Peakers	2,964	2,288	(676)
Protection of Generation Assets	-	1,661	1,661
Solar	212	(5)	(217)
Air Operations	6,675	2,454	(4,221)
All Hazards Assessment, Mitigation and Analytics	35,906	42,259	6,353
Climate Adaptation and Severe Weather	-	40	40
Communications	30,002	128,740	98,738
Communications Equipment	1,993	696	(1,297)
CRE Project Management	99,200	63,714	(35,486)
Cybersecurity Delivery and IT Compliance	43,971	39,502	(4,469)
Environmental Programs	712	365	(347)
Facility Asset Management	30,905	48,603	17,698
Fleet Asset Management	2,464	2,503	39
Fleet Operations and Maintenance	491	459	(32)
Grid Management System	41,765	41,627	(138)
Grid Mod Cybersecurity	8,549	22,892	14,343
Laboratory Operations	3,775	4,496	721
Oil Containment Diversion System	572	452	(120)
Software Maintenance and Replacement	11,961	35,873	23,912
Substation Switchrack Rebuild	19,927	21,921	1,994
Technology Infrastructure Maintenance and Replacement	55,043	70,222	15,179
Technology Solutions	114,680	97,986	(16,694)
Total	**$3,545,522**	**$3,247,505**	**$(298,017)**

Appendix D – Management Response

November 24, 2021

[redacted]
Crowe LLP
[redacted]

[redacted]

Southern California Edison Company (SCE) appreciates the opportunity to review and provide comments on the October 25, 2021 Draft Audit Report describing findings and recommendations of the SCE's 2019 and 2020 Wildfire Mitigation Plan expenditures. The audit covered the period from January 1, 2018 through December 31, 2020 to determine whether SCE complied with General Rate Case (GRC) rules and regulations and to determine whether any expenses and/or investments identified in the 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating and capital expenditures approved in previous GRCs. SCE disagrees with the audit findings described in the Draft Audit Report.

As requested, the enclosed document describes SCE's response to each audit finding and recommendation. Please contact Elizabeth Leano at 626-302-3662 if you have any questions.

Sincerely,

Shinjini Menon 11/24/21

Signature Date

Shinjini Menon
Managing Director, State Regulatory
Southern California Edison Company
2244 Walnut Grove Ave Rosemead CA 91770
626-302-3377

SOUTHERN CALIFORNIA EDISON COMPANY
RESPONSE TO DRAFT AUDIT REPORT
November 24, 2021

Executive Summary of SCE's Response

On October 25, 2021 Crowe issued its Performance Audit of Southern California Wildfire Mitigation Plan Expenditures Final Report (Crowe Audit). Overall, Crowe concluded that: "In the case where [$700.4 million in capital and O&M for infrastructure replacement projects from the 2018 General Rate Case (GRC) cycle] were not completed, SCE should not be allowed future recovery of incremental wildfire expenditures from 2018 to 2020 that were funded as a result of SCE deferring and never completing GRC adopted projects or activities."[1] Not only does Crowe's proposal lack support in Commission precedent or ratemaking principles, this conclusion constitutes clear legal error. To start, Crowe's recommendation is directly contradictory to two California Public Utilities Commission (CPUC or Commission) final decisions: D.20-04-013 (The GSRP Settlement Decision) and D.21-01-012 (the 2021 GRC Track 2 Decision). In the GSRP Settlement Decision and the 2021 GRC Track 2 Decision, the Commission has already approved for recovery much of the incremental wildfire mitigation costs the Crowe Audit recommends be disallowed.

In the following section, SCE explains why philosophically the way the Crowe Audit views how ratemaking should work for deferred and incremental capital investments is not the way the Commission views it, nor is it correct. Instead, the Commission appropriately views incrementality on an activity-by-activity level, not on a company-wide level (i.e., underspend or overspend in one activity is not refunded or charged to customers unless the CPUC specifically establishes such a protocol or the Legislature passes a statute such as PUC §8836.(i)). Because of an existing Commission established ratemaking mechanism referred to as SCE's Safety and Reliability Investment Incentive Mechanism (SRIIM), customers have already been refunded the majority of the deferred infrastructure replacement spend from the 2018 GRC cycle. Second, SCE discusses how the Crowe Audit is materially flawed from a factual perspective. Finally, SCE responds to Crowe's sensible recommendation to further align Wildfire Mitigation Plan (WMP) and GRC wildfire mitigation-related financial reporting.

Finding 1:
Due to Wildfire Related Activities, SCE Deferred Projects and Activities, Totaling 700.4 Million of GRC Adopted Operating and Capital Costs for 2018 to 2020, and Instead Used these Funds for Wildfire Activities which are Recorded in Incremental Accounts.

Recommendation 1:

[1] *See* Performance Audit of Southern California Edison Wildfire Mitigation Plan Expenditures Final Report, p. 19.

SCE should provide the CPUC evidence that the deferred projects were completed prior to the 2021 GRC. In the case where these projects were not completed, SCE should not be allowed future recovery of incremental wildfire expenditures from 2018 to 2020 that were funded as a result of SCE deferring and never completing GRC adopted projects or activities.

SCE Response to Finding and Recommendation 1:

The Crowe Audit's View of Incrementality for Authorized and Recorded Costs is Fundamentally Flawed and Inconsistent with Commission Precedent

As discussed in the Executive Summary above, the Commission has already approved cost recovery for much of SCE's 2018-2020 incremental wildfire mitigation spend through the GSRP Settlement Agreement Decision and the 2021 GRC Track 2 Decision. Accordingly, to the extent the Crowe Audit's recommendations extend to those costs, they are by definition moot. The remaining portion of the relevant wildfire mitigation costs are being reviewed and pending Commission approval in Track 3 of SCE's 2021 GRC.

Pursuant to the Scoping Memo in the 2021 GRC, and consistent with the Commission-approved preliminary statements establishing the wildfire mitigation memorandum accounts being reviewed in Track 3, SCE is required to demonstrate that the costs recorded in those specific accounts are incremental to costs approved in the GSRPBA Settlement Agreement (for 2018-2020 GSRPBA costs) and in SCE's 2018 GRC (for 2020 WMPMA, FRRMA, and FHPMA costs). Consistent with the approach used in SCE's Track 2 of the GRC, the appropriate incrementality test for all of the costs being reviewed in Track 3 is a comparison of 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,[2] not to unrelated or overall cost categories authorized from those proceedings. Specifically, "[b]efore including any costs in [the Track 3] request, SCE determined that the costs were: (1) Costs associated with the [wildfire mitigation] activities … that would not have been incurred 'but for' SCE's wildfire mitigation efforts; (2) CPUC-jurisdictional; (3) incremental to relevant amounts authorized in SCE's 2018 GRC; and/or (4) in the case of GSRPBA costs above the authorized in the Commission Decision approving the GSRP Settlement."[3][4]:

This approach is consistent with Commission-approved guidelines for calculating costs by relevant activity level, not on a company-wide basis. Because utilities have several balancing and memorandum accounts open at any given time, calculating incrementality by associated (relevant) activity or group of activities is the only reasonable and practical

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2 *See* GRC Track 3 Exhibit SCE Tr.3-01, Vol. 1 at pp. 165-166.

3 *Id*.

4 PricewaterhouseCoopers LLP (PwC), an independent accounting firm, performed an examination engagement in accordance with the attestation standards established by the American Institute of Certified Public Accountants over the costs being reviewed in Track 3. The PwC audit opinion is included as Exhibit B hereto in its entirety.

approach. A requirement to offset unrelated underspend before new costs could be recovered through relevant memo accounts would defeat the point of having memorandum accounts in the first instance, because the Commission allows utilities to establish them premised on the assumption that they are intended to track certain eligible categories of costs not otherwise funded in existing rates. Here, as discussed in more detail below, the wildfire mitigation memorandum accounts and the GSRPBA were specifically authorized by the Commission to track new spending necessary to address emergent state-wide incremental safety needs, not to accommodate forecast variances that should be absorbed or offset by total companywide authorized revenues.

The issue of how incrementality should be assessed for Commission ratemaking purposes was also litigated in a very recent SCE Catastrophic Emergency Memorandum Account (CEMA) proceeding (A.19-07-021). There, the Commission's Office of Public Advocates (Cal Advocates) challenged SCE's incrementality approach, which, consistent with SCE's approach used in Track 3, considered amounts recorded in CEMA to be incremental when compared to the relevant GRC activity. Cal Advocates stated that it did "not agree with SCE's approach in considering only vegetation management expenses as the benchmark to determine whether [drought mitigation] costs are incremental." Instead, Cal Advocates argued that it was "appropriate to evaluate other factors beyond only one category of expenses in isolation," and, specifically, that SCE's overspend related to vegetation management O&M should not be considered incremental because total company-wide O&M for the relevant year fell below authorized. In response, SCE cited longstanding Commission precedent to the contrary, establishing that incrementality is properly judged by reference to authorized spend for the comparable activity.[5]

Consistent with prior precedent, the Commission rejected Cal Advocates' proposed incrementality test and agreed with SCE, holding:

> After reviewing the positions of both parties, we find that Cal Advocates has not sufficiently justified its position. Although SCE's total O&M spending may have been under what was approved for recovery in rates, Commission precedent as well as the language in Res. E-3238 and Res. ESRB-4 suggest that the proper comparison is to vegetation management costs (in the case of drought maintenance). … We are also not persuaded by Cal Advocates' argument that costs are not incremental if they are recoverable using rates previously authorized for another category of spending.[6]

In Track 3, no intervenor challenged the fundamental tenets of SCE's incrementality test, which was the same standard SCE used in Track 2 of the GRC.[7] For example, although

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[5] *See, e.g.*, Resolution E-3238; D.08-02-014; D.10-05-032; D.12-11-041; D.19-01-006; D.19-05-020.

[6] D.21-08-024 at pp. 14-15 (internal citations omitted).

[7] The Commission approved the non-precedential Track 2 Settlement Agreement, deeming it reasonable, consistent with the law, and in the public interest. *See* D.21-01-012 at Conclusion of Law 1.

in Track 3 Cal Advocates challenged discrete and limited areas of SCE's showing on incrementality grounds, in none of those cases did it contend that incrementality should be measured on a company-wide basis. In addition, much of the costs at issue in Track 3 relate to spending above the GSRP Settlement Agreement's threshold levels. In approving the GSRP Settlement the Commission expressly stated that the GSRP were new, distinct from, and incremental to, 2018 GRC-authorized costs. In the decision approving the GSRP Settlement, the Commission stated:

> To that end Southern California Edison's Grid Safety and Resiliency Program application proposes broader, more advanced measures than those described in its … 2018 GRC[], implementation of which should not be delayed until its next general rate case application (A.19-08-013). Southern California Edison proposes "a comprehensive program ... expected to last through at least 2025, incorporating leading practices and mitigation measures selected based on their effectiveness and with appropriate consideration of potential costs." …. As the additional measures involve costs above amounts currently authorized in rates or requested in the 2018 GRC, Southern California Edison is requesting the Commission authorize 2018-2020 Grid Safety and Resiliency Program costs incremental to those requested in the 2018 GRC and approve an interim Grid Safety and Resiliency Program Memorandum Account and a two-way Grid Safety and Resiliency Program Balancing Account. Southern California Edison notes that Grid Safety and Resiliency Program costs beginning in 2021 through 2023 will be addressed in A.19-08-013 and any costs beyond 2023 will be addressed in future General Rate Cases.[8]

The GRSP Settlement Decision required that any potential reasonableness review for costs above the settlement thresholds would be conducted by comparing incurred costs measured against the GSRP Settlement Agreement-authorized amounts, not on a company-wide basis.[9]

During the Track 3 evidentiary hearings, questions arose about how the Commission should view underspending in certain categories of the 2018 GRC-authorized amounts as illustrated in SCE's 2020 Risk Spending Accountability Report (RSAR) within the context of SCE's Track 3 request to review incremental costs. Just as it is with the Crowe Audit, comparing total RSAR-specific costs to the amounts at issue in Track 3 in order to assess incrementality would be inappropriate, for several reasons. As the Commission recognized in the GSRP Settlement Agreement Decision, SCE's 2018 GRC did not authorize spending for the kind of "broader, more advanced [wildfire mitigation] measures"[10] set forth in the GSRP Application. Moreover, for non-GSRPBA costs at issue in Track 3 and in the Crowe Audit, the Legislature specifically authorized the creation of the other wildfire memorandum accounts to track those costs, to incentivize

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8 D.20-04-013 at pp. 3-4 (emphasis added).

9 *See, e.g.*, D.20-04-013 at Ordering Paragraph 11.

10 D.20-04-013 at p. 3.

the utilities to expeditiously initiate and complete vital wildfire mitigation work that was not currently funded through GRC rates.[11]

Many of the activities included in the RSAR are dissimilar to the work completed for wildfire mitigation. For example, included in the RSAR are GRC activities such as Cybersecurity Delivery and IT Compliance, Catalina Diesel, and Mountainview. Those activities – which SCE underspent on during 2020 – are unrelated to wildfire mitigation. SCE's 2020 RSAR includes only a subset of programs and are related to safety, reliability or maintenance that were authorized or in effect during the 2018 GRC period. Because the 2018 GRC preceded SCE's filing of the GSRP application and its 2019-2022 WMPs, essentially all of SCE's 2018-2020 wildfire mitigation activities are not covered in the RSAR, including its Wildfire Covered Conductor Program and the Hazard Tree Mitigation Program. That is, costs related to safety, reliability or maintenance work that are subject to wildfire mitigation memorandum account treatment at issue in Track 3 and in the Crowe Audit are not included in the authorized-to-recorded comparisons in the RSARs, pursuant to explicit Energy Division guidance to exclude them.[12] And any programs that were authorized in the 2018 GRC that do not relate to safety, reliability or maintenance are also excluded from both the RSAR and the authorized-to-recorded comparisons set forth therein. Authorized vs. recorded amounts for GRC activities related to inspections and maintenance and vegetation management were computed by SCE before deeming Track 3 costs as incremental.[13]

In addition, for the activities in the RSAR that are also subject to SCE's SRIIM, SCE has already refunded to customers the capital-related revenue requirement authorized in the 2018-2020 GRC period related to any underspend.[14] SRIIM-eligible capital-related underspending cannot be double-recovered even if one were to compare those revenues to those being sought in Track 3 because of the mandatory refund provisions of the SRIIM. This is significant: approximately 60% of the 2018-2020 RSAR underspend[15] (on a capital expenditures basis) was returned to customers through the operation of the SRIIM refund mechanism.[16] Specifically, over the three-year 2018 GRC cycle, the SRIIM mechanism has already returned $21.622 million in RSAR-related capital underspending to customers on a revenue requirement basis.[17] SRIIM includes many of SCE's authorized traditional infrastructure replacement programs, such as the Overhead Conductor Program and Worst Circuit Rehabilitation. In addition, to the extent SCE

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11 D.19-05-038, OP 20.

12 April 10, 2020 Disposition Letter to SCE regarding its 2018 Interim RSAR Advice Letter 4042-E.

13 *See* GRC Track 3 Exhibit SCE Tr.3-01, Vol. 1, p. 166, Table III-57.

14 *See* Advice 4442-E, p. 4.

15 *See* SCE's Workpaper Discussing Crowe's Audit Recommendation #1, included as Exhibit A.

16 *See* Advice 4442-E, p. 1 for capital expenditure categories included in SRIIM and the corresponding GRC activities' recorded variances from 2018 GRC authorized amounts in SCE's 2020 RSAR. Note, the SRIIM "4 kV Substation Elimination" capital category consists of the "4kV Substation Eliminations" and "4 kV Cutovers" activities in SCE's RSAR.

17 *See* Advice 4442-E, p. 4.

underspent on capital expenditures for the RSAR activities and programs not subject to the SRIIM ratemaking mechanism, any resulting SCE "over-recovery" would either be illusory to the extent the capital is invested in other activities that are not RSAR activities but are used and useful for customers or would be temporary as the actual capital spending under authorized is trued-up in the next GRC cycle. This is crucial: Because of the way Commission ratemaking works, SCE only recovered the revenue requirement associated with the non-SRIIM portion of deferred capital expenditures authorized in the 2018 GRC for three years. But the Crowe Audit would disallow cost recovery for the incremental wildfire mitigation capital expenditures that replaced the authorized spending permanently.[18] The result of Crowe's conclusion – if it were to be accepted by the Commission – is that customers would get the benefits of $650 million in wildfire mitigation capital investments for *thirty years* for free, based on a theory that they overpaid for a fraction of that amount in deferred infrastructure replacement capital investments for *three years*. That asymmetrical result would obviously not be just and reasonable and, if implemented by the Commission, would be reversed by the state courts. It would also be fundamentally inconsistent with the longstanding California utility regulatory compact, because "[i]nvestors will only provide capital for provision of utility services if they anticipate obtaining a return that is consistent with returns, they might expect from employing their capital in an alternative use with similar risk."[19]

For RSAR-eligible O&M, over the three-year 2018 GRC period, SCE spent *over-authorized* by approximately $35.538 million.[20] While SCE spent over-authorized for the 2018-2020 period, it is also important to note that any underspending of O&M-authorized expenses during a GRC cycle acts as a short-term productivity incentive for the utility, which has long-term benefit for customers as it lowers the base that future GRC forecasts and customer rates are built upon. Any fundamental changes to the Commission's longstanding incrementality test would risk weakening the existing utility incentive to efficiently manage its business and reduce O&M costs between GRC cycles if the utility simultaneously had open memorandum accounts.[21] That result would be detrimental to customers and contrary to Commission precedent. For example, in D.20-01-002 (the 2020 Rate Case Plan Final Decision), the Commission disagreed with The Utility Reform Network's (TURN) concerns that through the imposition of the new RSAR requirements the Commission was moving away from the longstanding regime of providing "the utility [with] a financial incentive to reduce costs during the rate case cycle through process

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[18] Moreover, if SCE had spent up to 2018 GRC-authorized levels on the traditional infrastructure replacement work, instead of under-spending on it as set forth in the 2020 RSAR, SCE would have earned a full equity-based rate of return on those capital investments. By spending on wildfire mitigation-related capital expenditures instead, to protect customers' lives and property, SCE forewent that full rate of return because SCE's Track 3 capital investments must be excluded from equity rate base pursuant to AB 1054.

[19] D.20-01-002 at p. 11.

[20] *See* SCE's April 1, 2021 Interim RSAR for 2020, p. 9; SCE's June 1, 2020 Interim RSAR for 2019, p. 9; and SCE's July 23, 2019 RSAR for 2018, p. 5.

[21] In addition, there is no requirement to refund O&M expenses not associated with a memorandum or balancing account nor is there the ability to recover expenses incurred in excess of authorized amounts.

improvements, cost-cutting measures, and increases in efficiencies or productivity."[22] In response, the Commission noted that TURN's concerns were misplaced, because it was not changing its long-standing practice to incentivize utility O&M cost savings, and acknowledged that "this incentive to cut costs works to the benefit of the utility's ratepayers."[23]

In summary, using the total amounts from the 2020 RSAR instead of a comparison of SCE's wildfire mitigation costs to the relevant 2018 GRC or GSRP activities to calculate incrementality of wildfire memorandum and balancing accounts would be inappropriate given Commission precedents, unnecessary given that the majority of capital expenditures were already returned to customers, and would undermine the Commission's long-standing practice to incentivize utility O&M cost savings.

Crowe's Conclusion that SCE Deferred Projects and Activities, Totaling $700.4 Million of GRC Adopted Operating and Capital Costs for 2018 to 2020 Due to Deferral of Authorized Dollars to Wildfire Related Activities is Incorrect

In addition to its overall view of measuring incrementality being based on unsound ratemaking principles, the unprecedented conclusion goes far beyond the purported scope of Crowe's audit and additionally makes several calculation errors. Crowe's conclusion that SCE deferred projects and activities, totaling $700.4 million of GRC-authorized operating and capital costs for 2018 to 2020 to instead pursue Wildfire Related Activities, is incorrect.

Upon reviewing Crowe's workpapers that support its calculation of the $700.4 million, SCE identified several significant errors as follows: 1) the analysis utilized all variance explanations where SCE indicated that *one* of the drivers for SCE underspending was due to reprioritization to wildfire mitigation work, and proceeded to include the entire underspend amount for those GRC activities in its calculation of the $700 million; 2) the $700 million calculation incorrectly includes $92 million of certain GRC activities that are described in SCE's RSAR as being underspent due to reasons entirely unrelated to wildfire mitigation-related reprioritization; and 3) the calculation does not include $163 million of certain GRC activities where SCE stated it *overspent* authorized due to wildfire mitigation work (i.e., Crowe's analysis only identifies the activities where SCE *underspent* due to wildfire mitigation work). Moreover, in these instances where SCE overspent, SCE did not request incremental recovery through wildfire mitigation memorandum or balancing accounts. These are just a few examples of errors in the Crowe Audit SCE identified, which are further described below.

An example of the first category of flaws in Crowe's analysis is that it overstates the amount SCE recorded below 2018 GRC-authorized amounts due to reprioritization to wildfire mitigation work. Specifically, the Crowe Audit overstates the amount of relevant 2018-2020 GRC-authorized capital expenditure underspending by up to $150 million. Crowe's error resulted from its use of all variance explanations where SCE

[22] D.20-01-002 at p. 37.

[23] *Id.*

indicated that at least *one* of the drivers for SCE underspending was due to the reprioritization to wildfire mitigation work. In those cases, Crowe counted the entire underspend amount for those GRC activities in its calculation of the $700 million. For instance, in SCE's 2018 RSAR, SCE indicated that the underspend in the GRC activity titled CRE Project Management was due to four drivers, only one of which related to reprioritization due to wildfire mitigation work,[24] yet Crowe attributed the entire underspend of $58 million as being due to wildfire mitigation work. SCE identified three other examples where analogous assumptions were incorrectly applied for other GRC activities.[25]

An example of the second category of flaws in Crowe's analysis is it inaccurately attributes the underspend of three GRC activities totaling approximately $92 million to wildfire mitigation reprioritization, but this characterization is entirely inconsistent with SCE's RSAR variance explanations. For instance, the Crowe Audit associates an underspend for the GRC activity titled Technology Delivery from SCE's 2020 RSAR[26] of approximately $30 million with wildfire mitigation reprioritization. However, SCE's actual RSAR variance explanation for this GRC activity made no reference to wildfire mitigation work.[27] Similarly, Crowe's analysis mischaracterized an underspend for the GRC activity titled Transmission Line Rating Remediation (TLRR) in 2020 of approximately $62 million. SCE's corresponding RSAR variance explanation indicated the variance was primarily driven due to *wildfires* that occurred near Big Creek, not because SCE reprioritized its spending on *wildfire mitigation work*.[28] Just because the word "wildfire" appears in the RSAR variance explanation does not make the re-prioritization automatically relevant, even based on Crowe's apparent views of the appropriate scope of the audit.[29]

An example of the third category of flaws in Crowe's analysis is it selectively focuses on activities where SCE's RSAR variance explanations stated it underspend due to wildfire mitigation work, while ignoring GRC activities where SCE stated it overspent due to wildfire mitigation work. Not only is this an asymmetrical characterization, it disregards

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[24] *See* SCE's 2018 Interim Risk Spending Accountability Report, Appendix 1 – page 14.

[25] Other examples include: 2018 RSAR: Distribution Substation Plan (DSP) Circuits and 2019 and 2020 RSAR: Automation. *See* SCE's Workpaper Discussing Crowe's Audit Recommendation #1 (attached hereto). It should be noted that SCE is not required by the Commission to provide a detailed analysis for every dollar over/underspend in its RSARs and therefore SCE did not break out the exact dollar amounts attributed to every driver of underspend; instead, SCE appropriately provided the key or main drivers.

[26] *See* SCE's 2020 Interim Risk Spending Accountability Report, p. 88.

[27] *Id*. at p. 88 explains SCE's Technology Delivery's recorded costs in 2020 were less than the 2018 GRC authorized amount primarily driven by an organizational realignment that resulted in recording labor costs to different GRC activities within the IT Organizational Unit. Other drivers cited include deferring several O&M projects that did not directly impact safety or reliability, and a change in accounting policy that lowered the capitalization thresholds.

[28] *See* SCE's 2020 Interim Risk Spending Accountability Report, p. 63.

[29] SCE also indicated in our 2020 RSAR that the capital activity Environmental Programs had a slight underspend ($350,000) due to wildfires impacting planned work locations, not due to reprioritization to wildfire mitigation work.

that in the instances SCE overspent, SCE has not sought separate recovery of that overspending through any of its wildfire mitigation balancing or memorandum accounts.[30] The Crowe Audit does not take that into account. SCE did not request incremental cost recovery for that spending above authorized because wildfire mitigation was only one of several drivers for SCE's re-prioritization decisions. For example, in SCE's 2020 RSAR it indicated that SCE overspent authorized for Distribution and Transmission Routine Vegetation Management for incremental wildfire work that was FERC-jurisdictional.[31] In contrast with CPUC-jurisdictional expenses, those costs are not recorded in SCE's wildfire memorandum and balancing accounts and, accordingly, are reflected as RSAR-eligible recorded costs.

In summary, while SCE disagrees with the underlying premise of Crowe's overall analysis and recommendation, the details of the underlying analysis also include numerous flaws and should be disregarded. SCE has augmented a workpaper that was initially provided by Crowe in support of its analysis to derive the $700.4 million that outlines the errors discussed above.[32]

Finding 2:
Wildfire Mitigation Cost Categories Provided in WMPs Do Not Align with How Wildfire Mitigation Costs are Categorized and Adopted as Part of GRCs, Making it Difficult to Monitor Incremental Wildfire Mitigation Costs.

Recommendation 2:
As part of the WMP process, SCE should provide wildfire mitigation separately for capital and for operating expenditures at the Core Work Activity level for easier reconciliation to capital and operating costs adopted as part of the GRC process.

SCE Response to Finding and Recommendation 2:

SCE takes note of this finding and has been working to better align WMPs with the GRC funding requests. SCE complies with the requirements from Energy Safety for how it structures its WMP showing. It should also be noted however, that the time period for which this audit covered corresponded to the funding authorized in SCE's 2018 GRC, and many of the wildfire activities set forth in the subsequent WMPs were not even contemplated at the time SCE filed its 2018 GRC or the work was comingled with other broader activities.

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[30] SCE indicated in its RSARs that it overspent approximately $163 million in certain activities due to wildfire work that is not being requested in any wildfire mitigation memorandum or balancing account that was not included in Crowe's analysis. See SCE's 2020 RSAR - Distribution Preventive and Breakdown O&M Maintenance and Distribution Routine Vegetation Management, p. 30; Transmission Routine Vegetation Management, p. 54; and Distribution Preventive and Breakdown Capital Maintenance, p. 44. *See also* SCE's 2019 RSAR Transmission Routine Vegetation Management, p. 49.

[31] *See* SCE's 2020 Interim Risk Spending Accountability Report, pp. 30 and 54.

[32] *See* SCE's Workpaper Discussing Crowe's Audit Recommendation #1, included as Exhibit A.

Exhibit A

O&M (Nominal - $000s)

Year	Net RSAR Over/(Under) Authorized*
2018	$45,933
2019	($242)
2020	($13,153)
Total	**$32,538**

** 2018 RSAR pg. 5 Table III-1, 2019 RSAR pg.9 Table III-1, 2020 RSAR pg. 10 Table III-1*

Capital (Nominal - $000s)

Year	Net RSAR Over/(Under) Expenditures*	RSAR Over/(Under) Expenditures for SRIIM Categories**	% of RSAR Underspend Expenditures Returned by SRIIM	SRIIM Over/Under RREQ
2018	$83,250	$117,741	141.4%	N/A
2019	($349,109)	($184,967)	53.0%	N/A
2020	($298,014)	($268,475)	90.1%	N/A
Total	**($563,873)**	**($335,701)**	**59.5%**	**$21,622*** **

** Refers to the net Over/Under 2018 GRC authorized of capital expenditures for all RSAR eligible activties (Cite: 2018 RSAR pg. 6 Table III-2, 2019 RSAR pg.13 Table III-2, 2020 RSAR pg. 13 Table III-2)*

*** Refers to the net Over/Under 2018 GRC authorized of capital expenditures for the subset of RSAR eligible activites that are within the the SRIIM capital expenditures categories.*

**** RSAR and SRIIM reports both start with the same population of authorized and recorded direct capital expenditures. Then, adjustments are performed to correspond to the intended purpose or information required in the RSAR and SRIIM Advice Letter. The recorded and authorized RSAR values are direct total company capital expenditures and do not include corporate overheads. Consistent with D.19-05-020, the SRIIM values include direct capital expenditures and corporate overheads, which are defined as Gross Capital Additions plus Cost of Removal (see footnote 1 in SCE's AL 4442-E). Gross Capital Additions are the sum of expenditures incurred at the point the assets are placed in service. The SRIIM values also remove non-CPUC-jurisdictional amounts while the RSAR values are presented at a total company level. Pursuant to Advice Letter 338-E Section 3 of Preliminary Statement Part LL that provides the methodology by which the customer refund is calculated, the resulting revenue requirement refund was $21.622 million for the 2018-2020 period.*

Supporting Detail for "RSAR Over/Under Expenditures for SRIIM Categories" in Table Above

Capital (Nominal - $000s)		**Net RSAR Over/(Under) Expenditures for SRIIM Categories**				**RSAR Page References**		
SRIIM Capital Expenditure Category	**Corresponding RSAR GRC Activitiy**	**2020**	**2019**	**2018**	**Total**	**2020**	**2019**	**2018**
4 kV Cutovers - Load Growth Driven	4 kV Cutovers - Load Growth Driven	($13,433)	($18,374)	$1,591	($30,216)	pg. 39	pg. 35	Appendix 2B - Page 1
4 kV Substation Eliminations[1]	4 kV Substation Eliminations	$761	$3,684	$3,401	$7,846	pg. 39	pg. 35	Appendix 2B - Page 1
	4 kV Cutovers	($31,765)	($33,632)	$26,777	($38,620)	pg. 39	pg. 35	Appendix 1 - Page 7
Cable Life Extension (CLE) Program	Cable Life Extension (CLE) Program	($25,318)	($13,543)	$7,082	($31,779)	pg. 40	pg. 36	Appendix 2B - Page 1
Cable-in-Conduit (CIC) Replacement Program	Cable-in-Conduit (CIC) Replacement Program	($21,126)	($23,036)	$8,759	($35,403)	pg. 40	pg. 36	Appendix 2B - Page 1
Circuit Breaker Replacement	Circuit Breaker Replacement	$3,437	($7,269)	($823)	($4,655)	pg. 60	pg. 54	Appendix 2B - Page 1
Overhead Conductor Program (OCP)	Overhead Conductor Program (OCP)	($72,960)	$24,505	$83,422	$34,967	pg. 41	pg. 37	Appendix 1 - Page 9
Substation Transformer Bank Replacement	Substation Transformer Bank Replacement	($25,567)	($30,792)	$16,060	($40,299)	pg. 60	pg. 54	Appendix 2B - Page 4
Underground Structure Replacements	Underground Structure Replacements	($27,529)	($26,870)	($16,561)	($70,960)	pg. 42	pg. 37	Appendix 1 - Pg. 9
Underground Switch Replacements	Underground Switch Replacements	($6,979)	($4,524)	($3,085)	($14,588)	pg. 42	pg. 37	Appendix 2B - Page 4
Worst Circuit Rehabilitation (WCR)	Worst Circuit Rehabilitation (WCR)	($47,996)	($55,116)	($8,882)	($111,994)	pg. 42	pg. 37	Appendix 2B - Page 4
Total		**($268,475)**	**($184,967)**	**$117,741**	**($335,701)**	**N/A**	**N/A**	**N/A**

[1] *The 4 kV Substation Elimination values in the SRIIM encompass two GRC activities as presented in the RSAR: 4 kV Substation Eliminations and 4 kV Cutovers.*

01_2020 RSAR-ED-SCE-002 Q.01 Response Attachment

Southern California Edison

SRIIM Capital Additions (Gross Additions and Cost of Removal) - RSAR Direct Captial Expenditures

$ Thousands

	SRIIM Capital Additions				SRIIM Capital Additions				RSAR Expenditures				RSAR Expenditures				RSAR Expenditures			
	Authorized				Recorded				Authorized				Recorded				RSAR Variance			
Program	2018	2019	2020	Total	2018	2019	2020	Total	2018	2019	2020	Total	2018	2019	2020	Total	2018	2019	2020	Total
4 kV Overload-Driven Cutovers	39,299	40,277	41,280	120,857	41,611	17,015	39,503	98,129	36,946	37,866	38,809	113,621	38,537	19,492	25,376	83,405	1,591	(18,374)	(13,433)	(30,216)
4 kV Substation Elimination[1]	97,521	99,950	102,438	299,909	136,440	84,258	92,881	313,579	91,930	94,219	96,565	282,714	122,107	64,271	65,561	251,940	30,177	(29,948)	(31,004)	(30,774)
Cable in Conduit Replacement	41,536	42,570	43,630	127,735	48,791	24,389	23,419	96,599	41,964	43,009	44,080	129,054	50,723	19,973	22,954	93,650	8,759	(23,036)	(21,126)	(35,404)
Cable Life Extension	25,676	26,315	26,970	78,960	32,655	11,518	81	44,254	24,176	24,778	25,395	74,349	31,258	11,235	77	42,571	7,082	(13,543)	(25,318)	(31,779)
Circuit Breakers	43,215	44,291	45,394	132,900	51,656	47,161	52,201	151,017	45,289	46,417	47,573	139,280	44,467	39,148	51,010	134,625	(823)	(7,269)	3,437	(4,655)
Overhead Conductor Program (OCP)	104,929	107,541	110,219	322,689	183,122	141,056	49,562	373,740	98,081	100,523	103,026	301,631	181,503	125,029	30,067	336,599	83,422	24,505	(72,960)	34,968
Transformer Banks	56,005	57,399	58,829	172,233	77,745	64,404	54,157	196,306	68,528	70,234	71,983	210,744	84,588	39,442	46,416	170,445	16,060	(30,792)	(25,567)	(40,299)
Worst Circuit Rehab (WCR)	135,068	138,431	141,878	415,378	121,988	96,040	123,075	341,103	127,181	130,347	133,593	391,121	118,299	75,231	85,597	279,127	(8,882)	(55,116)	(47,996)	(111,994)
Underground Structure Replacement	65,861	67,501	69,182	202,544	62,602	54,848	60,863	178,313	73,292	75,117	76,987	225,395	56,730	48,247	49,458	154,436	(16,561)	(26,870)	(27,529)	(70,959)
Underground Switch Replacements	13,196	13,525	13,862	40,583	10,563	9,558	8,009	28,130	12,799	13,118	13,444	39,361	9,714	8,594	6,465	24,773	(3,085)	(4,524)	(6,979)	(14,587)
Total	622,305	637,801	653,682	1,913,788	767,173	550,247	503,752	1,821,172	620,186	635,628	651,455	1,907,270	737,926	450,662	382,981	1,571,570	117,740	(184,966)	(268,474)	(335,700)
							Variance	(92,617)												

1) The 4 kV Substation Elimination values in the SRIIM encompass two GRC activities as presented in the RSAR: 4 kV Substation Eliminations and 4 kV Cutovers.

	Wildfire Related Deferrals		
	OM	Cap	
2020	$ (29,287,000)	$ (344,370,000)	
2019	$ -	$ (210,026,000)	
2018	$ (21,501,000)	$ (95,200,000)	
	$ (50,788,000)	$ (649,596,000)	$ (700,384,000)

SCE Analysis			
	O&M		
*Analysis Error Category**	1	2	3
2020	$ -	$ (29,287)	$ 40,697
2019	$ -	$ -	$ 25,595
2018	$ -	$ -	
Total O&M	**$-**	**$(29,287)**	**$66,292**
	Capital		
*Analysis Error Category**	1	2	3
2020	$ (41,157)	$ (62,335)	$ 96,227
2019	$ (33,973)	$ -	$ -
2018	$ (74,879)	$ -	
Total Capital	**$(150,009)**	**$(62,335)**	**$96,227**
Total Capital and O&M	**$ (150,009)**	**$ (91,622)**	**$ 162,519**

**Analysis Error Category 1 - The analysis utilized all variance explanations where SCE indicated that one of the drivers for SCE underspending was due to the reprioritization to wildfire, and proceeded to include the entire underspend amount for those GRC activities in its calculation of the $700 million.*

**Analysis Error Category 2 - The $700 million calculation incorrectly includes $92 million of certain GRC activities that are described in SCE's RSAR as being underspent due to reasons entirely unrelated to wildfire reprioritization.*

**Analysis Error Category 3 - The calculation does not include $163 million of certain GRC activities where SCE stated it overspent authorized due to WF work, the analysis only identifies the activities where SCE underspent due to wildfire work.*

GRC Activity	Authorized Costs	Recorded Costs	Difference	Difference ($000)	Variance Explanation - Wildfire (Crowe Analysis)	Error Example Number from SCE Analysis	SCE Explanation for Analysis Error	Variance Explanation	Citation Page
2020 Capital									
Distribution Preventive and Breakdown O&M Maintenance	104,984,000	121,452,000	$ 16,468,000	$ 16,468.00		3	SCE indicated an overspend due to WF but this was not included in Crowe's analysis.	Higher spend resulted from the higher volume of enhanced overhead inspection remediations for wildfire prevention when performed alongside non-wildfire work. SCE's remediation strategy is designed to bundle as much work (i.e., address all open notifications) on an asset as reasonably feasible to take place at the same time. As a result of that bundling strategy, certain work orders that were addressed through the wildfire mitigation inspection program include existing, non-wildfire-related notifications. Because those work order costs cannot be separated into wildfire- and non-wildfire-related categories, work orders that include nonwildfire-related notifications are excluded and not considered to be "wildfire-related." Accordingly, SCE is not seeking cost recovery in Track 3 for those combined work orders. The shift from SCE's labor to more contractor labor and more work being performed during premium time resulted in higher use of "time and expense" rates. Unit price contracts are not used when the work has a constrained timeline, the scope of work is uncertain, or defined units do not align with the specific work being performed.	p. 30
Distribution Routine Vegetation Management	66,985,000	78,752,000	$ 11,767,000	$ 11,767.00		3	SCE indicated an overspend due to WF but this was not included in Crowe's analysis.	The higher level of expenses arose from necessary changes supporting public safety and addressing expanded wildfire risk (the latter of which was neither reasonably foreseen nor included in SCE's 2018 GRC forecast). The recorded spend over authorized for Distribution Routine Vegetation Management for incremental wildfire work is FERC- jurisdictional. In contrast with CPUC-jurisdictional expenses, those cost are not recorded in SCE's wildfire memorandum and balancing accounts and, accordingly, are reflected as SAR eligible recorded costs.	p. 30
Technology Delivery	38,322,000	9,035,000	$ (29,287,000.00)	$ (29,287.00)	Wildfire	2	Crowe incorrectly included this in their analysis. SCE variance did not reference an underspend due to WF work..	Technology Delivery's recorded costs of $9M in 2020 were less than the 2018 GRC authorized amount of $38.3M by ($29.3M) or -76%. Technology Delivery's ($29.3M) underrun was primarily driven by the labor re-assigned as a result of earlier reorganizations, which included moving Technology Delivery resources to IT Plan and Service Management Organization functions, as well as strategic programs such as Grid Modernization or CSRP that required delivery management skills and expertise. As a result, SCE recorded labor in different IT activities than the activities where originally forecast at the time of developing SCE's 2018 GRC (e.g., Technology Infrastructure Maintenance and Replacement). SCE also recorded lower 2020 expenses by deferring several O&M projects that did not directly impact safety or reliability. Lastly, SCE recorded lower Capital Related Expense due to a change in accounting policy that lowered the capitalization thresholds ($250K instead of $1.0M) and shared Organizational Change Management (OCM) costs with other SCE Operating Units (OUs).	p. 88
Transmission Routine Vegetation Management	10,933,000	23,395,000	$ 12,462,000	$ 12,462.00		3	SCE indicated an overspend due to WF but this was not included in Crowe's analysis.	The higher level of expenses arose from necessary changes supporting public safety and addressing expanded wildfire risk (the latter of which was neither reasonably foreseen nor included in SCE's 2018 GRC forecast). The recorded spend over authorized for Transmission Routine Vegetation Management for incremental wildfire work is FERC-jurisdictional. In contrast with CPUC-jurisdictional expenses, those costs are not recorded in SCE's wildfire memorandum and balancing accounts and, accordingly, are reflected as SAR eligible recorded costs.	p.54
2020 Capital									
Automation	80,292,000	39,135,000	$ (41,157,000)	(41,157)	Wildfire	1	SCE indicated that one of the factors (amongst one or more other reasons) for an underspend was reprioritization of resources to wildfire mitigations.	Recorded expenditures for both Reliability-driven and DER-driven Distribution Automation activities were lower than authorized as SCE reprioritized resources to wildfire prevention activities. Lower spend is also attributable to delays in training yard permitting which impacted the training supporting new equipment deployments.	pg. 43
Distribution Preventive and Breakdown Capital Maintenance	289,989,000	386,216,000	$ 96,227,000.00	96,227		3	SCE indicated an overspend due to WF but this was not included (or netted) in Crowe's analysis.	Higher spend resulted from (1) bundling of enhanced overhead inspections for wildfire prevention with non-wildfire work, (2) greater reliance on contractor resources, (3) more work being completed on premium time, and (4) use of contractor time and expense pay which is higher than unit price work. "Time and expense rates" are used in place of unit price contracts when an activity has a constrained timeline, the scope is difficult to ascertain, or unique circumstances where the defined units do not align with work being performed.	pg. 44
Environmental Programs	712,000	365,000	$ (347,000)	(347)	Wildfire	2	Crowe incorrectly included this in their analysis. SCE did not underspend due to WF work but because a wildfire in the area of one of the projects caused delays.	The variance in spend and units during 2010 was driven by wildfires impacting planned work locations for 10 units and COVID-19 restrictions restricting field activities. However, SCE completed work on nine units over its forecast in 2019. Consequently, the total units were accomplished in this GRC cycle (2018 – 2020).	pg. 100
Transmission Line Rating Remediation (TLRR)	170,835,000	108,847,000	$ (61,988,000)	(61,988)	Wildfire	2	Crowe incorrectly included this in their analysis. SCE did not underspend due to WF work but because a wildfire in the area of one of the projects caused delays.	The variance was primarily driven by delayed work from 2020 to 2021 at the Big Creek and Pardee projects. The Big Creek project was delayed due to the September fires in that area. Eagle Mountain-Blythe project experienced material delivery delays which caused the work to shift to 2021. The construction of the Big Creek 1-BC2 projects were deferred to 2021/2022 based on new revised sequence of work schedule baseline. Reconductor work for Big Creek 1-Rector project was delayed to 2021 due to increased complexity coordinating with fire remediation work.	pg. 63

GRC Activity	Authorized Costs	Recorded Costs	Difference	Difference ($000)	Variance Explanation - Wildfire (Crowe Analysis)	Error Example Number from SCE Analysis	SCE Explanation for Analysis Error	Variance Explanation	Citation Page
2019 O&M									
Transmission Routine Vegetation Management	$ 10,765,000.00	$ 36,360,000.00	$ 25,595,000.00	$ 25,595.00		3	SCE indicated an overspend due to WF but this was not included (or netted) in Crowe's analysis.	SCE's 2018 GRC request was for routine activity only. Wildfire mitigation efforts accelerated the need to take more aggressive action for routine Transmission Vegetation Management activities.	p. 49
2019 O&M									
Automation	$78,341,000	$44,368,000	($33,973,000)	($33,973.00)	Wildfire	1	SCE indicated that one of the factors (amongst one or more other reasons) for an underspend was reprioritization of resources to wildfire mitigations.	Recorded expenditures for both Reliability-driven and DER-driven Distribution Automation sub-activities are lower than the Commission-authorized amounts due to a number of challenges. These challenges include the timing of the Test Year 2018 GRC Decision. The late issuance of this decision provided SCE with virtually no ability to modify its deployment activities once the Commission's guidance was received in mid-2019. Additionally, delays in training associated with deploying new equipment also affected 2018 deployments. Emergent efforts to support wildfire mitigation and the associated reprioritizing of resources to support this work reduced SCE's distribution automation deployments in 2019 due to labor resource limitations.	SCE 2019 RSAR, p. 40
2018 O&M									
CRE Project Management	$ 94,438.00	$ 36,882.00	$ (57,556.00)	Wildfire	1	SCE indicated that one of the factors (amongst one or more other reasons) for an underspend was reprioritization of resources to wildfire mitigations.	Variance is driven by multiple items. First, T&D Training Center was not started so that we could undertake further review with respect to the lowest-cost option. Second, the Santa Barbara Service Center was not started because SCE was unable to find a suitable plot of land. Third, Vehicle Maintenance Facility Modernization was reprioritized due to wildfire and postponed to determine impact of Fleet Electrification at the sites. Fourth, Long Beach Regional Office infrastructure upgrade project was cancelled due to expected sale of property.	SCE's July 23, 2019 RSAR for 2018, Appendix 1 – Page 14	SCE's July 23, 2019 RSAR for 2018, Appendix 1 – Page 14
Distribution Substation Plan (DSP) Circuits	$ 60,903.00	$ 43,580.00	$ (17,323.00)	Wildfire	1	SCE indicated that one of the factors (amongst one or more other reasons) for an underspend was reprioritization of resources to wildfire mitigations.	2018 expenditures are below authorized levels due to: (1) a delay in the construction of the Safari Substation and pending permits, including Railroads, (2) construction delays due to permitting, (3) resource constraints related to the prioritization of wildfire mitigation efforts, and (4) the Circle City project was forecast in the 2018 GRC but had an in-service date outside the 2018 GRC period.	SCE's July 23, 2019 RSAR for 2018, Appendix 1 – Page 8	SCE's July 23, 2019 RSAR for 2018, Appendix 1 – Page 8

Exhibit B

SCE 2021 General Rate Case Track 3

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 September 10, 2018 to December 31, 2020

Summary of Wildfire Memorandum Account Operations & Maintenance (O&M) and Capital Costs

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Report of Independent Accountants

To the Board of Directors and Management of Southern California Edison Company

We have examined the accompanying management assertion of Southern California Edison Company that the accompanying Summary of Wildfire Costs includes O&M & Capital costs which 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 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 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. The Schedule of Wildfire Costs includes costs for four wildfire mitigation regulatory cost tracking accounts: (1) Wildfire Mitigation Plan Memorandum Account (WMPMA); (2) Fire Hazard Prevention Memorandum Account (FHPMA), (3) Fire Risk Mitigation Memorandum Account (FRMMA), and the (4) Grid Safety and Resiliency Program Balancing Account (GSRPBA) for the periods ended December 31, 2020, as applicable. Southern California Edison Company's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our 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 prudency of the costs incurred or whether the costs were probable of recovery from ratepayers.

In our opinion, management's assertion that the accompanying Summary of Wildfire Costs includes costs which 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 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 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.

PricewaterhouseCoopers LLP

April 22, 2021

MANAGEMENT ASSERTION

Management of Southern California Edison Company (SCE or the Company) has prepared the accompanying Summary of Wildfire Mitigation Operations & Maintenance (O&M) and Capital Costs for three memorandum accounts (MA) and one balancing account (BA) (collectively referred to as the Wildfire Mitigation MAs/BA). The three Wildfire Mitigation MAs are: (1) Wildfire Mitigation Plan Memorandum Account (WMPMA); (2) Fire Hazard Prevention Memorandum Account (FHPMA); and (3) Fire Risk Mitigation Memorandum Account (FRMMA). The fourth Wildfire Mitigation regulatory tracking account is the Grid Safety and Resiliency Program Balancing Account (GSRPBA). The Summary of Wildfire Mitigation O&M and Capital Costs for the Wildfire Mitigation MAs are for the period January 1 through December 31, 2020, and the Summary of Wildfire Mitigation O&M and Capital costs for the GSRPBA is for the period beginning September 10, 2018 to December 31, 2020. The Wildfire Mitigation MAs/BA are further defined below in the Notes to the Summary of Wildfire Mitigation O&M and Capital Costs. Management asserts the following related to the Summary of Wildfire Mitigation O&M and Capital Costs for each of the four Wildfire Mitigation MAs/BA:

- The costs associated with the aforementioned Wildfire Mitigation MAs/BA were incurred for the activities set forth in the corresponding, relevant California Public Utilities Commission (CPUC)-approved Preliminary Statements describing the contents of the regulatory cost recovery tracking accounts (as further described in the Notes);
- The costs are accurately recorded;
- The costs are 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 (GRC), Decision (D.) 19-05-020, and/or above the amounts previously approved by the CPUC in D.20-04-013 approving the GSRP settlement agreement.
- The costs in the four wildfire mitigation regulatory cost tracking accounts, collectively referred to as the "Fire Mitigation MAs/BA", are incurred for separate activities.

For the purposes of this assertion, Management has defined valid wildfire-related costs as CPUC-jurisdictional O&M and capital costs that are tracked in each of the four Fire Mitigation MAs/BA that would not have been incurred but for activities performed for wildfire risk mitigation and prevention efforts as further described in the Notes to the Summary of Wildfire Mitigation O&M and Capital Costs. Additionally, for the purposes of this assertion, Management has defined incremental costs as valid O&M and capital costs in excess of what was authorized in D.19-05-020 or above GSRP settlement amounts adopted in D.20-04-013, as applicable.

SUMMARY OF WILDFIRE O&M AND CAPITAL COSTS FOR THE WILDFIRE MITIGATION MEMORANDUM ACCOUNTS (WMPMA, FHPMA & FRMMA)

The tables below provide a summary of SCE's relevant incremental 2020 operations and maintenance (O&M) expenses and capital expenditures by memorandum account:[1][2]

2020 Capital Expenditures (Nominal $000)					
Memo Account	Activity	Capital Recorded (A)	FERC Jurisdictional (B)	GRC Authorized (C)	Incremental Costs (A-B-C)
WMPMA	Grid Hardening	$ 2,899	$ -	$ -	$ 2,899
	Enhanced Operational Practices	$ 145,021	$ 106	$ -	$ 144,915
	Vegetation Management	$ 16,147	$ -	$ -	$ 16,147
	PSPS Customer Engagement	$ 6,293	$ -	$ -	$ 6,293
	Total	***$ 170,360***	***$ 106***	***$ -***	***$ 170,254***

2020 O&M Expenses (Nominal $000)					
Memo Account	Activity	O&M Recorded (A)	FERC Jurisdictional (B)	GRC Authorized (C)	Incremental Costs (A-B-C)
WMPMA	Grid Hardening	$ 682	$ 36	$ -	$ 646
	Enhanced Operational Practices	$ 415,885	$ 24,498	$ 236,815	$ 154,572
	Vegetation Management	$ 23,362	$ 579	$ -	$ 22,783
	Organizational Support	$ 22,187	$ -	$ -	$ 22,187
	Fire Science & Advanced Modeling	$ 416	$ -	$ -	$ 416
	PSPS Customer Engagement	$ 7,331	$ -	$ -	$ 7,331
	Environmental Remediation Liability Management	$ 610	$ -	$ -	$ 610
	Lease for Fire Suppression Agencies	$ 2,158	$ -	$ -	$ 2,158
	Total	***$ 472,631***	***$ 25,113***	***$ 236,815***	***$ 210,703***

2020 O&M Expenses (Nominal $000)					
Memo Account	Activity	O&M Recorded (A)	FERC Jurisdictional (B)	GRC Authorized (C)	Incremental Costs (A-B-C)
FHPMA	Vegetation Management Line Clearance	$ 355,494	$ 21,618	$ 81,559	$ 252,317
	Total	***$ 355,494***	***$ 21,618***	***$ 81,559***	***$ 252,317***

1 The WMPMA is effective as of June 19, 2019; the FRMMA is effective as of January 18, 2019; and the FHPMA was expanded in January 2018 to track the costs incurred to implement the regulations adopted by D.17-12-024. The recorded capital expenditures for 2020 in the Wildfire Mitigation MAs are subject to the AB 1054 required exclusion from earning an equity level rate of return. AB 1054 expenditures as of August 1, 2019 (the first day of the first month after the statute was enacted) and forward are *included* in Track 3 for reasonableness review and *excluded* from SCE's cost recovery request. See the Notes to the Summary of Wildfire Mitigation Costs for additional detail.

2 O&M and Capital Recorded amounts adjusted to exclude non-Wildfire Mitigation related costs.

2020 Capital Expenditures (Nominal $000)					
Memo Account	Activity	Capital Recorded (A)	FERC Jurisdictional (B)	GRC Authorized (C)	Incremental Costs (A-B-C)
FRMMA	Enhanced Operational Practices	$ 3,688	$ -	$ -	$ 3,688
	PSPS Customer Engagement	$ 2,932	$ -	$ -	$ 2,932
	Total	***$ 6,620***	***$ -***	***$ -***	***$ 6,620***

2020 O&M Expenses (Nominal $000)					
Memo Account	Activity	O&M Recorded (A)	FERC Jurisdictional (B)	GRC Authorized (C)	Incremental Costs (A-B-C)
FRMMA	Enhanced Operational Practices	$ 3,942	$ 231	$ -	$ 3,711
	Fire Science & Advanced Modeling	$ 1,228	$ -	$ -	$ 1,228
	PSPS Customer Engagement	$ 17,061	$ -	$ 10,725	$ 6,336
	Organizational Support	$ 4,882	$ -	$ 3,437	$ 1,445
	Total	***$ 27,113***	***$ 231***	***$ 14,162***	***$ 12,720***

SUMMARY OF WILDFIRE O&M AND CAPITAL COSTS FOR THE FIRE MITIGATION BALANCING ACCOUNT (GSRPBA)

The tables below provide a summary of SCE's 2018-2020 operations and maintenance (O&M) expenses and capital expenditures in the GSRPBA.[3][4]

2018-2020 Capital Expenditures (Constant 2020 $000)						
Balancing Account	Activity	Fiscal Year	Capital Expenditure (A)	FERC Jurisdictional (B)	GSRP Setllement (C)	Expenditures Above Settlement (A-B-C)
GSRPBA	Wildfire Covered Conductor Program*	2018	$ 30,950			
		2019	$ 257,402			
		2020	$ 552,725			
	Sub-Total		$ 841,077	$ -	$ 353,481	$ 487,596
	Non-Wildfire Covered Conductor Program	2018	$ 19,423			
		2019	$ 96,100			
		2020	$ 36,159			
	Sub-Total		$ 151,682	$ -	$ 130,962	$ 20,720
	Total		***$ 992,759***	***$ -***	***$ 484,443***	***$ 508,316***

* SCE's Wildfire Covered Conductor Program (WCCP) recorded costs in excess of 115 percent of authorized GSRP settlement costs are subject to reasonableness review per D.20-04-013. The $487.596 million of WCCP recorded expenditures in this table reflect the amount above the 115 percent settlement threshold.

2018-2020 O&M Expense (Constant 2020 $000)						
Balancing Account	Activity	Fiscal Year	O&M Recorded (A)	FERC Jurisdictional (B)	GSRP Setllement (C)	Expense Above/(Below) Settlement (A-B-C)
GSRPBA	Wildfire Covered Conductor Program	2018	$ -			
		2019	$ (64)			
		2020	$ (1)			
	Sub-total		$ (65)	$ -	$ 6,968	$ (7,033)
	Non-Wildfire Covered Conductor Program	2018	$ -			
		2019	$ 34,070			
		2020	$ 74,674			
	Sub-total		$ 108,744	$ -	$ 116,584	$ (7,840)
	Total		***$ 108,679***	***$ -***	***$ 123,552***	***$ (14,873)***

[3] In D.19-01-019, the Commission authorized SCE to establish the GSRP memorandum account (GSRPMA) effective September 10, 2018. Pursuant to Ordering Paragraph 23 of D.20-04-013, and as described in Advice 4197-E/E-A, SCE transferred the June 30, 2020 balance in GSRPMA to the GSRPBA and began recording all July 1, 2020 and forward GSRP costs in the GSRPBA. The amounts reflected in this table include the balances that were recorded in GSRPMA as of June 30, 2020 and that were then transferred to the GSRPBA.

[4] Similar to the WF Mitigation MAs, the Track 3 GSRP capital expenditures above the authorized settlement amounts are excluded from equity rate base pursuant to AB 1054. Accordingly, SCE seeks reasonableness review of these amounts, but they are not included in SCE's proposed Track 3 revenue requirement. The O&M expenses recorded in the GSRPBA are below the authorized settlement amount. Accordingly, SCE does not seek a reasonableness review of those amounts, and the below-authorized delta for the recorded amounts will be refunded to customers via the Base Revenue Requirement Balancing Account (BRRBA) ratemaking mechanism, as described in Advice 4197-E/E-A, and as further set forth in SCE's direct testimony supporting A.21-04-001 (*i.e.*, SCE's 2020 Record Period Energy Resource Recovery Review proceeding).

NOTES TO THE SUMMARY OF WILDFIRE MITIGATION COSTS

Note 1: Background

Background of SCE

SCE is an investor-owned public utility primarily engaged in the business of supplying and delivering electricity to an approximately 50,000 square-mile area of southern and central California. SCE serves approximately 5 million customer accounts in its service area.

History of wildfires in California and why these costs are being incurred

California's wildfire risk has dramatically increased in recent years due to climate change, drought, and other factors such as increased development in the wildland-urban interface and significant build-up of fuel, including on federal and state forest lands. The full magnitude of the increased threat and the significance of its consequences did not become apparent until 2017, when California experienced five of the most destructive wildfires in its history. The trend continued with the 2018 fires, a year that was even worse as far as lives lost, structures destroyed, and landscapes irrevocably altered— eight of the 20 most destructive wildfires in California history occurred in 2017 and 2018, destroying more than 31,000 structures (double the number consumed by the other twelve) — and California's wildfire risk has grown to the point where the safety of our communities requires additional and time-sensitive measures. On March 22, 2019, Governor Newsom issued a State of Emergency proclamation in light of the "conditions of extreme peril to the safety of persons and property [that] exist" related to wildfires across the state. SCE has determined that approximately 27 percent of its service territory is in areas identified as high fire risk. In 2020, California experienced its most destructive wildfire year in terms of acres burned in modern history. The vast majority of these 2020 wildfires, and most of their tragic associated damage, were not associated with utility equipment.

From 2018 to 2020, to aggressively tackle wildfire risk, SCE made significant efforts to harden its grid; increase overhead infrastructure inspections in high fire risk areas and perform associated necessary remediations; increase situational awareness programs; expand its vegetation management program; and initiate Public Safety Power Shutoffs (PSPS) when necessary to protect public safety. Those efforts were prudent and essential to immediately safeguard the communities we serve from existential wildfire risks. SCE described these programs and activities beginning in its 2019 Wildfire Mitigation Plan (WMP) and provided a subsequent update on these activities in its 2020-2022 WMP filing that was submitted in February 2020. Several of these programs and activities were also included in SCE's GSRP Application, which was filed in September 2018 and approved by the Commission in April 2020.[5] The 2018 and 2019 costs of wildfire mitigation activities not included in SCE's GSRP Application or authorized in the 2018 GRC were tracked in three memorandum accounts for recovery in Track 2 of SCE's 2021 GRC, which was submitted on March 5, 2020 and resolved by the CPUC in its Decision 21-01-012 adopting the Track 2 Settlement.

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[5] *See* D.20-04-013, which adopts the Settlement Agreement dated July 31, 2019 between Public Advocates Office, Coalition of California Utility Employees, Small Business Utility Advocates, The Utility Reform Network, and SCE.

Establishment of Wildfire Mitigation MAs/BA addressed in GRC Track 3

Pursuant to Public Utilities Code § 8386.3(e), the first $1.575 billion of wildfire risk mitigation capital expenditures spent on or after August 1, 2019 and included in SCE's approved WMPs must be excluded from equity rate base and may be financed through a financing order pursuant to Section 851 (capital expenditures subject to AB 1054). As of the date of this attestation, all of these capital expenditures for the Wildfire Mitigation MAs/BA presented in SCE's Track 3 filing are forecast to be subject to this AB 1054-required equity rate base exclusion. Accordingly, SCE seeks a reasonableness review of these amounts in Track 3 but does not include them in the proposed Track 3 revenue requirement.

FRMMA and WMPMA

On September 21, 2018, former Governor Brown signed Senate Bill (SB) 901, which set in motion wide-ranging activities to strengthen California's ability to prevent and recover from catastrophic wildfires. In addition to measures directed at other entities, SB 901 required electric utilities to prepare and submit WMPs that describe the utilities' plans to prevent, combat, and respond to wildfires. The Commission opened Rulemaking (R.)18-10-007 on October 25, 2018 to implement this provision of SB 901.

On January 18, 2019 and March 12, 2019, SCE submitted Advice 3936-E and Advice 3936-E-A, respectively, proposing the establishment of the FRMMA, in compliance with Cal. Pub. Util. Code § 8386(j). As described in Advice 3936-E:

> SB 901 authorizes SCE to establish two separate memorandum accounts to track incremental costs SCE incurs to mitigate wildfire risk. One memorandum account, which SCE proposes to establish in this advice letter, is intended to "track costs incurred for fire risk mitigation that are not otherwise covered in the electrical corporation's revenue requirement."[6] The second memorandum account, which is to be established upon approval of SCE's 2019 WMP, is intended to "track costs incurred to implement the plan."[7]

The Commission approved Advice 3936-E-A on March 12, 2019 and approved an effective date for the FRMMA of January 18, 2019.

On June 4, 2019, the Commission issued D.19-05-038, approving SCE's 2019 WMP. This Decision also authorized SCE to "open the memorandum account described in P.U. Code § 8386(e), which provides: "'At the time it approves each [WMP], the [C]ommission shall authorize the utility to establish a memorandum account to track costs incurred to implement the plan.'"[8] In authorizing this Section 8386(e) memorandum account, the Commission specified

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6 Cal. Pub. Util. Code § 8386.4(b)(1).
7 Cal. Pub. Util. Code § 8386.4(a).
8 D.19-05-038, OP 18.

that SCE could not "seek or obtain double recovery of the costs tracked in its P.U. Code § 8386(e) memorandum account in any other account, including the [FRMMA]."[9]

Pursuant to Ordering Paragraphs (OPs)18 and 19 of D.19-05-038, SCE submitted Advice 4022-E to establish the WMPMA to track costs incurred to implement SCE's approved WMP that are: (1) not currently reflected in other Commission revenue requirements being paid by customers in rates (*e.g.*, in Commission-approved GRC base rates revenue requirements); (2) not pending approval by the Commission via a separate SCE proposal (*e.g.*, in SCE's at-the-time pending GSRP application, A.18-09-002); and (3) not being tracked in an existing Commission-authorized memorandum account (*e.g.*, in SCE's FHPMA, or Catastrophic Event Memorandum Account (CEMA)). As described in Advice 3936-E, upon approval of that advice letter, SCE transferred the balance in the FRMMA associated with approved WMP-related activities to the WMPMA and began tracking the going-forward costs of the approved activities in the WMPMA. The costs in the WMPMA are now being presented to the Commission for reasonableness review and cost recovery in its pending 2021 GRC, consistent with P.U. Code § 8386.4(b)(1), and future costs are eligible for cost recovery review in GRCs or future stand-alone reasonableness review proceedings pursuant to § 8388.4(b)(2).[10]

The FRMMA, which no longer includes any costs related to the approved WMP, will remain open to track the costs of wildfire mitigation activities that are not included in the approved annual WMP or otherwise authorized or tracked in another ratemaking account. The WMPMA continues to track activities specified in SCE's annual WMP, provided they are not clearance-related vegetation management costs, which are tracked in the FHPMA, or activities outlined in SCE's GSRP, which through the end of 2020 were tracked in the GSRPBA.

FHPMA

On October 1, 2009, SCE submitted Advice 2387-E to establish the FHPMA in compliance with D.09-08-029. The original purpose of this account was to track the difference between all fire hazard prevention costs that related to activities necessary to implement the requirements of D.09-08-029, and the amounts previously authorized in SCE's 2009 GRC. Specifically, D.09-08-029 authorized SCE to track: (1) expenses associated with vegetation management; (2) increased expenses related to the maintenance program, inspection program and patrolling requirements; (3) expenses incurred in designing, constructing, and maintaining facilities to mitigate fire hazards in in high speed wind areas; and (4) other expenses incurred in implementing D.09-08-029. SCE uses the FHPMA to track the costs of these activities until implementation of Track 1 of its 2012 GRC.

The Commission subsequently issued D.12-01-032 and D.14-02-015 in R.08-11-005, which required SCE to prepare and issue a fire prevention plan and perform additional intrusive pole

[9] D.19-05-038, OP 19.

[10] In Track 1 of its 2021 GRC, SCE is seeking Commission approval of a two-way Wildfire Risk Mitigation Balancing Account, which, if approved in the manner SCE has proposed, would obviate the need for the continuation of the Wildfire Mitigation MAs/BA.

inspections, respectively, and authorized SCE to track any incremental costs in its FHPMA. The Commission also later issued D.17-01-009 in R.15-05-006, the successor proceeding to R.08-11-005, which required SCE to perform fire mapping activities and authorized SCE to track these fire mapping costs in its FHPMA.

The Commission approved D.17-12-024 on December 21, 2017, adopting new regulations to enhance the fire safety of overhead electric power lines in high fire threat areas. Specifically, this decision added a new high fire threat district to General Order (GO) 95. In addition, it amended various GO 95 rules to increase line clearance and inspection cycles. It also required each electric utility to prepare a fire prevention plan. This decision authorized the electric IOUs to track the costs incurred to implement the regulations adopted by D.17-12-024 in their respective FHPMAs. The decision held that recovery of the FHPMA ending balance may be sought by application and that the FHPMA would remain open for R.15-05-006 costs until the first GRC after the rulemaking proceeding is closed.

The Commission closed R.15-05-006 in January 2018 and therefore SCE requested recovery of amounts recorded in its FHPMA for the years 2014-2019 in Track 2 of the 2021 GRC, which was resolved by the CPUC in D.21-01-012.

In Track 3, SCE seeks reasonableness review of and recovery for 2020 incremental O&M expenses tracked in its FHPMA.

GSRPBA

Prior to establishing the GSRPBA as the result of D.20-04-013, the Commission authorized the establishment of the GSRPMA in D.19-01-019 to track incremental costs of SCE's GSRP during the pendency of the GSRP proceeding. In compliance with D.20-04-013, the CPUC Decision approving the GSRP settlement, SCE submitted Advice 4197-E/EA to eliminate the GSRPMA and establish Preliminary Statement, Part SS, GSRPBA, which includes a one-time transfer of the balance recorded in the GSRPMA as of June 30, 2020.

As described in Advice 4197-E/E-A, in Preliminary Statement, Part SS, SCE established two sub-accounts within the GSRPBA: a "GSRP Costs Not Subject to AB 1054" sub-account to track O&M expenses and the capital-related revenue requirements for capital expenditures that are not subject to the AB 1054 exclusion from equity rate base (because they were incurred prior to August 1, 2019), and a "GSRP Costs Subject to AB 1054" sub-account to track the capital-related revenue requirements that are subject to the AB 1054 exclusion from equity rate base (because they were incurred on or after August 1, 2019). Pursuant to the approved Preliminary Statement Part SS, the 2020 year-end balance of $140.3 million recorded in the GSRP Costs Not Subject to AB 1054 sub-account of the GSRPBA was transferred to the distribution subaccount of the BRRBA for recovery from all customers. This is less than the $158.6 million forecast revenue requirement that was implemented into rates on October 1, 2020. The difference between the forecast amount currently included in rates and the actual recorded amount will be returned to customers as part of the 2021 year-end consolidated true-up advice letter process.

Pursuant to D.20-04-013, GSRP recorded costs in excess of 115 percent of authorized GSRP settlement amounts for SCE's Wildfire Covered Conductor Program (WCCP) are subject to reasonableness review. SCE's recovery of the amount by which Average Recorded Unit Cost exceeds Average Authorized Unit Cost is also subject to reasonableness review. SCE recorded $501.9 million of capital expenditures above the GSRP settlement amount. However, as previously stated, these amounts are subject to AB 1054's exclusion from equity rate base. As such, while SCE is seeking a finding from the Commission that the $501.9 million *amount* in incremental capital expenditures is just and reasonable, SCE is not seeking recovery of the revenue requirement associated with this amount in SCE's Track 3 filing.

Note 2: Memorandum Account Wildfire Mitigation MAs/BA Costs

Cost Category Breakdown

SCE Labor

SCE incurred O&M expenses and capital expenditures for incremental internal labor related to wildfire mitigation work that was needed to reduce the likelihood of fires associated with or threatening utility facilities. This work involved vegetation management (*e.g.*, tree trimming and removals), and equipment inspections and remediations in 2018-2020. These resources performed, among other things, enhanced vegetation management activities, inspections and patrols of utility equipment, proactive grid hardening work, environmental surveys, and remediation work beyond the work authorized in the 2018 GRC. SCE included these wildfire-related labor costs in these wildfire mitigation regulatory cost tracking accounts because they meet all of the criteria of incremental costs. The incremental time costs would not have been incurred "but for" the wildfire mitigation work and were not part of SCE's normal business operations (as contemplated at the time of the filing of the 2018 GRC). In addition, these costs for this incremental work are not funded through existing rates.

Contractor Labor

SCE utilized contractors to help mitigate wildfire risks throughout SCE's territory. Specifically, contractors performed remediations associated with SCE's Enhanced Operational Practices, vegetation management activities, and planning, execution and reporting functions tied to SCE's overall wildfire risk mitigation activities. SCE maintains Purchase Orders with contractors; these Purchase Orders reflected market rates for when the Purchase Orders were established. SCE recorded O&M expenses and capital expenditures for contractor costs associated with and/or attributable to wildfire mitigation efforts that are not authorized in existing rates and are therefore incremental.

Material and Equipment Costs

SCE recorded O&M expenses and capital expenditures for material and equipment costs. Each item of material carried in stock is identified as either Class A or Class B material. Class A items include all principal components of units of property such as conductor, poles and

switches. Class B items include all minor component units of property such as crossarms, fuses and insulators.

These costs were incurred while performing wildfire mitigation efforts, are not authorized in current rates, and are therefore incremental.

Material Procured for Distribution O&M Remediations

SCE recorded miscellaneous material allocations (B Material such as crossarms, fuses, insulators, pins) for Distribution Enhanced Overhead Inspections (EOI) O&M remediations. This material was purchased in anticipation of increased work resulting from EOI inspections to mitigate wildfire risks. Unlike larger structures or equipment such as poles or transformers, the costs of B material cannot be specifically tracked by work orders. Instead the costs of B material are allocated to activities. B-item costs are collected in specific internal orders during the month and allocated based on total class A material spend. SCE has requested cost recovery for approximately $5.8 million in B-Material O&M costs in Track 3 as compared to the $9.1 million that the Commission-approved Track 2 Settlement Agreement authorizes for potential cost recovery.

There is a separate allocation process for each class category: Distribution, Transmission, and Substation.

Organizational Division Overhead Allocations

SCE incurred organizational division overheads in support of both O&M and capital wildfire mitigation activities. Organizational division overheads include those costs within an organization that cannot reasonably be charged directly to specific projects/programs due to their number and diversity. Organizational division overheads may include labor costs such as department management and supervision, engineering, administrative staff and clerical support or may include non-labor costs such as routine shop equipment maintenance, supplies or vehicle expenses. The organizational division overhead allocation process provides for the classification of these costs through designated cost objects to both O&M and capital projects/programs based on the spending incurred for each activity.

Process by which the company captured, tracked and monitored the costs

Costs associated with the activities described above are costs that would not have been incurred "but for" SCE's wildfire mitigation efforts and are thus considered eligible to be recorded in the Wildfire Mitigation MAs/BA. SCE created wildfire mitigation-specific cost objects within its internal control systems to ensure that the costs of these activities were tracked separately from SCE's other activities.

For O&M, SCE's accounting system utilizes regulatory indicators that enable SCE to separate CPUC-jurisdictional costs from total costs. SCE included $475.7 million of CPUC-jurisdictional costs in its request in the testimony supporting SCE's Track 3 submission. The total costs for these activities record to Federal Energy Regulatory Commission (FERC) accounts and are separated by Final Cost Centers. Separating costs at the Final Cost Center level allows SCE to group the O&M costs into "sub-accounts" that reflect similar activities and to apply a FERC

allocation factor appropriate for that set of activities. The FERC allocation factors used in SCE's Track 3 request are consistent with SCE's 2018 GRC Decision.

For Capital, SCE "tags" costs related to qualifying activities in its SAP accounting system via work orders and identifies the associated Wildfire Mitigation MA/BA. FERC-jurisdictional costs are excluded based on the asset's functional location and/or asset type.

In addition, SCE's internal controls over accounting process and systems preclude any "double-counting" of costs, because once they are "tagged," costs record to a particular memorandum or balancing account and cannot be concurrently recorded in a different memorandum or balancing account (or elsewhere).

Pursuant to AB 1054, in this Track3, SCE has excluded from requested recovery the revenue requirement relating to $678.8 million of 2019-2020 capital expenditures (and associated overheads) beginning August 1, 2019 (the first day of the first month after the statute was enacted). That statute requires SCE to exclude $1.575 billion (*i.e.*, its pro-rata 31.5 percent share of $5 billion) of eligible WMP-related capital expenditures from equity rate base (subject to cost recovery through a future financing order).

Discussion of the methodology of SCE's determination of authorized GRC amounts and testing for incrementality of those authorized amounts

SCE's 2018 GRC encompassed Test Year 2018, and attrition years 2019 and 2020. The Commission issued the 2018 SCE GRC Decision (D.19-05-020) on May 24, 2019 adopting, among other things, a Post-Test Year Ratemaking (PTYR) mechanism that escalates the adopted 2018 CPUC-jurisdictional O&M and capital additions in 2019 and 2020. SCE calculated the authorized capital expenditures presented in this report using the authorized capital addition escalation percentage as a proxy for adopted attrition-year capital expenditures.[11]

Detailed below is SCE's approach to determining incrementality for wildfire mitigation-related costs:

- Costs associated with the activities described above are costs that would not have been incurred "but for" SCE's wildfire mitigation efforts and are thus considered eligible to be recorded in the Wildfire Mitigation MAs/BA. As discussed above, SCE "tags" costs related to qualifying activities in its accounting system (*i.e.*, SAP) and identifies the associated memorandum account or balancing account. In addition, there are certain new categories of wildfire mitigation-related costs SCE incurred during 2018-2020 that were not contemplated in the 2018 GRC decision or GSRP settlement. These new cost categories for wildfire mitigation are therefore not funded through existing rates, are incremental, and are also tagged.
- SCE quantified the CPUC-jurisdictional portion of the recorded costs for each activity.
- SCE compared recorded amounts to those authorized by GRC activity adopted in SCE's 2018 GRC decision or, in the case of GSRP, compared to the total amount approved in

[11] In SCE's 2018 GRC, the Commission approved a post-test year ratemaking mechanism that escalated 2018 capital additions by 2.49 percent for 2019 and 2.49 percent for 2020.

the Commission Decision approving the Settlement. Amounts incurred for activities in excess of what was authorized in the 2018 GRC or GSRP settlement were considered "incremental costs" and recorded to the relevant Wildfire Mitigation MAs/BA.