FILED
01/20/22
04:59 PM

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of San Diego Gas & Electric Company (U 902 M) for Establishment of an Interim Rate Relief Mechanism for its Wildfire Mitigation Plan Costs	Application A.21-07-017

**REPLY BRIEF OF
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M)**

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January 20, 2022

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I. INTRODUCTION

Pursuant to Rule 13.12 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure and Assigned Commissioner Darcie L. Houck's Scoping Memo and Ruling, dated October 28, 2021, San Diego Gas & Electric Company (SDG&E) submits this Reply Brief.

SDG&E's Application seeking interim rate relief and the unrebutted testimony submitted in support of the Application clearly establishes that the nearly unprecedented incremental increase in wildfire mitigation expenditures recorded in SDG&E's Wildfire Mitigation Plan Memorandum Account (WMPMA) merits the creation of an interim relief mechanism. Contrary to the positions of The Utility Reform Network (TURN) and The Utility Consumer Action Network (UCAN), the Commission has broad authority to authorize such interim relief to promote both ratepayer and utility interests. SDG&E's Application demonstrates that, given the significant increase in incremental wildfire mitigation spending relative to its 2019 General Rate Case (GRC), there is a need for interim relief before SDG&E's next GRC is litigated and decided. SDG&E's Application also demonstrates that it meets all of the Commission's criteria for rate relief (even though SDG&E need only meet one of the criteria)[1] because:

- *It promotes fairness for both the utility and the public*: SDG&E is not burdened with carrying the entirety of its incremental WMPMA costs until approval of its next Rate Case. Ratepayers benefit because they are not burdened with the costs of additional interest associated with the increase in debt. Customer fairness is promoted by improving intergenerational equity, and the assurance that any disallowed amounts will be returned to customers with interest.

- *It reduces the potential for rate shock*: Customers avoid the impact of absorbing the forecasted $735 million undercollection in the WMPMA at one time.

- *It preserves the financial integrity of the utility, minimizes costs incurred by ratepayers, and ensures rate stability*: SDG&E's financial risk is reduced, and it avoids turning to additional long term debt issuances at potentially higher interest rates – which in turn benefits customers who avoid the cost of the additional debt.

- *It smooths rate impacts on customers*: interim relief "hedge[s] against a potentially larger rate increase after" SDG&E can obtain a reasonableness review in its next Rate Case. And commencing recovery now ultimately breaks down the amortization of realized balances over a longer period, further smoothing rates.

SDG&E appreciates the Public Advocates Office at the California Public Utilities Commission's (Cal Advocates) recognition that "SDG&E has sufficiently demonstrated its intention and commitment to propose an interim rate relief mechanism that promotes fairness, minimizes costs to ratepayers, and promotes rate stability."[2] Conversely, TURN and UCAN's objections to interim relief for wildfire mitigation costs grossly misrepresent SDG&E's Application and the proposed interim recovery mechanism and the established law governing interim relief to date. As established in the unrefuted testimony submitted in support of its

[1] Decision (D.) 20-10-026 at 25-26 ("[A]ny one of those factors may be sufficient for the Commission to grant relief") (*citing* D.02-07-031 at 12-13).

[2] Opening Brief of Cal Advocates (January 10, 2022) (Cal Advocates Opening Brief) at 4 (citations omitted). With respect to Cal Advocates' suggestion that interim relief be limited to electric only balances, SDG&E has no objection to such an approach. SDG&E addresses the future schedule for a reasonableness review of costs herein.

Application, SDG&E's proposed interim relief mechanism meets the criteria established by the Commission to warrant use of this special ratemaking treatment. For this reason, the Commission should grant SDG&E's Application in full.

II. THE UNIQUE CIRCUMSTANCES PRESENTED BY THE WILDFIRE MITIGATION PLAN MERITS INTERIM RELIEF

Like the circumstances leading to Pipeline Safety Enhancement Plan (PSEP), on which SDG&E's proposed interim relief mechanism is based, the significant expansion of wildfire mitigation costs resulting from SDG&E's Wildfire Mitigation Plan (WMP) was unanticipated at the time SDG&E developed the forecasts underlying the present GRC cycle. Both the PSEP and the WMP costs result from programs directly ordered by the California Legislature and the Commission in response to catastrophic events, and designed to mitigate the harm and reduce the occurrence of such events in the future.[3] It would have been contrary to the public interest, public safety, and the stated intent of the Legislature to put off incurring additional wildfire mitigation costs until SDG&E's next GRC was approved for Test Year 2024. So even though SDG&E's GRC had only just received approval in 2019, SDG&E began implementation of its first comprehensive WMP in 2019.As a result of these necessary but unanticipated expenditures to protect the safety of Californians and improve SDG&E's infrastructure to meet the threats of climate change, SDG&E now finds itself in an extraordinary and nearly unprecedented quandary. As demonstrated in testimony, by the end of 2023, SDG&E forecasts an undercollection of approximately $735 million in revenue requirements related to its WMP. And unlike other traditional utility projects, SDG&E is constrained by the language of the Public Utilities Code as to how—and when—it may request a reasonableness review and final cost recovery of that

[3] *See* Prepared Direct Testimony of Jonathan T. Woldemariam (Wildfire Policy) (July 30, 2021) (Exhibit SDG&E-01 (Woldemariam)) at JTW-9.

revenue requirement. Assembly Bill (AB) 1054 specifically provided that electrical corporations have two options to address WMP cost recovery: 1) through their respective General Rate Cases; or 2) via a separate application filed at the conclusion of the three-year WMP cycle. While not foreclosing the possibly of the latter option, SDG&E anticipates addressing its 2019-2023 WMP cost recovery through its next GRC.[4] But as even TURN acknowledges, if SDG&E waits to begin WMP cost recovery until after a decision in its GRC, *at the soonest*, SDG&E would have a decision regarding 2019-2022 costs likely sometime in 2024.[5] Thus, SDG&E would only begin recovering costs incurred in 2019 and 2020 in 2025. Even using TURN's assumptions regarding the process, this timeframe stretches the concept of intergenerational equity and justifies the use of interim relief here.

TURN spends a great deal of its Opening Brief addressing various preceding applications for interim relief filed by PG&E and SCE and related to their wildfire mitigation cost recovery. Despite its clear precedential value, TURN dismisses SDG&E's PSEP interim relief decision, which adopted the proposal of Commission Staff specifically to address the potential "rate shock" that might result if years of undercollections were suddenly imposed in rates. Based on the analysis of Commission Staff and the compromise proposal, the Commission agreed that approving interim relief "of 50% of the revenue requirements associated with … [PSEP] … reasonably balances the objective of mitigating sharp rate increases with the need for

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[4] TURN acknowledges the previous "phased" approaches used by the Commission in Pacific Gas & Electric Company (PG&E) and Southern California Edison Company's (SCE) rate cases. *See* Opening Brief of TURN (January 10, 2022) (TURN Opening Brief) at 10. While SDG&E's GRC strategy is still in development (one reason for the requested expedited treatment of this case), SDG&E may propose a similar "track" approach to address WMP cost recovery.

[5] *See* TURN Opening Brief at 10.

Commission review of utility costs prior to collection from ratepayers."[6] Contrary to TURN's assertion, however, the Commission did not need to perform an analysis of SDG&E's financial condition "with or without interim recovery,"[7] because such an analysis was not necessary. Rather, the Commission assessed whether interim relief, as a "means to avoid the accumulation of large undercollections in the PSEP regulatory accounts, which would be both burdensome and unfair to customers."[8] Because interim relief of 50% of the recorded revenue requirement related to PSEP "reasonably balanced" the potential for rate shock with the need for Commission review of utility costs prior to collection from ratepayers, the Commission approved the Staff Proposal. Mitigating the potential rate shock was enough to merit interim relief.

The Commission should grant SDG&E's wildfire interim relief proposal because—like the PSEP mechanism—it reduces costs and promotes fairness for customers. As addressed below, TURN and UCAN claim that SDG&E should not receive interim relief because it has not established that it is in financial distress. But they do not, and cannot, refute SDG&E's unrebutted testimony regarding the growing accumulated undercollection of SDG&E's wildfire mitigation costs. And UCAN simply ignores the 2021-2023 forecasted WMPMA balances, focusing only on the $93.1 million in incremental amounts associated with 2019 and 2020 spending.[9] Contrary to the arguments of TURN and UCAN, SDG&E's interim relief proposal

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[6] D.16-08-003 at 10. *See also* D.16-08-003 at Appendix A ("That is, half the balances in the Safety Enhancement Capital Cost Balancing Account and the Safety Enhancement Expense Balancing account would be annually amortized in rates, subject to refund.") and Conclusion of Law 2 at 14 (finding the Final Staff Proposal reasonable).

[7] TURN Opening Brief at 3.

[8] D.16-08-003 at 8.

[9] Opening Brief of UCAN (January 10, 2022) (UCAN Opening Brief) at 4.

meets all of the Commission's criteria for interim relief—even though the Commission may grant interim relief for any of these individual situations.[10]

First, interim relief promotes fairness for the utility and customers (Criteria 1).[11] If recovery of the forecasted $735 million undercollection is deferred for several years, customers face the possibility of steep rate increases related to costs incurred well in the past. Notably, in a substantially similar factual situation, the Commission noted that "a level of interim relief" for PG&E's wildfire mitigation costs "will improve intergenerational equity and avoid the significant increases and subsequent decreases that are associated with approval of costs" tracked in similar memorandum accounts.[12] Interim relief in this instance is thus in the interests of customer fairness. Further, customers have the benefit of knowing that in the event that any costs are disallowed, they will receive a refund of any amounts with interest.

Moreover, interim relief is fair to SDG&E as it reduces the need to "carry the entire cost tracked in" its WMPMA for several years, and the associated debt costs that are passed to customers. While the Commission implicitly realized PG&E's more tenuous financial position when approving its application for interim relief, it also acknowledged that "the regulatory and environment and financial markets *for utilities* are significantly different," than when *TURN v. PUC* was decided.[13] The credit crisis facing all utilities was a key driver in the passage of AB 1054, and the Legislature made a point that maintaining the electrical corporations' creditworthiness was one of the primary objectives of the bill, in order to promote their ability to

[10] D.20-10-026 at 26 ("[A]ny one of those factors may be sufficient for the Commission to grant relief." (citation omitted)).

[11] *Id.* at 25 (citing D.02-07-031 at 14, D.19-04-039 at 6).

[12] *Id.* at 26.

[13] *Id*. at 27 (emphasis added).

invest in safe and reliable infrastructure improvements and wildfire mitigation.[14] It would be unfair to SDG&E to require it to carry growing incremental wildfire mitigation balances simply because it has better credit ratings than PG&E. And it would be similarly unfair to SDG&E's ratepayers to saddle them with the costs of the additional debt associated with those incremental balances.

Second, interim relief reduces the potential for rate shock and smooths rate impacts on customers (Criteria 2 and 4).[15] As previously addressed, if SDG&E begins to recover the forecasted $735 million undercollection after approval in its next GRC (presumably sometime in 2025 since 2023 costs must be reviewed after they are incurred), customers face the potential for rate shock.[16] Commencing cost recovery now ultimately breaks down the process of amortizing the realized balances over a longer period (as opposed to recovering 100% of costs in one year after a traditional GRC process) and permits cost recovery to be spread out. Avoiding this rate shock, especially if compounded with any rate increases associated with the GRC, meets the criteria for interim relief alone.

TURN and UCAN attempt to wedge arguments in favor of extended amortization periods after a reasonableness review and approval of SDG&E's 2019-2023 wildfire mitigation related costs in the GRC.[17] Those arguments are out of the scope of this proceeding. The Commission should consider SDG&E's interim relief proposal in the context of the present circumstances and

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[14] AB 1054, Section 1(a)(4).

[15] D.20-10-026 at 25 (citing D.16-08-003 at 9, D.19-04-039 at 6).

[16] *See* Prepared Direct Testimony of Eric Dalton (Wildfire Interim Rate Relief Mechanism) (July 30, 2021) (Exhibit SDG&E-02 (Dalton)) at ED-8, Table 2-2.

[17] *See* TURN Opening Brief at 16 (advocating for a 36-month amortization period of rate recovery after a reasonableness review of costs).

factual record, and not with an eye toward a hypothetical outcome that is in the scope of SDG&E's Rate Case.

In some ways it is ironic that TURN and UCAN object to the interim relief proposal yet advocate for lengthy amortization periods for wildfire costs after a reasonableness review. First, this argument undercuts TURN's position that there are no intergenerational equity impacts of delaying wildfire cost recovery. Assuming that the 2019-2023 reasonableness review is finalized in 2025 (as TURN's hypothetical does),[18] then imposing a three-year amortization period extends recovery of costs potentially incurred in 2019 all the way to 2028—almost 10 years after they were incurred. Second, approving interim relief in the form proposed by SDG&E functionally works to amortize cost recovery over a longer period of time than in traditional GRC ratemaking. This is why SDG&E proposed a 20-month amortization of the 2019-2021 balances, with subsequent 12-month amortization periods for the recorded balance after each year. While the reasonableness review is delayed, customers and the Commission retain the assurance that the costs will be refunded with interest, and customers still benefit from the longer amortization period favored by TURN and UCAN.

Third, interim relief preserves the financial integrity of the utility and minimizes costs incurred by ratepayers (Criteria 3).[19] From a cost savings perspective alone, granting SDG&E's interim relief proposal represents a net benefit to ratepayers. The growing WMPMA undercollection promises to exceed SDG&E's annual long-term debt issuance for 2017-2020.[20] And the incremental WMP—related revenue requirement alone "significantly exceeds the

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[18] TURN Opening Brief at 10.

[19] D.20-10-026 at 25-26 (citing D.88-05-074 at 14).

[20] Prepared Direct Testimony of Casey Butler (Cash Flow Impacts) (July 30, 2021) (Exhibit SDG&E-03 (Butler)) at CB-7. *See e.g.,* Opening Brief of SDG&E (January 10, 2022) (SDG&E Opening Brief) at 13.

historical annual cash flow needs determined by SDG&E to support all other operational activities."[21] As established in the unrebutted testimony, "SDG&E anticipates that it will issue long term debt to offset the undercollection in its wildfire mitigation balances—which would correspondingly result in an incremental annual interest expense borne by ratepayers."[22] "These financing costs can be reduced through interim rate relief."[23]

Contrary to TURN's statement that SDG&E has not quantified the higher costs to ratepayers resulting from the cumulative under-collected wildfire mitigation balances,[24] SDG&E's Table 3-5[25] demonstrates the impact of the additional interest expense on customers for 2020 alone. The difference between SDG&E's Funds From Operations (FFO) with and without interim relief is the incremental interest that will be incurred by ratepayers—a total of $20 million. SDG&E estimates that customers will experience an overall savings of $40 million in potential cumulative interest expense for the years 2023 if interim relief is adopted as proposed by SDG&E.[26]

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[21] Exhibit SDG&E-03 (Butler) at CB-7.

[22] *Id. See e.g.,* SDG&E Opening Brief at 13.

[23] Exhibit SDG&E-03 (Butler) at CB-7.

[24] TURN Opening Brief at 17.

[25] *See* Exhibit SDG&E-03 (Butler) at CB-10.

[26] SDG&E uses the following assumptions for such a calculation: 1) the interest rate on long term debt was assumed to equal the CPUC authorized rate of 4.59% (Exhibit SDG&E-03 (Butler) at 10:5-6), 2) a corporate tax rate of 28%, and 3) A half year convention was conservatively applied to determine the average annual debt balance.

Incremental WMP Revenue Requirement and Debt Balance Summary					
($ in millions)	**2019**	**2020**	**2021**	**2022**	**2023**
Incremental WMP Rev Req and Debt Balance Summary[27]	$21	$72	$147	$225	$268
Long-term Debt Needed to Fund Undercollections	$21	$93	$240	$465	$734
Average Annual Debt Balance	$10	$57	$167	$353	$600

Interest Expense Calculation					
($ in millions)		**2020**	**2021**	**2022**	**2023**
Average Annual Debt Balance		$57	$167	$353	$600
Interest Expense	4.59%[28]	($3)	($8)	($16)	($28)
Tax Impact	28.00%	$1	$2	$5	$8
Annual Interest Expense		**($2)**	**($6)**	**($12)**	**($20)**

For the reasons above, SDG&E has presented ample evidence to meet its burden to support an interim relief mechanism for wildfire costs incurred from 2019-2013.

III. SDG&E DOES NOT NEED TO ESTABLISH FINANCIAL DISTRESS TO MERIT INTERIM RELIEF. RATHER, THE COMMISSION SHOULD GRANT INTERIM RELIEF TO PREVENT RATE SHOCK AND AVOID PASSING UNNECESSARY COSTS TO RATEPAYERS

Through its discussion of past interim relief applications, TURN attempts to contort the language of existing Commission decisions to add an "extraordinary circumstances" requirement[29] —those extraordinary circumstances seemingly being a utility's dire financial distress.[30] TURN's summary of the applicable wildfire-related interim relief applications omits key facts and is directly at odds with the Commission's most recent decision granting PG&E interim relief because "interim recovery [was] warranted to promote fairness, minimize costs to ratepayers, and promote rate stability."[31] The Commission should deny TURN and UCAN's

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[27] *Id* at CB-5, Table 3-4.

[28] *Id.* at CB-10.

[29] TURN Opening Brief at 1.

[30] *Id.* at 2 (Noting the Commission's approval of PG&E's interim relief request and citing to PG&E's "precarious financial position as it headed into and emerged from bankruptcy" as a factor in granting interim relief on both occasions.)

[31] D.20-10-026 at 26 (*citing* D.19-04-039 at 6).

attempt to impose an additional criteria—that a utility is facing “extraordinary” financial circumstances or distress—for interim relief.

The applications related to PSEP and the electrical corporations’ WMP should be regarded as more persuasive and applicable to the Commission’s review of the instant interim relief application. Like the PSEP, the electrical corporations were required to accelerate or begin immediate and significant wildfire mitigation efforts in the wake of the catastrophic fires of 2018 and 2019. TURN also attempts to cite to PG&E’s interim recovery application for costs recorded in its Catastrophic Event Memorandum Account (CEMA) related to the wildfires in 2016 and 2017.[32] While the ALJ initially denied the application, even TURN acknowledges that the Commission cited “rate impact smoothing and intergenerational equity as benefits supporting the requested interim rate recovery”[33] when ultimately approving PG&E’s renewed request.[34] SCE’s CEMA application for interim recovery of costs related to catastrophic wildfires was ultimately rendered moot by a final decision and is thus not persuasive at all.[35]

TURN’s assertion that “the Commission has focused on whether there is a clear and material impact on the utility’s financial condition”[36] in considering interim recovery requests is contrary to the many decisions addressing this issue. As extensively discussed above, the Commission granted PG&E’s interim recovery request because it promoted fairness and ensured rate stability. Unlike this Application, SCE requested interim relief in the context of its ongoing GRC, when arguable the prospects for cost recovery were more near term. SDG&E has yet to

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[32] TURN Opening Brief at 3.

[33] *Id.* at 4.

[34] *See* D.19-04-039.

[35] TURN Opening Brief at 6.

[36] *Id.* at 8.

file its GRC, and its 2023 costs (which are already forecast and incorporated into the other utilities' rate cases), may not be reviewed until at least 2024. The timing of SDG&E's rate case—which was approved after the passage of AB 1054—necessitates a near term mechanism to address the growing undercollections in SDG&E's WMPMAs. Interim relief "provides greater assurance to the utility and ratepayer that significant costs incurred to provide safe and reliable energy in California will be recovered in a more efficient and economical fashion."[37] For the same reasons that the Commission approved PG&E's interim recovery mechanism, it should approve SDG&E's Application.

SDG&E does not dispute that interim relief should be reserved for unusual circumstances, and it is "not common."[38] As discussed extensively herein, the implementation of the WMP and the dramatic growth in related costs were also unusual. The extraordinary catastrophic wildfires of 2017 and 2018, the precarious financial position faced by the electrical corporations as a result of those fires, and the passage of AB 1054 resulted in extraordinary incremental expenditures to reduce the likelihood of those events in the future. To that end, these circumstances do merit the extraordinary use of interim recovery.

TURN and UCAN rely on SDG&E's upgrade from Moody's to support their arguments that interim relief is not appropriate in the instant Application.[39] But again, a utility needs not be on the verge of a credit downgrade to warrant the application of interim recovery. However,

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[37] D.20-10-026 at 34.

[38] *Id.* at 25.

[39] TURN Opening Brief at 11 ("SDG&E's approach would make interim recovery far less extraordinary. SDG&E is a utility in sound financial shape. Its investment grade rating was upgraded to A3 by Moody's in May of 2021." (citation omitted)). *See also* UCAN Opening Brief at 3 ("In fact, it remains unchanged that SDG&E's financial outlook, even indeed the view about its wildfire mitigation practices, holds steady and with robust projections. As found earlier – less than 6 months ago – Moody's upgraded SDG&E from Baa1 to A3 in March of this year and expressing that the upgrade reflects Moody's 'expectation that the utility will continue to generate robust credit metrics.'"(citation omitted)).

regardless of the upgrade from Moody's, SDG&E continues to forecast a significant uncollected wildfire mitigation balance, which in turn has a significant financial impact on how the Company funds operations and investments. SDG&E does not claim to be in the same financial position as PG&E when it sought interim relief, but the unique situation presented by the delayed recovery of the WMPMA balances and the unusually heavy debt associated with those balances does have an impact on its financial position, and in turn the amount that ratepayers ultimately pay with respect to financing.

IV. SDG&E IS NOT SEEKING TO ESTABLISH AN INTERIM RELIEF POLICY. APPROVING INTERIM RELIEF FOR NEAR-TERM FORECASTED COSTS IS REASONABLE

As in their protests, TURN and UCAN also inaccurately conflate SDG&E's request to recover the recorded WMPMA balances from 2019 through 2023—and including forecasted WMPMA expenditures for 2022 and 2023—with PG&E's broad request that the Commission implement a *policy* that allowed for interim relief to automatically go into effect "whenever it accumulates a total of $100 million or more (in revenue requirement equivalent) relating to new Commission or legislatively-mandated activities in one or more memorandum accounts established to allow the utility to record such costs."[40] While the Commission noted the emerging circumstances that might warrant such a policy and how interim relief mechanisms promote intergenerational equity, it ultimately denied PG&E's request that the Commission implement a "broad policy shift" regarding interim recovery mechanisms, due to the "numerous implications such a policy would have," and the narrow scope of the current application.[41]

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[40] D.20-10-026 at 2.

[41] D.20-10-026 at 34-35.

SDG&E, on the other hand, proposes to continue its interim recovery mechanism through its next GRC Test Year, 2024, so that it may commence partial recovery of the significant wildfire mitigation expenditures forecast for an additional two years.[42] TURN and UCAN insinuate that approving such a mechanism for balances recorded a specified account—the WMPMA—and related to SDG&E's approved Wildfire Mitigation Plan "is not materially different" from the policy shift proposed by PG&E.[43] But the two proposals are in fact materially different. SDG&E is not seeking a policy shift on interim recovery. The proposed interim recovery mechanism is limited to balances recorded to its WMPMA and related to wildfire mitigation.[44] The timeframe of this Application is limited to the years prior to SDG&E's next Test Year. And ultimately, SDG&E will undergo a reasonableness review of the specified costs, with any disallowed costs returned to ratepayers with interest.

SDG&E's proposal for interim relief of future, forecasted, and approved (in the WMP) wildfire mitigation projects is far more akin to the approved PSEP mechanism. TURN acknowledges that the PSEP mechanism permitted interim recovery of "upcoming costs of similar projects."[45] Like the PSEP mechanism, SDG&E is seeking the recovery of "50% of the balances [recorded in the applicable regulatory account] [to] be amortized in rates through the

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[42] Since SDG&E now has recorded WMPMA balances for 2021, the forecasts are applicable for 2022 and 2023.

[43] TURN Opening Brief at 13; UCAN Opening Brief at 5.

[44] SDG&E further notes that it previously provided and continues to provide recorded and forecasted wildfire mitigation activities and costs to stakeholders, which were thoroughly vetted and monitored through the WMP approval process as well as other GRC-related filings, including the Risk Assessment Mitigation Phase and Risk Spending Accountability Reports. While these processes do not have an impact on cost recovery, stakeholders and the Commission will have insight into SDG&E's ongoing wildfire mitigation projects.

[45] TURN Opening Brief at 14.

utilities' annual regulatory account balance update Advice Letter process."[46] While TURN tries to argue that "it is not clear that the Commission considered the distinction between already recorded costs and costs that were forecasted and not yet recorded,"[47] the timeline of the proceeding, the PSEP, and the PSEP interim recovery decision belie that position. That decision, issued in August of 2016, authorized ongoing recovery of balances recorded after December 31, 2017, through the annual account balance update process. Thus there is no dispute that the Staff Proposal and the Commission considered the application of the interim recovery mechanism to costs forecasted and not yet recorded, pending SDG&E's 2019 GRC.

And while the Commission implemented an initial schedule for PSEP-related reasonableness reviews, such an order is not necessary here because SDG&E will address cost recovery in its next GRC.[48] Because SDG&E has proposed interim recovery of a clearly defined set of costs with respect to both scope and time, the Commission should grant SDG&E's Application with no alteration.

V. SDG&E'S PROPOSED AMORTIZATION SCHEDULE IS REASONABLE

UCAN describes SDG&E's ask, and amortization—20 months and 12 months—as "arbitrary."[49] Far from arbitrary, 12 months is a traditional amortization period and typically how ratemaking works. SDG&E proposes to amortize two years of costs for interim recovery over 20

[46] D.16-08-003, Ordering Paragraph 3b at 16.

[47] TURN Opening Brief at 14.

[48] In response to Cal Advocates' request that SDG&E be ordered to file for recovery of wildfire mitigation costs recorded through 2023 in the fourth quarter of 2023, SDG&E notes that it cannot seek a reasonableness review of its 2023 costs until they have been incurred, which would be 2024. *See* Cal Advocates Opening Brief at 4. It is out of the scope of this proceeding for the Commission to order a specific schedule related to SDG&E's reasonableness review of wildfire costs. But SDG&E does anticipate a phased GRC approach by which a reasonableness review of costs will occur in a timeframe shortly after 2022, and likely 2023 and early 2024.

[49] UCAN Opening Brief at 9.

months to avoid further rate shock, because otherwise two years of costs would be recovered over a 12-month period, as explained in the testimony of Eric Dalton. This annual recovery "would contribute to rate stability for SDG&E customers, rather than SDG&E recovering larger balances plus the potential for additional costs associated with financing, as explained by Mr. Butler, should SDG&E wait until the next GRC to implement such balances in rates."[50] As such, SDG&E's chosen amortization periods are far from arbitrary and promote rate stability, while simultaneously avoiding rate shock.

VI. CONCLUSION

SDG&E appreciates the opportunity to provide this Reply Brief.

Respectfully submitted,

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January 20, 2022

[50] Exhibit SDG&E-02 (Dalton) at ED-8 – ED-9.