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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2020. (U39M)	A.18-12-009

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY COMMENTS ON PROPOSED DECISION ADDRESSING THE TEST YEAR 2020 GENERAL RATE CASE OF PACIFIC GAS AND ELECTRIC COMPANY

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Pursuant to California Public Utilities Commission (Commission or CPUC) Rule of Practice and Procedure 14.3(d), Southern California Edison Company (SCE) respectfully submits these Reply Comments on the October 23, 2020 Proposed Decision of Administrative Law Judges Lirag and Lau on Pacific Gas and Electric Company's (PG&E) 2020 General Rate Case Application (PD). If adopted, the PD would inappropriately disturb the carefully negotiated multi-party proposed settlement agreement, which resolves most of the issues in this proceeding and is broadly supported by a diverse set of parties representing customers and customer groups, the applicant utility and its employees, and other important parties.

While SCE is a party to this proceeding, it is not a party to the settlement agreement and therefore has no direct interest in the negotiated outcomes of that agreement. SCE does, however, have an overriding and objective interest in the process and procedure used to evaluate the settlement. Specifically, it is in all parties' interests that the Commission honor settlements as agreed-upon by the parties in full, and not attempt to change specific terms within those agreements. Moreover, in this case, several of the specific substantive changes the PD seeks to impose on the negotiated terms regarding wildfire mitigation investments and wildfire liability insurance are contrary to public policy and in tension with both Legislative intent as well as the Commission's previous guidance. Accordingly, SCE respectfully submits these Reply Comments in response to the settling parties' Joint Opening Comments as well as PG&E's individual Opening Comments.

I.

THE COMMISSION SHOULD NOT ALTER NEGOTIATED SETTLEMENTS THAT MEET THE ARTICLE 12 STANDARD

It is the longstanding and uncontroversial policy of the Commission to strongly favor the negotiated resolutions of regulatory proceedings through settlement for various reasons, including reducing the expense and burden of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable

results.[1] But, and as articulated by The Utility Reform Network's (TURN) counsel during the November 12, 2020 oral argument, if the Commission subsequently attempts to alter specific terms within those agreements after the parties have bargained for them, then on a going forward basis the incentive of parties to enter into those agreements in the first place would be greatly diminished.

As stated in the settling parties' Joint Opening Comments, altering specific terms disrupts the balance achieved that permitted each of the settling parties to support the overall settlement, by making modifications to specific terms that may have been critical to an individual party's support of the settlement. Indeed, the Commission has itself advocated for the sanctity of settlements that it has entered into, recognizing that a settlement must be viewed as a total package, and if a regulator were to require any modifications, "it could materially upset the balance of costs and benefits" to which the parties negotiated and agreed.[2] That is why although the Commission has the authority to propose modifications to a proposed settlement when circumstances warrant modifications, the Commission has also recognized that any attempted modification might disrupt the balance of outcomes that enabled the parties to reach settlement. Moreover, it remains the Commission's longstanding "strong public policy [to] favor[] settlement of disputes if they are fair and reasonable in light of the whole record."[3] By picking and choosing particular specific agreed-upon terms that it seeks to alter, the PD is contrary to that long-standing policy and would provide a stark disincentive for parties to settle future proceedings, and send the wrong signal to interested third parties about the stability of the California regulatory environment. Moreover, the proposed settlement here does not warrant modification, and as discussed below several of the PD's proposed modifications are themselves contrary to public policy and Commission directives. Finally, it is noteworthy that here, as in

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1 *See, e.g.*, D.14-12-040 at p. 15.
2 *See* April 20, 2020 CPUC Comments Not Opposing the Offer of Partial Settlement in FERC docket ER19-13-001 at p. 2.
3 *See, e.g.*, D.05-10-041 at p. 47.

many proposed settlements, if the Commission does indeed change the agreement and the settling parties are not able to mutually agree to resolve the issues raised by the Commission's actions, the agreement shall be rescinded and the settling parties released from their obligations to support it.

II.

THE PD'S PROPOSED REDUCTIONS TO WILDFIRE MITIGATION WORK AND WILDFIRE LIABILITY INSURANCE FUNDING ARE ESPECIALLY INAPPROPRIATE

In addition to generally being contrary to Commission policy to not upset the carefully negotiated terms of a settlement agreement, several of the specific modifications the PD would impose are contrary to other important Commission policies and Legislative intent. It is beyond reasonable dispute that reducing catastrophic wildfire risk is among – if not the – most critical issue facing the Commission and the utilities it regulates. The Legislature's directives on this issue are clear: PG&E (and the other Investor-Owned Utilities (IOUs)) are obligated to "construct, maintain, and operate its electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment"[4] and "to ensure its system will achieve the highest level of safety, reliability, and resiliency … ."[5] The Commission's policy on this issue is equally clear: The Wildfire Safety Division approves the IOUs' Wildfire Mitigation Plans only after exhaustively verifying that they are designed to aggressively reduce wildfire risk while maximizing resources and impact.

The proposed settlement recognizes and is consistent with those statutory and Commission directives, by providing PG&E sufficient funding to conduct the vital grid hardening work required to reduce wildfire risk and safeguard customers' lives and property. The PD would substantially reduce that necessary funding in the attrition years and thus

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4 Cal. Pub. Util. Code Section 8386(a).
5 Cal. Pub. Util. Code Section 8386(c)(13).

effectively force PG&E to choose between conforming to the PD's reductions and thereby exposing customers to unnecessary risk, or spending above the authorized amounts and carrying the unfunded balances on its books. The PD's proposed reductions to critical wildfire risk mitigation investments are especially unwarranted given the unwavering support for those settlement provisions by the two most prominent customer advocacy groups that are active before the Commission (*i.e.*, the Commission's Public Advocates Office and TURN).

Similarly, the PD's proposed alteration of the parties' agreed-upon resolution for wildfire liability insurance funding is contrary to statutory intent and not in the best interest of customers. AB 1054 effectively requires that PG&E maintain at least $1 billion in wildfire liability insurance coverage. The PD confirms that a $1.4 billion threshold is reasonable, but only if PG&E can procure this level of coverage at a cost that is equal to or less than 130% of the adopted cost forecast.[6] As stated by PG&E in its Opening Comments, the PD's proposed insurance funding level "essentially would freeze PG&E's insurance premium costs at an amount that is only slightly above 2018 levels [which would be] insufficient to purchase excess liability coverage … in the amounts PG&E has historically acquired or the amount of wildfire liability insurance required by AB 1054 in the current market [and] would significantly delay cost recovery and require PG&E to carry additional insurance premium costs on its books for years … ."[7] Given the current liability and financial risks PG&E and the other IOUs face, and the increasing costs of wildfire insurance premiums that the Commission acknowledges,[8] that outcome would be inappropriate, including because it would ultimately be detrimental to customers. If PG&E does not purchase sufficient liability insurance, customers will be exposed

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[6] With the passage of AB 1054, PG&E became legally obligated to purchase wildfire liability insurance or self-insure to cover up to $1 billion of wildfire liability claims before it has access to the Wildfire Fund.

[7] PG&E Opening Comments on the PD at p. 20.

[8] *See also* D.20-09-024 at Finding of Fact 9 ("In recent years, due to changes in insurance markets, the GRC authorization has not provided sufficient coverage to procure this same [historical] level of coverage [for SCE].").

to increased financial exposure risk from third-party claims not covered by insurance should a wildfire event occur. On the other hand, if PG&E does purchase the additional insurance above the level that the PD's authorized amount would support and is forced to front the unfunded costs, the resulting financial strain on PG&E will likely subject customers to higher rates in the future due to the increased borrowing costs PG&E may incur. Neither outcome would be beneficial to customers.

The Commission can avoid both these sub-optimal results by honoring the parties' agreed-upon settlement as written, which provides PG&E adequate funding and flexibility to purchase wildfire liability insurance products or otherwise fund appropriate alternative risk transfer mechanisms to protect customers.

III.

CONCLUSION

For the reasons stated herein and in the Opening Comments of the settling parties, SCE strongly urges the Commission to revise the PD to honor the settling parties' full negotiated settlement agreement without modification.

Respectfully submitted,

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