

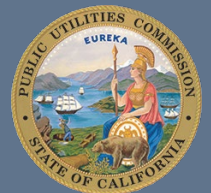


COST RECOVERY APPLICATION 22-06-003
WILDFIRE MITIGATION AND VEGETATION
MANAGEMENT EXPENDITURES
PERFORMANCE AUDIT

Southern California Edison Company

January 1, 2018, through December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 22, 2023



MEMBERS OF THE TEAM

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PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

June 22, 2023

Mr. Connor Flanigan
Managing Director
State Regulatory Operations
Southern California Edison Company
2244 Walnut Grove
Rosemead, CA 91770

Dear Mr. Flanigan:

**Final Report Transmittal Letter—Audit of Southern California Edison Company's
Application 22-06-003**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Southern California Edison Company's (SCE) Application 22-06-003 to recover wildfire mitigation and vegetation management costs. The final audit report is enclosed.

We issued the draft audit report on June 8, 2023, and SCE's response to the draft report required modifications to the labeling of tables. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations within 45 days from the issuance of this final audit report. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to: UtilityAudits@cpuc.ca.gov.

We appreciate SCE's assistance and cooperation during the engagement, and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Nichelle Jackson, Supervisor, at (916) 503-6096.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

Mr. Flanigan
Managing Director
State Regulatory Operations
June 22, 2023
Page 2

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TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
AUDIT REPORT	3
Background	3
Audit Authority.....	6
Objectives and Scope.....	6
Methodology	6
Conclusion.....	10
Views of Responsible Officials.....	11
Restricted Use	11
FINDINGS AND RECOMMENDATIONS	12
SUMMARY SCHEDULES OF AUDIT RESULTS.....	15
APPENDICES	
APPENDIX A—UTILITY’S RESPONSE TO DRAFT AUDIT REPORT	18
APPENDIX B—UAB’S EVALUATION OF UTILITY’S RESPONSE.....	23

EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the wildfire mitigation and vegetation management expenditures, requested by Southern California Edison Company (SCE) in Application (A.) 22-06-003.

Our audit objectives were to determine whether:

1. SCE's A.22-06-003 to recover costs for the Wildfire Mitigation Plan Memorandum Account (WMPMA), Fire Risk Mitigation Memorandum Account (FRMMA), and Vegetation Management Balancing Account (VMBA) for the period of January 1, 2021, through December 31, 2021, contained expenditures¹ that are reasonable, sufficiently supported, incremental in nature, directly attributable to the designated accounts, and in compliance with applicable Public Utilities (PU) Code sections, CPUC Decisions, SCE's policies and procedures, and other relevant criteria.
2. SCE addressed prior audit findings associated with wildfire related expenditures for the period of January 1, 2018, through December 31, 2021.

For Objective 1, based on the procedures performed, samples tested, and evidence gathered, we determined that SCE's request for cost recovery² for the period January 1, 2021, through December 31, 2021, was not sufficiently supported and included instances of overstated costs. These instances are quantified in the Summary Schedules of Audit Results and described in the Findings and Recommendations section of this audit report.

The audit findings are summarized as follows:

- **Finding 1: Overstated Operations and Maintenance (O&M) Expenditures of \$120,036 from FRMMA**

SCE did not substantiate requested FRMMA expenditures of \$120,036, thereby overstating the cost recovery request.

- **Finding 2: Overstated Total Revenue Requirement (RR) of \$63,807 Due to Incorrect Franchise Fee & Uncollectible (FF&U) Factor**

SCE utilized an incorrect FF&U factor to compute the requested total RR. SCE used the FF&U factor of 1.1254 percent from the CPUC's Decision (D.)19-05-020 instead of utilizing the FF&U factor of 1.1061 percent from the CPUC's D.21-08-036, thereby overstating the total RR by \$63,807.

Resulting from Findings 1 and 2 above, we determined that SCE's A.22-06-003 to recover costs for the WMPMA, FRMMA, and VMBA for the period of January 1, 2021, through December 31, 2021, was inaccurate due to overstated amounts. As a result, we determined SCE's revenue requirement attributable to WMPMA, FRMMA, and VMBA for the period of January 1, 2021, through

¹ Expenditures include Operation and Maintenance Costs and Capital Expenditures.

² To determine the total cost recovery request, in addition to expenditures, we obtained relevant information for the capital related revenue requirement, interest, Franchise Fees & Uncollectible Factor, and construction work-in progress.

December 31, 2021, should be \$95,859,072, \$16,159,941, and \$215,168,825, respectively, as outlined in the table below:

Revenue Requirement				
PY 2021	WMPMA	FRMMA	VMBA	Total
Requested	\$ 95,877,370	\$ 16,284,412	\$ 215,209,899	\$ 327,371,681
Finding 1 - Adjustments		(120,036)		(120,036)
Finding 2 - Adjustments	(18,298)	(4,435)	(41,074)	(63,807)
Updated Total	\$ 95,859,072	\$ 16,159,941	\$ 215,168,825	\$ 327,187,838

- **Finding 3: Unsubstantiated Capital Related RR Associated With Construction Work in Progress (CWIP) of \$21,091,955**

SCE requested to recover capital expenditures of \$21,091,955 classified as CWIP and the associated capital related RR. However, the associated capital related RR is unsubstantiated because this amount will be determined once CWIP is transferred to Plant-in-Service as Capital Additions.

Resulting from Finding 3, we determined SCE's request to recover capital expenditures attributable to WMPMA for the period of January 1, 2021, through December 31, 2021, should be \$76,429,297, as outlined in the table below:

Capital Expenditures	
PY 2021	WMPMA
Requested	\$ 97,521,252
Finding 3 - Audit Adjustments	(21,091,955)
Updated Total	\$ 76,429,297

For Objective 2, based on the procedures performed and evidence gathered, we determined that SCE did not need to address prior audit findings associated with wildfire related expenditures for the period of January 1, 2018, through December 31, 2021, because SCE adhered to applicable CPUC decisions and directives for cost recovery of wildfire related expenditures.

We issued a draft report on June 8, 2023. SCE's Managing Director of State Regulatory Operations responded by letter dated June 16, 2023, agreeing with the audit results, providing additional clarification and information, and suggesting correcting labeling discrepancies in the tables of the audit report. SCE's response is included in this final audit report as an attachment in Appendix A—Utility's Response to Draft Audit Report, and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

AUDIT REPORT

Background

General Rate Case (GRC)

GRCs are proceedings used to address the costs of operating and maintaining the utility system and the allocation of those costs in customer rates among different customer classes. Applications are filed by utility companies to seek authorization or relief (e.g., authorization to increase rates or budgets, interim rate relief, etc.). The utility companies periodically submit applications to the CPUC to request to collect a certain amount of revenue from its customers. The CPUC approves the utility companies' revenue requirements, which is the amount that each utility company can collect from its customers. The revenue requirement is based on the cost of operating, maintaining, and financing the infrastructure used to run the utility company, and the cost of its procured fuel and power.

On August 30, 2019, SCE filed its 2021 test year GRC for rates to become effective January 1, 2021 (A.19-08-013). The CPUC's D. 21-08-036, issued on August 20, 2021, approved a test year base RR of \$6.899 billion for SCE. The amounts authorized in the GRC serve as the basis for the utility companies to determine incremental cost, which can be claimed for recovery between GRC cycles.

Wildfire Mitigation Costs

In 2018, following the devastating wildfires in 2016 and 2017, the California Legislature passed several bills increasing oversight of the electric utility companies' efforts to reduce utility-related wildfires. Senate Bill 901 required all California electric utility companies to prepare plans on constructing, maintaining, and operating their electrical lines and equipment to minimize the risk of catastrophic wildfires. The Office of Energy Infrastructure Safety (Energy Safety³) is responsible for evaluating electric utility companies' wildfire risk reduction efforts mainly through the Wildfire Mitigation Plan (WMP) process. Electric utility companies must annually submit WMPs assessing their level of wildfire risk and providing plans for wildfire risk reduction to Energy Safety. Energy Safety reviews these plans and ensures electric utility companies' wildfire mitigation efforts sufficiently address increasing utility wildfire risk.⁴

Vegetation Management Costs

The CPUC requires electric utility companies to trim and remove trees near high voltage power lines for public safety, fire prevention, and electric reliability, as follows:

- **Public Safety:** to prevent injury to people climbing or working in or around trees adjacent to power lines.
- **Fire Prevention:** any portion of a tree in contact with high voltage power lines can start wildfires.
- **Electric Reliability:** to reduce electric outages because one of the largest contributors to power outages in California are trees.

³ The Wildfire Safety Division transitioned from the CPUC to Energy Safety at the California Natural Resources Agency on July 1, 2021.

⁴ Energy Safety's public website provides general overview of this process and posts the annual WMPs submitted each year.

Balancing Accounts and Memorandum Accounts

A Balancing Account (BA) is a regulatory accounting method used to ensure the recovery in rates of specified expenditures authorized by the CPUC. A BA tracks the difference between actual expenditures associated with the BA and authorized for recovery by the CPUC, and the revenues collected within customer rates to cover those specific expenses. The primary purpose of a BA is to ensure that a utility company recovers its CPUC-authorized RR from ratepayers for a given program or function, but not more or less.

A Memorandum Account is an accounting method that, after approval by the CPUC or upon statutory notice, may be used by a utility company to record various expenses it incurs. The utility company may later seek authorization from the CPUC to recover the recorded amounts by passing them on to consumers in rates. The establishment of a memorandum account does not guarantee that the utility company will recoup the tracked amount, but a utility company is precluded from recovering amounts not booked to a memorandum account. Memorandum accounts allow the CPUC to consider recovery of utility company expenses that have occurred in the past without incurring retroactive ratemaking.

Incremental Costs & Cost Recovery

For each applicable balancing or memorandum account, a preliminary statement outlines the purpose of the account, operation of the account, review and disposition procedures on how to recover costs recorded in the balancing and memorandum accounts, among other matters. SCE's balancing and memorandum accounts⁵ applicable for this audit include the following:

Account	Purpose of Account	Review Procedures from Preliminary Statements
WMPMA	Tracks costs incurred to implement SCE's WMP that are not otherwise covered in SCE's RR or tracked in another ratemaking account.	The costs tracked in the WMPMA shall be presented to the CPUC for review of reasonableness and recovery in a future GRC application, consistent with PU Code section 8386.4(b)(1). Costs tracked in the WMPMA may be recovered in rates only after a request by SCE, a showing of reasonableness, and approval by the CPUC.
FRMMA	Tracks costs incurred for fire risk mitigation that are not otherwise covered in SCE's RR.	The costs tracked in the FRMMA shall be presented to the CPUC for review of reasonableness and recovery in a future application, consistent with PU Code sections 8386(g) and 8386(j). Costs tracked in the FRMMA may be recovered in rates only after a request by SCE, a showing of reasonableness, and approval by the CPUC.
VMBA	Records the difference between (1) authorized O&M expenses for all vegetation management activities from D.21-08-036, and (2) SCE's recorded expenses for these activities.	Actual VMBA expenses in excess of 115 percent of the annual authorized VMBA RR are subject to an additional reasonableness review via an application prior to recovery from customers.

SCE's incremental costs are based on the CPUC authorized amounts in D.21-08-036 for applicable activities for each account. The authorized amounts are computed to a nominal value by applying an escalation rate and factoring only CPUC- Jurisdictional amounts and costs in excess of the nominal amounts are determined to be incremental.

⁵ SCE's public website regarding SCE Tariff Books contains the applicable preliminary statements.

A.22-06-003: SCE's Application for Authorization to Recover 2021 Incremental Costs

On June 3, 2022, SCE filed A.22-06-003, an application for authorization to recover 2021 incremental costs related to wildfire mitigation and vegetation management. SCE requested to recover a total revenue requirement of \$327,371,681 attributable to WMPMA, FRMMA, and VMBA, as outlined in the table below:

2021 Wildfire Mitigation & Vegetation Management Revenue Requirement Request⁶

Item Description	Request			Total RR
	WMPMA	FRMMA	VMBA	
O&M Expense	\$ 99,270,473	\$ 16,078,943	\$ 212,785,894	\$ 328,135,310
Capital Related RR				
Depreciation	381,645	-	-	381,645
Income Taxes	(5,942,524)	-	-	(5,942,524)
Property Taxes	-	-	-	-
Return	717,984	-	-	717,984
Total Capital Related RR¹	<u>(4,842,895)</u>	<u>-</u>	<u>-</u>	<u>(4,842,895)</u>
Interest	382,796	24,244	28,986	436,026
Franchise Fee & Uncollectibles	1,066,996	181,225	2,395,019	3,643,240
Total Revenue Requirement	<u>\$ 95,877,370</u>	<u>\$ 16,284,412</u>	<u>\$ 215,209,899</u>	<u>\$ 327,371,681</u>

¹ The capital related revenue requirement is associated with the \$76.43 million of the \$97.52 of incremental capital expenditures.

In addition, SCE requested to recover \$97,521,252 of incremental capital expenditures attributable to WMPMA, as outlined in the table below:

2021 Wildfire Mitigation Capital Expenditures Request⁷

Reference to Testimony	Request		
	Capital Recorded [a]	Non-Incremental ¹ [b]	Incremental Costs [a]-[b]
Grid Hardening	\$ 28,178,634		
Enhanced Operational Practices	135,543,581		
Fire Science and Advanced Modeling	3,496,838	\$ 89,809,832	\$ 97,521,252
Enhanced Situational Awareness	5,600,412		
Public Safety Power Shutoff	14,511,619		
Total	<u>\$ 187,331,084</u>	<u>\$ 89,809,832</u>	<u>\$ 97,521,252</u>

¹ Non-Incremental Costs: Federal Energy Regulatory Commission Jurisdictional, GRC Authorized and Assembly Bill (AB)1054 Removal.

Prior Relevant Audit Findings

In evaluating SCE's application for cost recovery, prior audits were relevant to our audit objectives. We identified one performance audit conducted by Crowe LLP (Crowe), on behalf of Energy Safety,

⁶ A.22-06-003, Table I-1

⁷ A.22-06-003, Table IV-35 – Condensed

relevant to our audit objectives. Crowe's SCE Wildfire Mitigation Plan Expenditures audit report⁸ issued on December 9, 2021, examined SCE's operating and capital costs in the execution of its WMP programs and whether costs were duplicative relative to its prior GRC applications, for the period January 1, 2018, through December 31, 2020. The audit report identified two audit findings related to wildfire mitigation costs (1) questioning whether costs were incremental or not, and (2) asserting that cost categories between WMP and GRC did not align.

Audit Authority

The UAB conducted this audit under the general authority outlined in PU Code sections 314.5, 314.6, 581, 582, and 584. Furthermore, on October 28, 2022, CPUC issued an Administrative Law Judge's Ruling Announcing Audit for the UAB to conduct an audit of the costs associated with activities outlined in SCE's A.22-06-003.

Objectives and Scope

Our audit objectives and scope were to determine whether:

1. SCE A.22-06-003 to recover costs for the WMPMA, FRMMA, and VMBA for the period of January 1, 2021, through December 31, 2021, contained expenditures that are reasonable, sufficiently supported, incremental in nature, directly attributable to the designated accounts, and in compliance with applicable PU Code sections, CPUC Decisions, SCE's policies and procedures, and other relevant criteria.
2. SCE addressed prior audit findings associated with wildfire related expenditures for the period of January 1, 2018, through December 31, 2021.

Methodology

In planning our audit, we gained an understanding of wildfire mitigation and vegetation management activities and SCE operations and identified relevant criteria by reviewing applicable PU Code sections, Wildfire Mitigation Plans, Risk Spending Accountability Reports, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, gathering information regarding prior audit recommendations, and interviewing SCE's personnel.

We conducted a risk assessment, including evaluating whether SCE's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Deficiencies in internal controls that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of the data extracted from SCE's accounting system. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. To achieve our audit objectives, we:

⁸ The audit report is publicly available and posted on Energy Safety's website.

- Reviewed applicable CPUC decisions, advice letters, proceedings, and preliminary statements to gain an understanding of the applicable balancing and memorandum accounts.
- Reviewed SCE's accounting system, accounting policies, processes and procedures for tracking, monitoring, and recording transactions to the applicable balancing and memorandum accounts.
- Reviewed and reconciled expenditures recorded in SCE's accounting system to the balances reported in SCE's A.22-06-003 for accuracy and completeness.
- Assessed significance by performing an analysis of expenditure data and evaluating balancing account and memorandum account requirements.
- Assessed whether any prior external and internal audit reports were significant to the audit objectives to identify potential risks relevant to the current engagement.
- Obtained an understanding of SCE's key internal controls relevant to A.22-06-003 such as classifying and recording, monitoring, approving, and reporting expenditures, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objectives by:
 - interviewing key personnel and administering an internal control questionnaire;
 - reviewing SCE's policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting of expenditure data;
 - verifying SCE's methodology for determining incremental costs;
 - performing walkthroughs of selected transactions; and
 - tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed testing of O&M expenditures by judgmentally selecting a non-statistical sample of significant transactions, as follows:

Account & GRC Activity	Total Expenditures Tested	Total Expenditures Recorded in 2021	Percent Tested
WMPMA			
Aerial Suppression	3,790,000	17,545,000	21.60%
Public Safety Power Shutoff (PSPS)	3,933,114	56,471,523	6.96%
Enhanced Operational Practices	4,236,287	117,794,637	3.60%
Other WMPMA		23,948,857	
WMPMA Total	11,959,401	215,760,017	5.54%
FRMMA			
Distribution Routine Vegetation Management (VM)	1,399,507	14,846,659	9.4%
Other FRMMA		4,139,253	
FRMMA Total	1,399,507	18,985,912	7.4%
VMBA			
Distribution Routine VM	5,475,542	342,682,961	1.60%
Transmission Routine VM	2,714,417	40,746,508	6.66%
Wildfire VM	632,016	32,431,822	1.95%
Other VMBA		16,708,962	
VMBA Total	8,821,975	432,570,253	2.04%
Totals	\$ 22,180,883	\$ 667,316,182	3.32%

Note: For the selected samples, errors found, if any, were not projected to the total population.

- Performed testing of capital expenditures, attributable to WMPMA, by judgmentally selecting a non-statistical sample of significant transactions, as follows:

GRC Activity	Total Expenditures Tested	Total Capital Expenditures Recorded in 2021	Percent Tested
Grid Hardening	564,924	28,178,634	2.0%
Enhanced Operational Practices	1,867,400	135,543,581	1.4%
PSPS	3,558,223	14,511,619	24.5%
Other Activities not tested		9,097,249	
Totals	\$ 5,990,547	\$ 187,331,084	3.20%

Note: For the selected samples, errors found, if any, were not projected to the total population.

- For the selected samples, traced expenditures recorded in SCE's accounting records to supporting documentation and determined whether costs were accurate, attributable to its respective balancing or memorandum account, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and SCE's policies and procedures by:

- tracing expenditures to invoices to ensure the expenditure (1) was incurred within 2021, (2) agreed to the invoice amount, and (3) was calculated accurately;
- verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc. to confirm the expenditure was for an authorized activity;
- confirming payment was made for the expenditure and the amount agreed to the invoice; and
- verifying that the activity occurred for a subset of samples by:
 - reviewing daily tree logs from two invoices covering a period of four months and utilizing Google maps and conducting onsite inspections to confirm trees were trimmed and/or removed for 130 units covering two geographical areas;
 - confirming images of work performed for pole brushing;
 - obtaining PSPS marketing, advertising, and digital materials; and
 - verifying aerial inspection images of distribution structures in high fire risk areas.
- Traced the capital related RR and interest accrued balances to its respective balancing and memorandum account.
- Reviewed FF&U Factor and recalculated FF&U amounts.
- Traced GRC authorized amounts utilized in SCE's A.22-06-003 to D.21-082-036 and applicable advice letters.
- Recalculated SCE's total RR request for O&M expenditures utilizing audited data.
- Recalculated SCE's capital expenditure request utilizing audited data.
- Reviewed results of prior audits associated with wildfire related expenditures for the period of January 1, 2018, through December 31, 2021, and assessed whether prior audit findings were sufficiently addressed by:
 - interviewing key personnel;
 - obtaining explanations of selected activities or projects, including project status and guidance; and
 - verifying SCE's methodology of providing customer refunds and tracing customer refunds to applicable balancing account.

We did not audit SCE's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SCE reported, incurred, and supported its incremental costs in accordance with the applicable criteria. We considered SCE internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements. GAGAS standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

For Objective 1, based on the procedures performed, samples tested, and evidence gathered, we determined that SCE's request for cost recovery was not sufficiently supported and included instances of overstated costs. These instances are quantified in the Summary Schedules of Audit Results and described in the Findings and Recommendations section of this audit report (Findings 1, 2, and 3).

Resulting from Finding 1 and 2, we determined that SCE's A.22-06-003 to recover costs for the WMPMA, FRMMA, and VMBA was inaccurate due to overstated amounts. As a result, we determined SCE's revenue requirement attributable to WMPMA, FRMMA, and VMBA for the period of January 1, 2021, through December 31, 2021, should be \$95,859,072, \$16,159,941, and \$215,168,825, respectively, as outlined in the table below:

Revenue Requirement				
PY 2021	WMPMA	FRMMA	VMBA	Total
Requested	\$ 95,877,370	\$ 16,284,412	\$ 215,209,899	\$ 327,371,681
Finding 1 - Adjustment		(120,036)		(120,036)
Finding 2 - Adjustments	(18,298)	(4,435)	(41,074)	(63,807)
Updated Total	\$ 95,859,072	\$ 16,159,941	\$ 215,168,825	\$ 327,187,838

Resulting from Finding 3, we determined that SCE's A.22-06-003 to recover costs attributable to WMPMA was inaccurate due to unsubstantiated amounts. As a result, we determined SCE's request to recover capital expenditures attributable to WMPMA for the period of January 1, 2021, through December 31, 2021, should be \$76,429,297, as outlined in the table below:

Capital Expenditures	
PY 2021	WMPMA
Requested	\$ 97,521,252
Finding 3 - Audit Adjustments	(21,091,955)
Updated Total	\$ 76,429,297

For Objective 2, based on the procedures performed and evidence gathered, we determined that SCE did not need to address prior audit findings associated with wildfire related expenditures for the period

of January 1, 2018, through December 31, 2021, because SCE adhered to applicable CPUC decisions and directives for cost recovery of wildfire related expenditures.

Views of Responsible Officials

We issued a draft report on June 8, 2023. SCE's Managing Director of State Regulatory Operations responded by letter dated June 16, 2023, agreeing with the audit results, providing additional clarification and information, and suggesting correcting labeling discrepancies in the tables of the audit report. SCE's response is included in this final audit report as an attachment in Appendix A—Utility's Response to Draft Audit Report, and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of SCE and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDINGS AND RECOMMENDATIONS

Finding 1: Overstated O&M Expenditures from FRMMA by \$120,036

Condition:

SCE overstated FRMMA O&M expenditures by \$120,036 in its application to recover 2021 incremental costs. During our substantive testing, we noted that SCE reported an expenditure transaction totaling \$128,127 for environmental/safety professional services that deviated from the actual amount. The error resulted from a combination of factors, including the consultant's transition of billing to a new accounting system, and accelerated year-end invoice processing. SCE did not have a sufficient review process in place to ensure the information entered by the consultant is accurate. SCE provided supporting documentation to substantiate an expenditure amount of \$8,091. As a result, SCE overstated the reported FRMMA O&M expenditures by \$120,036.

Criteria:

PU Code sections 581, 582, and 584 require that the utility company provide timely, complete, and accurate data to the CPUC.

Cause:

SCE lacks adequate oversight and monitoring procedures over its consultant's invoice review process to ensure the accuracy of the expenditure amount.

Effect:

Failure to properly account for expenditures in SCE's request for cost recovery leads to inaccurate representation of the costs incurred.

It is critical that the costs requested for recovery are properly reviewed to ensure transparency and accuracy of the costs that are recoverable from ratepayers. Furthermore, an overstatement of costs can inflate forecasted amounts in GRCs, as the prior years' costs often influence the authorized RR.

Recommendations:

SCE should file an errata of its testimony to include a correction to O&M expenditures of \$120,036. In addition, we recommended SCE update its oversight and monitoring processes and procedures to strengthen the consultant's invoice review process and to ensure expenditure amounts requested are accurate.

Finding 2: Overstated Total RR by \$63,807

Condition:

SCE overstated total RR requested by \$63,807. During our reconciliation of SCE's A.22-06-003, Table I-1, to SCE's supporting documents, we noted that SCE inaccurately utilized the FF&U factor of 1.1254 percent⁹ from the CPUC's D.19-05-020 instead of utilizing the correct FF&U factor of 1.1061 percent¹⁰ from the CPUC's D.21-08-036. The FF&U factor is applied to the subtotal of incremental O&M expenditures, the total capital related RR, and interest to compute total RR requested. As a result, SCE overstated its total RR request for WMPMA, FRMMA, and VMBA by \$18,298, \$4,435, and

⁹ Franchise Fee Factor of 0.9144% and Uncollectible Accounts Factor of 0.211%

¹⁰ Franchise Fee Factor of 0.9261% and Uncollectible Accounts Factor of 0.180%

\$41,074, respectively, as outlined in the table below and in the Summary Schedules of Audit Results section:

Item Description	Request		
	WMPMA	FRMMA	VMBA
[a] Total Incremental Costs + Capital Related RR + Interest	94,810,374	16,103,187	212,814,880
[b] Requested FF&U Factor	1.1254%	1.1254%	1.1254%
[c] FF&U Request [a] * [b]	1,066,996	181,225	2,395,019
[d] Total RR	95,877,370	16,284,412	215,209,899

Item Description	Request with Audit Adjustment		
	WMPMA	FRMMA	VMBA
[e] Total Incremental Costs + Capital Related RR + Interest	94,810,374	15,983,151 ¹	212,814,880
[f] Audited FF&U Factor	1.1061%	1.1061%	1.1061%
[g] FF&U Audited [e] * [f]	1,048,698	176,790	2,353,945
[h] Total RR with Adjustments	95,859,072	16,159,941	215,168,825
Audit Adjustment - Finding 2 [g] - [c]	(18,298)	(4,435)	(41,074)

¹ Includes adjustment for Finding 1.

Criteria

PU Code sections 581, 582, and 584 require that the utility company provide timely, complete, and accurate data to the CPUC.

Cause:

SCE's lacked adequate oversight and monitoring procedures to ensure the correct FF&U rates were utilized.

Effect:

Failure to use the correct FF&U factor in SCE's request for cost recovery leads to inaccurate representation of the requested recovery amounts. It is critical that the costs requested for recovery are complete and sufficiently supported for proper review to ensure transparency and accuracy of costs that are recoverable from ratepayers.

Recommendations:

SCE should file an errata of its testimony to include the current FF&U rate and corrected total revenue amount. In addition, SCE should update its oversight and monitoring processes and procedures for preparing cost recovery data to ensure the accuracy of the rates used.

Finding 3: Unsubstantiated Capital Related RR Associated with CWIP of \$21,091,955

Condition:

SCE requested to recover unsubstantiated capital related RR amount associated with reported \$21,091,955 in capital expenditures categorized as CWIP for the period January 1, 2021, through December 31, 2021. The amount for the associated capital related RR is unsubstantiated because the actual amount will be determined once CWIP is transferred to Plant-in-Service as Capital Additions and

can be evaluated at that time. Therefore, the capital related RR associated with CWIP is not sufficiently supported at this time as outlined in the Summary Schedules of Audit Results section.

Criteria

PU Code sections 581, 582, and 584 require that the utility company provide timely, complete, and accurate data to the CPUC.

Cause:

SCE requested recovery of costs for capital projects that are still in progress and, therefore, did not substantiate the amounts of associated capital related RR.

Effect:

Requesting recovery of amounts before they can be determined leads to inaccurate representation of the costs incurred. It is critical that the costs requested for recovery are complete and sufficiently supported for proper review to ensure transparency and accuracy of costs that are recoverable from ratepayers.

Recommendations:

SCE should postpone recovery of capital expenditures classified as CWIP and the associated capital related RR until it can be evaluated when (1) CWIP is transferred to Plant-in-Service as Capital Additions, and (2) the amount of capital related RR is sufficiently supported.

SUMMARY SCHEDULES OF AUDIT RESULTS

Table 1: SCE's 2021 Wildfire Mitigation, Fire Risk, and Vegetation Management Summary of Request with Audit Adjustments

Item Description	Request with Adjustments			
	WMPMA	FRMMA	VMBA	Total
Total Recorded O&M	215,760,017	18,985,912	432,570,253	667,316,182
GRC Authorized Funds	(99,592,163)	(2,050,020)	(200,487,874)	(302,130,057)
FERC	(13,407,544)	(856,949)	(19,139,432)	(33,403,925)
Non-Incremental Cost ¹	712,174	-	(157,053)	555,121
A&G Capitalization	(4,202,011)	-	-	(4,202,011)
Audit Adjustment: Finding 1	-	(120,036)	-	(120,036)
[a] Total Incremental Costs	<u>99,270,473</u>	<u>15,958,907</u>	<u>212,785,894</u>	<u>328,015,274</u>
Capital Related RR				
Depreciation	381,645	-	-	381,645
Income Taxes	(5,942,524)	-	-	(5,942,524)
Property Taxes	-	-	-	-
Return	717,984	-	-	717,984
[b] Total Capital Related RR	<u>(4,842,895)</u>	<u>-</u>	<u>-</u>	<u>(4,842,895)</u>
[c] Interest ²	382,796	24,244	28,986	436,026
[d] Subtotal [a]+[b]+[c]	94,810,374	15,983,151	212,814,880	323,608,405
[e] FF&U Factor: Finding 2	<u>1.1061%</u>	<u>1.1061%</u>	<u>1.1061%</u>	<u>1.1061%</u>
[f] FF&U [d] * [e] ³	<u>1,048,698</u>	<u>176,790</u>	<u>2,353,945</u>	<u>3,579,433</u>
[g] Total Revenue Requirement [d] + [f]	<u>95,859,072</u>	<u>16,159,941</u>	<u>215,168,825</u>	<u>327,187,838</u>

¹ Costs that did not meet the requirements for recovery.

² Interest traced to WMPMA, FRMMA, and VMBA.

³ See Tables 1a, 1b, and 1c below for calculation of Audit Adjustment - Finding 2.

**Table 1a: WMPMA Revenue Requirement
Summary of Request with Audit Adjustments**

Item Description	WMPMA			Finding
	Request	Audited	Audit Adjustment	
Total Recorded O&M	\$ 215,760,017	\$ 215,760,017	\$ -	
GRC Authorized Funds	(99,592,163)	(99,592,163)	-	
FERC	(13,407,544)	(13,407,544)	-	
Non-Incremental Cost	712,174	712,174	-	
A&G Capitalization	(4,202,011)	(4,202,011)	-	
[a] Total Incremental Costs	99,270,473	99,270,473	-	
Capital Related RR				
Depreciation	381,645	381,645	-	
Income Taxes	(5,942,524)	(5,942,524)	-	
Property Taxes	-	-	-	
Return	717,984	717,984	-	
[b] Total Capital Related RR ¹	(4,842,895)	(4,842,895)	-	
[c] Interest ²	382,796	382,796	-	
Total Incremental Costs, Capital Related	94,810,374	94,810,374	-	
[d] RR & Interest [a] + [b] + [c]				
[e] FF&U Factor	1.1254%	1.1061%		
[f] FF&U [d] * [e]	1,066,996	1,048,698	(18,298)	Finding 2
[g] Total RR [d] + [f]	<u>\$ 95,877,370</u>	<u>\$ 95,859,072</u>	<u>\$ (18,298)</u>	

¹ Total capital related revenue requirement is attributable to the \$76.4 million of incremental capital expenditure from Table 2: Cost Recovery Request - WMPMA Capital Expenditures.

² Interest is derived from WMPMA.

**Table 1b: FRMMA Revenue Requirement
Summary of Request with Audit Adjustments**

Item Description	FRMMA			Findings
	Request	Audited	Audit Adjustment	
Total Recorded O&M	\$ 18,985,912	\$ 18,865,876	\$ (120,036)	Finding 1
GRC Authorized Funds	(2,050,020)	(2,050,020)	-	
FERC	(856,949)	(856,949)	-	
[a] Total Incremental Costs	16,078,943	15,958,907	(120,036)	
[b] Interest ¹	24,244	24,244	-	
Total Incremental Costs + Interest	16,103,187	15,983,151		
[c] [a] + [b]				
[d] FF&U Factor	1.1254%	1.1061%		
[e] FF&U [c] * [d]	181,225	176,790	(4,435)	Finding 2
[f] Total RR [c] + [e]	<u>\$ 16,284,412</u>	<u>\$ 16,159,941</u>	<u>\$ (124,471)</u>	

¹ Interest is derived from FRMMA.

**Table 1c: VMBA Revenue Requirement
Summary of Request with Audit Adjustments**

Item Description	VMBA			Finding
	Request	Audited	Audit Adjustment	
Total Recorded O&M	\$ 432,570,253	\$ 432,570,253	\$ -	
GRC Authorized Funds	(200,487,874)	(200,487,874)	-	
FERC	(19,139,432)	(19,139,432)	-	
Non-Incremental Cost	(157,053)	(157,053)	-	
[a] Total Incremental Costs	212,785,894	212,785,894	-	
[b] Interest ¹	28,986	28,986	-	
[c] Total Incremental Costs + Interest [a] + [b]	212,814,880	212,814,880	-	
[d] FF&U Factor	1.1254%	1.1061%		
[e] FF&U Calculated [c] * [d]	2,395,019	2,353,945	(41,074)	Finding 2
[f] Total RR [c] + [e]	<u>\$ 215,209,899</u>	<u>\$ 215,168,825</u>	<u>\$ (41,074)</u>	

¹ Interest is derived from VMBA.

**Table 2: WMPMA Capital Expenditures
Summary of Request with Audit Adjustments**

Item Description	WMPMA			Finding
	Request	Audited	Audit Adjustment	
Total Recorded Capital Expenditures ¹	\$ 187,331,084	\$ 166,239,129	\$ 21,091,955	Finding 3
GRC Authorized Funds	(76,335,866)	(76,335,866)	-	
FERC	(589,944)	(589,944)	-	
AB1054 Removal ²	(12,884,022)	(12,884,022)	-	
Total Incremental Costs	<u>\$ 97,521,252</u>	<u>\$ 76,429,297</u>	<u>\$ 21,091,955</u>	

¹ Derived from SCE's PowerPlan system for capital related work orders tagged as part of the wildfire mitigation program.

² SCE sets forth the capital expenditures subject to AB1054, this amount is the incremental portion of the allocated amount for AB1054.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT



June 16, 2023

Angie Williams – Director
Utility Audits, Risk and Compliance Division
California Public Utilities Commission
400 R. Street, Suite 221
Sacramento, CA 95811

Transmitted via e-mail to: Masha.Vorobyova@cpuc.ca.gov

Dear Ms. Williams:

Southern California Edison Company (SCE) appreciates the opportunity to review and provide comments on the Draft Report for *Southern California Edison Company's (SCE) Application (A.) 22-06-003 to recover wildfire mitigation and vegetation management costs* (Draft Report) by the California Public Utilities Commission's (Commission or CPUC) Utility Audits Branch (UAB).

Overall, SCE agrees with the Draft Report's findings and recommendations and appreciates the thorough review performed by the UAB auditors. SCE's comments to the Draft Report, which are attached to this letter, are intended to provide additional clarification and information for the record related to the findings and recommendations in the Draft Report. Other than correcting a few minor labeling discrepancies in the tables (discussed in SCE's Comments), SCE does not believe any substantive changes are necessary to the Draft Report.

SCE appreciates the identification of the two inadvertent errors discovered by UAB in Finding Nos. 1 and 2 – together which represent less than 0.001% of the total expenditures SCE is seeking in A.22-06-003 – and will address those two issues in errata.

SCE's comments primarily focus on UAB's Finding No. 3, concerning SCE's recovery of its revenue requirement associated with Construction Work-In-Progress (CWIP) costs. Since the filing of this Application (A.22-06-003), only approximately one-third of the CWIP included in the Application remains in CWIP status as of April 30, 2023. As allowed by the Commission in its Decision in Track 3 of SCE's 2021 GRC (D.22-06-032), SCE proposes to recover the portion of CWIP capital expenditures that have closed to plant (*i.e.*, been transferred to Plant-in-Service as Capital Additions and recorded as a capital-related revenue requirement in the Wildfire Mitigation Plan Memorandum Account (WMPMA)) over the pendency of this proceeding – as these amounts no longer meet the

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criteria for exclusion set forth in the Draft Report. Timelier recovery of these costs will benefit customers, as unnecessary delays in recovery will result in added interest expense borne by our customers. SCE's comments regarding its treatment of CWIP expenditures is intended to make clear for the record that we believe there is precedent and customer benefits in allowing us to recover CWIP costs that have since closed to plant during the pendency of the proceeding. As mentioned above, SCE does not believe any changes to the Draft Report regarding its handling of CWIP are necessary.

SCE appreciates UAB's audit review of the amounts included in A.22-06-003 and its recommendations. SCE would also like to express its gratitude to the UAB staff for the professional, courteous, and efficient manner in which the audit engagement was conducted.

If you have questions about SCE's comments or would like to set up a meeting to discuss the information provided, please contact Johnny Parker at Johnny.Parker@sce.com or Patrick Nandy at Patrick.Nandy@sce.com.

Thank you,

Signature: Connor Flanigan Date: June 16, 2023
Connor J. Flanigan
Managing Director, State Regulatory Operations

Attachments

cc: Erin Pulgar, Principal Manager, Cost Recovery, SCE
Nayiri Pilibkyan, Senior Attorney, Base Rates & Grid Support, SCE
Elizabeth Leano, Senior Manager, External Regulatory Audits & Wildfire Compliance, SCE
Johnny Parker, Senior Advisor, External Regulatory Audits & Wildfire Compliance, SCE
Patrick Nandy, Senior Advisor, External Regulatory Audits & Wildfire Compliance, SCE
Masha Vorobyova, Assistant Director, UAB, CPUC
Nichelle Jackson, Program and Project Supervisor, UAB, CPUC
Nancy Ta, Public Utilities Regulatory Analyst IV, UAB, CPUC
Cole Chev, Senior Management Auditor, UAB, CPUC
Grisel Reyes, Staff Services Management Auditor, UAB, CPUC

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SCE's Comments to the Draft Report

The following are SCE's comments and clarifications to the Draft Report prepared by UAB based on its audit of SCE's Application, A.22-06-003, for Authorization to Recover 2021 Incremental Costs Related to Wildfire Mitigation and Vegetation Management. SCE does not contest the UAB's findings in the Draft Report and is in the process of preparing a Corrective Action Plan to address UAB's findings and recommendations.

As a preliminary matter, SCE would like to clarify certain labels in the tables used in the Draft Report. The labels in these tables refer to "O&M Expenditures," whereas the amounts in the tables reflect SCE's "Revenue Requirement," which includes both operations and maintenance (O&M) expense and the capital-related revenue requirement:

- On p. 2, the table that reads "O&M Expenditures" should read "Revenue Requirement";
- On p. 5, the table that reads "2021 Wildfire Mitigation & Vegetation Management O&M Request" should read "2021 Wildfire Mitigation & Vegetation Management Revenue Requirement Request";
- On p. 10, the table that reads "O&M Expenditures" should read "Revenue Requirement"; and
- On p. 16, "Table 1a: WMPMA O&M" should read "Table 1a: WMPMA Revenue Requirement."

SCE appreciates the opportunity to provide this clarification.

Finding Nos. 1 and 2: Overstated O&M Expenses from FRMMA by \$120,036 and Overstated Total Revenue Requirement by \$63,807

Draft Finding 1: *SCE overstated FRMMA O&M expenditures by \$120,036 in its application to recover 2021 incremental costs. During our substantive testing, we noted that SCE reported an expenditure transaction totaling \$128,127 for environmental/safety professional services that deviated from the actual amount. The error resulted from a combination of factors, including the consultant's transition of billing to a new accounting system, and accelerated year-end invoice processing. SCE did not have a sufficient review process in place to ensure the information entered by the consultant is accurate. SCE provided supporting documentation to substantiate an expenditure amount of \$8,091. As a result, SCE overstated the reported FRMMA O&M expenditures by \$120,036.*

Draft Recommendation: *SCE should file an errata of its testimony to include a correction to O&M expenditures of \$120,036. In addition, we recommended SCE update its oversight and monitoring processes and procedures to strengthen the consultant's invoice review process and to ensure expenditure amounts requested are accurate.*

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Draft Finding 2: *SCE overstated total RR requested by \$63,807. During our reconciliation of SCE's A.22-06-003, Table I-1, to SCE's supporting documents, we noted that SCE inaccurately utilized the FF&U factor of 1.1254 percent from the CPUC's D.19-05-020 instead of utilizing the correct FF&U factor of 1.1061 percent from the CPUC's D.21-08-036. The FF&U factor is applied to the subtotal of incremental O&M expenditures, the total capital-related RR, and interest to compute total RR requested. As a result, SCE overstated its total RR request for WMPMA, FRMMA, and VMBA by \$18,298, \$4,435, and \$41,074, respectively, as outlined in the table below and in the Summary Schedules of Audit Results section:*

Draft Recommendation: *SCE should file an errata of its testimony to include the current FF&U rate and corrected total revenue amount. In addition, SCE should update its oversight and monitoring processes and procedures for preparing cost recovery data to ensure the accuracy of the rates used.*

SCE Comments

SCE appreciates the identification of the two inadvertent errors discovered by UAB in Findings 1 and 2. These errors involve (1) approximately \$120,000 in overstated O&M expenses recorded in FRMMA due to a refund that was inadvertently not removed from SCE's Application; and (2) an approximately \$63,000 overstatement of SCE's revenue requirement due to the inadvertent use of a previous FF&U (Franchise Fees & Uncollectibles) factor; together, they represent less than 0.001% of the total expenditures SCE is seeking in A.22-06-003. As the Draft Report recommends, SCE will submit errata to correct these two errors, and is actively working on a Corrective Action Plan to update its processes to minimize the risk of similar errors in the future. SCE is committed to continuous improvement and will use the feedback received from this audit to implement such improvements.

Finding No. 3: Capital-Related Revenue Requirement Associated with CWIP of \$21,091,955

Draft Finding 3: *SCE requested to recover unsubstantiated capital related RR amount associated with reported \$21,091,955 in capital expenditures categorized as CWIP for the period January 1, 2021, through December 31, 2021. The amount for the associated capital related RR is unsubstantiated because the actual amount will be determined once CWIP is transferred to Plant-in-Service as Capital Additions and can be evaluated at that time. Therefore, the capital related RR associated with CWIP is not sufficiently supported at this time as outlined in the Summary Schedules of Audit Results section.*

Draft Recommendation: *SCE should postpone recovery of capital expenditures classified as CWIP and the associated capital related RR until it can be evaluated when (1) CWIP is transferred to Plant-in-Service as Capital Additions, and (2) the amount of capital related RR is sufficiently supported.*

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SCE Comments

SCE does not dispute the recommendation in the Draft Report to postpone recovery of its capital expenditures classified as Construction Work-In-Progress (CWIP) until the CWIP is transferred to Plant-in-Service as Capital Additions, and the capital-related revenue requirement can be substantiated. As such, SCE does not believe any changes are necessary to the Draft Report. SCE notes for the record, however, that subsequent to the filing of this Application more than a year ago, a substantial portion of its CWIP capital expenditures have already closed to plant (*i.e.*, transferred to Plant-in-Service as Capital Additions and recorded as a capital-related revenue requirement in the WMPMA), and can be substantiated.

After SCE filed its Application, the Commission issued D.22-06-032 in Track 3 of SCE's 2021 GRC. In that Decision, the Commission found that "SCE is unable to demonstrate the reasonableness of CWIP costs of \$135.11 million associated with approximately 1,970 circuit miles of covered conductor because the CWIP costs represent costs for incomplete projects and the costs for the completed projects are not in the record."¹ The Commission did find, however, that the "CWIP balance associated with the 644 miles completed in the first half of 2021" (*i.e.*, after the filing of the Track 3 Application but before the final decision was issued) were eligible for current cost recovery because they constituted "complete and in service" costs.²

SCE intends to advocate that the Commission follow this same approach here. At the time SCE filed this Application (A.22-06-003) on June 3, 2022 (prior to the Track 3 Decision discussed above), its capital expenditures classified as CWIP totaled \$21,091,955. Since that time, over two-thirds of SCE's CWIP expenditures have closed to plant. As of April 30, 2023, SCE's CWIP expenditures total only \$6,001,649 million.³ SCE anticipates that more of this CWIP will continue to close to plant over the pendency of this proceeding (*i.e.*, after the filing of the instant Application but before the final decision is issued). SCE should recover the CWIP amounts that have since closed to plant; those costs do not meet the criteria for exclusion recommended in Finding 3 of the Draft Report.

If SCE is not authorized to recover the CWIP capital expenditures that have closed to plant, SCE will have to seek recovery of these costs in a subsequent cost recovery proceeding. This delay – for CWIP expenditures that were in CWIP status in June 2022 but are now closed to plant – will result in unnecessary added interest expense that will be borne by customers, in a relatively high interest rate environment. Such a result would not be beneficial to SCE or to our customers.

¹ D.22-06-032, Finding of Fact No. 14, p. 95.

² D.22-06-032, p. 27.

³ This amount is direct CWIP capital expenditures only, and does not reflect fully loaded amounts (*e.g.*, overheads), which would increase the amount to \$7,878,794.

APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate SCE's comments and the clarification on the labeling of tables that refer to "O&M Expenditures." We have replaced the references to "O&M Expenditures" with "Revenue Requirement" in the respective tables on pages 2, 5, 10, 16, & 17. The remainder of the report remains unchanged.