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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 21-07-017 (Filed July 30, 2021)

REPLY COMMENTS OF THE UTILITY REFORM NETWORK, UTILITY CONSUMERS' ACTION NETWORK, AND CALIFORNIA FARM BUREAU FEDERATION ON THE PROPOSED DECISION OF ALJ ATAMTURK

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Pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure, The Utility Reform Network (TURN), Utility Consumers' Action Network (UCAN), and California Farm Bureau Federation (CFBF) (collectively, "Intervenors") respectfully submits these reply comments on the Proposed Decision of ALJ Atamturk ("Proposed Decision" or "PD") regarding the application of San Diego Gas & Electric Company (SDG&E) for interim rate recovery of wildfire-related costs the utility has recorded and anticipates recording in its Wildfire Mitigation Plan Memorandum Account (WMPMA).

SDG&E asks the Commission to reject numerous record-supported and reasonable findings adopted in the Proposed Decision and instead rewrite the PD to the utility's liking and desired outcome. But contrary to the utility's arguments, it is SDG&E's comments, and not the PD, that "assumes facts not in evidence and outside the scope of this proceeding" and are nothing more than a "house of cards." (SDG&E Opening Comments (OC), pp. 1 and 11.)

I. SDG&E's Request Is Premised on Treating Interim Rate Relief as Routine Whenever a Utility Has a Large Memorandum Account Balance, Contrary to the Utility's Recognition That It Is Not a Routine Practice.

In a single sentence, SDG&E acknowledges that interim rate relief is "not a routine practice," but then asks that its request be treated as one that has been "routinely approved" in the past. (SDG&E OC, p. 4.) Intervenors agree with part of SDG&E's argument; granting such relief is <u>not</u> a routine practice, and the PD correctly avoids any outcomes that would move in the direction of making it a routine practice. But under SDG&E's position, if adopted, there would be virtually no limit to the utility's opportunity to obtain interim rate relief. Here, the Commission has before it a utility that is <u>not</u> in financial distress, but rather one that has recently had its credit rating upgraded. (PD, p. 13 and FOF 4). The requested interim rate relief would apply to a future memorandum account balance that does <u>not</u> implicate a potential credit rating downgrade, even though the balance is expected to be substantial. And interim rate relief would be granted due to potential rate impact factors, nearly all of which will <u>always</u> be present whenever there is a substantial balance in any memorandum account. If interim relief is made available to SDG&E based on the current request, the opportunities for future requests would be virtually without limit.[1] The PD correctly preserves the non-routine nature of interim rate recovery by

[1] TURN Reply Brief, pp. 1-3.

rejecting SDG&E's request and explaining that other more conventional ratemaking measures can mitigate the associated rate impacts. (PD, FOF 10-12 and COL 3.)

II. It Would Be Legal and Factual Error to Rely on SDG&E's Late-Presented $40 Million Interest Savings Figure, as It Both Lacks Record Support and Is Wrong – Even With $40 Million of Interest Costs, Ratepayers Are Better Off Without Interim Rate Relief Here.

SDG&E's comments repeatedly reference a $40 million figure it contends represent additional interest expense that will be passed on to SDG&E ratepayers should the Commission deny its request for interim rate relief. (SDG&E OC, pp. 2, 3, 5 and 8.) The Commission must disregard this figure for several reasons. First, contrary to SDG&E's claim that the $40 million figure appeared in "unrebutted testimony" (SDG&E OC, p. 3), it is found nowhere in SDG&E's testimony, which merely alluded to "interest expense" and "financing costs" of an unspecified amount.[2] The $40 million quantification appeared for the first time in SDG&E's reply brief. (PD, p. 14, citing SDG&E Reply Brief, p. 9.) Had SDG&E included such a calculation in its testimony, Intervenors would have had an opportunity to challenge its factual basis. It was wrong for SDG&E to present the calculation and resulting figure for the first time in its reply brief, and it would be legal error for the Commission to rely on it beyond the PD's acknowledgment of SDG&E's statement in its reply brief.[3]

Furthermore, the figure is incorrect because it reflects an incomplete analysis. To assess the total impact on ratepayers from going forward without interim rate relief, the utility would have needed to include not just the incremental interest costs, but also the benefits ratepayers would realize because the authorized revenue requirement would be lower by $51.6 million in 2022, by $242 million in 2023, and by $221 million in 2024, the amounts SDG&E would have collected in each of those years under its proposal.[4] Using SDG&E's weighted average cost of capital as a proxy for the average ratepayer discount rate, the Commission can calculate the net present value of each approach. And whether one compares SDG&E's interim rate relief proposal to the recovery of "over $730 million in WMPMA balances at one time" as it posits (SDG&E OC, p. 8), or to recovery over a three-year amortization period, the NPV to ratepayers is lower under the alternatives without interim recovery, even with SDG&E's $40 million incremental cost figure.

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[2] Ex. SDG&E-03, p. CB-7.

[3] Though no party filed a motion requesting the opportunity to serve further testimony, (PD, p. 3), the determination whether to file such a motion was based on SDG&E's testimony as served. Had SDG&E included the $40 million figure in its testimony, Intervenors would have had the opportunity to present countervailing evidence demonstrating the flaws in the calculation.

[4] PD, p. 6, citing Ex. SDG&E-02, p. ED-8, Table 2-2.

III. SDG&E Relies on Facts That Are Both Not in the Record and Are Incorrect in Its Attempt to Draw Parallels Between its Financial Circumstances and Those PG&E Faced When the Commission Authorized Interim Rate Recovery in D.20-10-026.

The PD's review of recent CPUC proceedings and criteria to consider in granting interim rate recovery is thorough and correct. (PD, pp. 11-12, and FOF 6.) SDG&E's criticism of this element of the PD is rife with error. For example, SDG&E suggests that its current financial condition is not so different from PG&E's when the Commission authorized interim rate relief in D.20-01-026. (SDG&E OC, pp. 5-7.) It first claims that D.20-10-026 "specifically declined to include financial distress as a requirement to grant interim relief," but without any citation to where in the decision SDG&E found a basis for the statement. (SDG&E OC, p. 5.) There was no pronouncement in D.20-10-026 that the utility's financial condition was any less important a factor than it had been in D.19-04-039, where the Commission cited it as a central factor in granting PG&E's earlier request for interim rate relief.[5] To the contrary, in D.20-10-026 the Commission reiterated the close linkage it saw between the requested interim rate recovery and PG&E's bankruptcy, stating its expectation that "interim rate requests will be as infrequent [going forward] as they were before PG&E's recent bankruptcy."[6]

SDG&E also contends that "by October 2020 when the Commission approved D.20-10-026, PG&E's financial health had improved," clearly hoping the Commission would see fit to treat the utilities as if their differences in financial condition were not so significant as to warrant different treatment on interim rate recovery. (SDG&E OC, p. 7.) Again, there is no record evidence that would support the conclusion that PG&E's financial health had by October 2020 materially improved for purposes of assessing its second interim recovery request. And had SDG&E made such an assertion in its testimony, rather than in comments on a Proposed Decision, it would have been easy for Intervenors to debunk it. The Moody's Credit Opinion included in the record here establishes that SDG&E had been <u>upgraded</u> to A3 in May 2021. (PD, p. 13 and FOF 4.) This is plainly different than PG&E's credit rating from Moody's after emerging from bankruptcy, which was and remains at Baa3 (a barely investment grade rating) for senior <u>secured</u> debt, and a junk rating otherwise.[7]

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[5] D.19-04-039, p. 5 ("In responding to this renewed request, we will consider the extremely rare and unique facts that apply to PG&E's financial condition and this Commission's authority to grant interim rate relief.")

[6] D.20-10-026, p. 34, fn. 63.

[7] PG&E's credit ratings as of mid-June, 2020, as the utility and its parent company were preparing to emerge from bankruptcy, are discussed here: https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/despite-restructuring-rating-agencies-hit-pg-e-parent-with-junk-bond-status-59052720. A more recent Moody's review of its ratings for PG&E is discussed here: https://m.moodys.com/research/Moodys-announces-completion-of-a-periodic-review-of-ratings-of--PR_454203. And an explanation of Moody's ratings appears at pages 4-6 here:

Finally, SDG&E argues that its own Moody's Credit Opinion supports the notion that "the *mere possibility* of a credit downgrade as a result of a regulatory denial of financial relief is a scenario that all parties – SDG&E, its ratepayers, and the Commission – should seek to avoid." (SDG&E OC, p. 8 [emphasis in original].) The Commission should ignore such hyperbole and any argument that relies on it even in part. If not, then the Commission risks encouraging the utility to spin a scenario suggesting there is at least a *mere possibility* of a downgrade whenever it is faced with a Commission decision that does not give it everything it asked for. Furthermore, it is a scenario not supported by the record. As the Moody's Credit Opinion cited by the PD makes exceedingly clear, based on the request SDG&E has put before the Commission and the currently-reported financial metrics, the FFO/debt ratio remains above 20%, and a potential downgrade is highly unlikely. (PD, pp. 14-16 and FOF 8.).

IV. SDG&E's Insistence That the Prospect of Amortization Must Be Ignored, and Interim Rate Relief Can Only Be Compared to Single-Year Recovery to Assess Rate Stability and Rate Impacts Is Baseless.

SDG&E has consistently argued that the assessment of rate stability and rate impacts should be based on a comparison of its interim rate relief proposal with the impacts of collecting "$730 million in WMPMA balances at one time." (SDG&E OC, p. 8; *see also* pp. 6 and 12.) The PD correctly rejects such logic in favor of the recognition that "[t]here are many tools the Commission may find appropriate to smooth out significant increases," including adoption of an extended amortization period. (PD, p. 17.) Lacking a reasoned counter to the PD's approach, SDG&E instead attempts to label the discussion of amortization options as "assum[ing] facts not supported by the record in this proceeding, not consistent with the legal framework applicable to SDG&E's recovery of its 2019-2023 wildfire expenditures, and outside the scope of this proceeding." (SDG&E OC, p. 9.) None of these claims has any merit.

The notion that the PD assumes facts not supported by the record here makes no sense given the Commission's ability to consider and, as appropriate, rely on its own earlier decisions. There is no "assumption" being made about the prospects of the Commission adopting an amortization period longer than one year in the upcoming GRC or reasonableness review application that will assess the reasonableness of SDG&E's 2019-2023 wildfire expenditures. Rather, the PD merely notes the outcomes adopted in the two GRCs for major energy utilities undertaken since the enactment of AB 1054, and remarks that "[a] similar approach would be appropriate for SDG&E's [upcoming GRC]." (PD, p. 19.) The fact that SDG&E would object to such an approach in its GRC (SDG&E OC, p. 9)

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https://www.moodysanalytics.com/-/media/products/Moodys-Rating-Symbols-and-Definitions.pdf.

does not mean the Commission cannot merely acknowledge the approach as an option that may apply to the memorandum account balance here.

Similarly, SDG&E's claim that the possibility of amortization is inconsistent with the legal framework applicable to its wildfire expenditures makes no sense in light of the Commission having adopted amortization for the wildfire expenditures addressed in the PG&E and SCE GRCs. In addition, the Commission recently recognized that "conventional rate recovery" includes, "[f]or example, a three-year (36 month) amortization term."[8] And an assessment of other rate recovery options is clearly within the scope of a proceeding that includes determining "[W]hether SDG&E sufficiently demonstrated a need for an interim rate relief mechanism." (PD, p. 4.)

SDG&E also attempts to make much of the 2025-27 timeframe for rate recovery that would occur under the PD, rather stridently insisting that is did not make any three-year amortization proposal here. (SDG&E OC, p. 10.) But the PD discussion that SDG&E points to addresses the treatment of 2022-23 spending. (PD, pp. 17-18.) Under SDG&E's proposal, it is inarguable that the utility would recover such costs in 2023 (for 50% of the 2022 spending), in 2024 (an additional 25% of the 2022 spending, plus 50% of the 2023 spending), and the remainder at the conclusion of a reasonableness review application filed in mid-2024.[9] This is a three-year amortization under any reasonable definition of the word. Thus, SDG&E's problem with the PD seems less that it would have the Commission consider a three-year amortization period for recovery of these costs, but rather that it would permit the Commission to consider other amortization periods not sponsored by the utility.

V. SDG&E's Attempt to Embrace a Non-Existent "TURN Proposal" Must Be Ignored.

SDG&E concludes by soliciting the Commission's adoption of an outcome "consistent with one of TURN's alternative proposals" that would provide a reduced amount of interim recovery. (SDG&E OC, p. 13.) But the source SDG&E cites makes clear - there is no such alternative proposal. The relevant section of TURN's opening brief appeared beneath a heading that began, "The Commission Should Deny Interim Rate Recovery Here." (TURN Opening Brief, pp. 21-22.) The purpose of the section was to correct a clear error in SDG&E's calculations, and in no way suggested that such a correction would overcome TURN's stated objections or the factual, legal and policy reasons supporting those objections. The Commission should dismiss SDG&E's just-revealed alternative as the desperate and failed desperation attempt that it is.

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[8] D.21-10-025 (SCE AB 1054 Securitization A.21-06-016), p. 28 and Ordering Paragraph 56 (addressing rate recovery of, in part, wildfire-related O&M expenses excluded from securitization).

[9] Ex. SDG&E-02, p. 8, Table 2-2, lines 11-12 for 2023 and 2024 recovery; SDG&E OC, p. 10 for mid-2024 date.

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Respectfully submitted,

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