BEFORE THE CALIFORNIA STATE BOARD OF EQUALIZATION

651 BANNON STREET

SACRAMENTO, CALIFORNIA

STATE BOARD OF EQUALIZATION

DECEMBER 17TH, 2024

CALIFORNIA STATE BOARD OF EQUALIZATION

BOARD MEETING

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ITEM 2

SOUTHERN CALIFORNIA EDISON COMPANY

(0148)

SAU24-033

PROPERTY TAX APPEAL ORAL HEARING

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REPORTED BY: Jillian M. Sumner, CSR NO. 13619

APPEARANCES

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Honorable Ted Gaines
Vice Chair

Honorable Antonio Vazquez
Third District

Honorable Mike Schaefer
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ITEM 2

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MS. LIEBER: Hearing no comments, we will move on to our next item, which is Tax Program Matters, Property Tax Appeal Oral Hearing.

And Ms. Cichetti will make an announcement regarding this item.

MS. CICHETTI: All righty.

Good morning again.

The remote oral hearing -- I apologize. Yes.

The remote oral hearing procedure is as follows:

For the Petitioner and representatives, while waiting in the Microsoft Teams environment, please be ready to unmute and turn on your camera as requested.

After the administrative announcements, the Chair will introduce the oral hearing. Then, the Appeals Attorney, Ms. Wilkman, will introduce your case.

After the Appeals Attorney has completed the introduction, the parties will then be asked to introduce themselves and their affiliation with the taxpayer, the Petitioner, or the State-Assessed Properties Division, the Department, for the record.

Contribution Disclosure forms are required under Government Code Section 15626.

The Chief of Board Proceedings Division has received completed Contribution Disclosure forms for all parties, agents and participants for this Property Tax Appeal Oral Hearing.

All Board Members indicated that their records disclosed no disqualifying contributions from these taxpayers, their agents or participants.

The Chief of Board Proceedings provided the Board Members' offices with an ex parte memorandum listing all parties, agents and participants to ensure there were no ex parte violations.

No violations have been disclosed.

This is a Constitutional Function. This hearing is conducted under Section 40 of the Revenue and Tax Code.

To prepare for this oral hearing, Board Members have access to the records to review and consider the merits of this property tax appeal oral hearing, including, but not limited to, the petition, opening brief, reply brief, hearing exhibits and summary decision.

After the Board hears the oral arguments today from the representatives of the Petitioner and the Department, and considers the evidence, it may vote to adopt the staff recommendation, reject it, or make its determination to resolve the issue under consideration in the hearing.

The Petitioner and the Respondent, the Department, will each have 20 minutes to make their initial presentation. Then, the Petitioner will have 10 minutes for rebuttal, followed by questions from the Board Members.

This concludes the review of the administrative procedure for the oral hearing.

MS. LIEBER: Thank you, Ms. Cichetti.

And so we'll proceed now with Item 2, the Tax Program Matters, Property Tax Appeals Oral Hearing; petition for reassessment of the 2024 unitary value.

And this is concerning Southern California Edison Company.

And the Appeals Attorney, Ms. Wilkman, will introduce this matter.

MS. WILKMAN: Good morning, Chair Lieber and Honorable Members of the Board.

My name is Sarah Wilkman, the Appeals Attorney for the State Board of Equalization on this case.

In the case before you, the Petitioner is Southern California Edison Company, a public utility operating in southern, coastal, and central California.

The 2024 Board-adopted unitary value is $38,986,400,000.

Petitioner is requesting a revised 2024 unitary value of $32,915,600,000, while Respondent for SAPD is requesting the Board affirm the 2024 unitary value.

Based on the unitary values asserted in this petition, this appeal is subject to Revenue and Taxation Code Section 40.

After the Board decides this petition today, the Appeals Attorney will prepare a decision in early 2025 for the Board's consideration to memorialize the Board's action and to provide transparency to the public.

In addition to the general concerns and assertions detailed in the hearing summary, Petitioner has raised five primary legal issues with its 2024 Board-adopted unitary value, which was based on the 2024 lien date, January 1st, 2024.

As such, the parties will summarize and

emphasize the arguments that have been iterated in the briefings, including these five primary issues:

First, whether Petitioner has shown that Respondent has failed to reconcile the Historical Cost Less Depreciation, or HCLD, value indicator, and the Capitalized Earning Ability, or CEA, indicator of value.

Second, whether Petitioner has shown that Respondent erred in placing 75 percent reliance on the HCLD value indicator, and 25 percent reliance on the CEA indicator of value.

Third, whether the Petitioner has shown that Respondent must adjust the Board-adopted value for Petitioner's liabilities related to the 2017 and 2018 wildfires and mudslides.

Fourth, whether Petitioner has shown that Respondent improperly assessed the wildfire mitigation capital expenditures.

And, fifth, whether Petitioner has shown that the Respondent erred in its treatment of Wildfire Insurance Fund-related contributions.

Chair Lieber and Members, please note, Petitioner has the burden of proof to show that the 2024 Board-adopted assessment is incorrect or illegal, for specificity as to any or all of these issues.

Said another way, the 2024 Board-adopted value is lawful and correct, unless specifically disproven by the Petitioner.

As a preliminary matter to the parties' presentations, there is an evidentiary issue for the Board to resolve.

Petitioner has requested that the Board take official notice of the litigation complaints filed in Superior Court for tax years 2020, 2021, 2022 and 2023 as exhibits to the current appeal.

Staff rejected the complaints as unsolicited in the 2024 appeal, as mandated by the Board's regulations.

In response, Petitioner has requested that the Board address this request at oral hearing.

I note that it is undisputed that Petitioner's 2020 to 2023 tax years are currently the subject of litigation in State Court, as clearly reflected on the public record and in the Board's own website.

However, the complaints are reflective of Petitioner's unverified prior year complaints. And as such, they are outside the scope of the 2024 appeal before the Board.

Here, we are advising that the Petitioner's prior year complaints should remain excluded as exhibits to ensure that the record reflects the fact that the

2024 appeal stands on its own for consideration by this Board, based on the substance of the 2024 assessment and the related appeals process.

Accordingly, I am instead asking that the Board take notice of the existence of the lawsuits between itself and Petitioner regarding the 2020 through 2023 tax years.

I'd ask that the Board confirm agreement with this recommendation.

MS. LIEBER: Thank you, Ms. Wilkman.

Members, is there any objection to taking official notice of the 2020 to 2023 litigation between the Board and Petitioner?

And seeing none, so noticed.

Ms. Wilkman, you may proceed.

MS. WILKMAN: Thank you.

It's my understanding that the parties are present, whether in person or virtually, and are ready to present their cases before the Board.

This concludes the Appeals Attorney opening remarks.

And I turn it over to you, Chair Lieber, to proceed to hear the parties on this petition.

MS. LIEBER: Thank you, Ms. Wilkman.

Welcome to the Board of Equalization.

And, Petitioner, if you would please unmute your microphone there and introduce yourselves. And state your affiliation with the taxpayer for the record.

MR. DAKESSIAN: Good morning, Madam Chair and Members of the Board.

My name is Marty Dakessian. I'm with the law firm Dakessian Law.

I'm joined by my colleagues today, Andrew Bodeau and Joshua Lin, as well as our co-counsel, Mr. Charles Moll, with the law firm of McDermott Will & Emery.

We represent Southern California Edison Company and its millions of ratepayers, whom I believe reside in each of the four equalization districts.

With us from Edison are Ms. Andrea Wood, Vice President of Tax; Mr. Karl Matthews, Principal Manager; and Mr. David Lee, Tax Manager.

That, I think, concludes our appearances.

So thank you for having us here today.

MS. LIEBER: Thank you.

Southern California Edison Company, you may begin your presentation.

Mr. Dakessian, you and your colleagues have 20 minutes to present your case.

Additionally, after the conclusion of the

Department's presentation, you will be given time for a rebuttal, followed by any questions from the Board Members.

Please note that our clerk will provide you with a five-minute warning as you near the end of your presentation time.

You may present.

MR. DAKESSIAN: Thank you very much.

So before I begin our presentation, just one housekeeping note.

Thank you for accepting the taking official notice of the four lawsuits. I appreciate that.

We do have one objection we wanted to note regarding staff's proposed exhibits. Because we believe they violate your own rules.

So staff submitted about 2,609 pages of exhibits over our objections one week before this hearing. Your rules require the parties to provide any documents to the other side at least 14 days before the hearing. So I will note those objections.

The Appeals Division has not acted upon our objections, so we're raising them here today. We would just note them. We would just note that the rules require greater advanced notice. But it's up to your Board as to what to do with those documents.

So --

MS. LIEBER: Thank you.

MR. DAKESSIAN: So with that -- yes.

MS. LIEBER: We have Ms. Wilkman responding before you begin your presentation.

Please.

MS. WILKMAN: I'd just like to note for the Board's reference that Petitioner was counseled that if an exhibit is introduced by Respondent at the hearing, the objections would be appropriate at that time to list.

But I would note that 91 percent of the documents that Mr. Dakessian is referring to were discussed in the briefings by both parties and included in the hearing summary.

MS. LIEBER: Thank you.

Mr. Dakessian, you may begin your presentation.

MR. DAKESSIAN: Thank you. Thank you.

So we've had this discussion a few times before in years past. There really are no surprises here. The issues that we're presenting all relate to the ongoing wildfire crisis and its impact on the value of Edison's property.

So because of your familiarity with these issues, I'll jump right into it. I'm going to take them a little bit out of the order that Ms. Wilkman presented them. Not for any particular reason, but because I think the presentation works better this way.

So the first issue we would like to address is the Wildfire Insurance Fund initial contribution. We believe that staff should have allowed Edison to annualize its initial $2.4 billion contribution to the Wildfire Insurance Fund, just as the Board's own Assessors' Handbook directs.

Staff says that it shouldn't have to do so, because the contribution occurred before the lien date. But here, we're using a direct capitalization approach, which looks at one year's income, and determines the value based on that one year.

And so your Assessors' Handbook has directed that if you have a prepaid expense -- and the example that they use is the one we have here -- prepaid insurance to get the stabilized income to be capitalized, you annualize expenses.

In other words, if you have a prepaid expense, then you annualize it, so that you don't, in this particular valuation model, have value fluctuations from year to year, since it's only based on one year's worth of income. It's what your own handbook requires.

So -- and this is how it's reflected on an annualized basis on Edison's audited financial statements. So that should be allowed.

The staff's other objection is that we haven't established that these expenses are recurring.

Now, first of all, there isn't any requirement that the expenses be recurring in order to be deducted. But it really doesn't matter, because the initial contribution is part of Edison's insurance costs.

And I think that everyone here in this room would agree that insurance is a recurring and very important recurring expense for Edison.

So staff's view is that an identical, initial contribution under AB 1054 won't be made. But to us, that's of no moment. That's really irrelevant.

This is a form of insurance, public insurance. So whether that insurance is public insurance, private insurance, self-insurance, this is an insurance cost. It is a recurring expense and needs to be taken into account.

Setting all that aside, a willing buyer would certainly take this prepayment of insurance into account, because when comparing two companies, one that's made the payment a day before the lien date, and the other that has not made this payment at all, a willing buyer would certainly pay more for the company that has made the contribution, because that's a major expense that's already been made. And the buyer would benefit from greater future cash flows, not having to incur that expense going forward.

And that benefit of greater future cash flows represents an intangible asset that must be excluded from taxation, because intangibles are not taxable.

So whether it is a properly annualized insurance expense or its an intangible, it needs to be removed from Edison's valuation. That's the first issue.

The second issue is the wildfire claims liabilities. The wildfire claims liabilities relating to the 2017/2018 Thomas Fires must be removed from both the historical cost and income indicators.

Staff objects, again, that these are past expenses, and, therefore, contrary to Rule 8, which seeks to capture future income stream.

But that's not correct. Although the events giving rise to these expenses are in the past -- no one would debate that. The events took place in 2017 and 2018. The expenses we're requesting adjustments for are future expenses, and future expenses that Edison will pay after insurance recoveries.

So these are not past expenses. The events giving rise to the expenses are in the past, but the expenses that we're requesting adjustments for are future expenses. Point No. 1.

Point No. 2, staff says the expenses can't be deducted again, because they are nonrecurring. Again, nothing in the rules saying that the expenses need to be recurring. But I think staff is at odds with the broad scientific community that expects that wildfires will be recurring, and wildfire-related expenses, such as claims, will be recurring as well.

And I think it's fair to say that a reasonably prudent business person looking to purchase this property would have to factor in the cost of these continued claims.

So staff says that Edison's actions have mitigated the risk of future wildfires. They said that last year during the oral hearing. They said it again in their briefing. But that only tells part of the story.

It is, of course, true that Edison has taken appropriate measures to reduce wildfire risk. It is also true that these measures have improved the situation. But it's also true, according to the science, that the risk of wildfires still remains significant. These concepts are not inconsistent with one another.

But those are words. And as we say, actions speak louder than words. And if we look to the actions of the insurance industry, which would be on the hook to pay for wildfire-related damages, those actions speak to us loudly and clearly.

A large sector of the fire insurance industry, as we know, has left California, period. Period. They've left. A large component of it.

They've -- the problem has gotten so bad that the Department of Insurance is now using its regulatory authority to try to bring them back in.

That does not line up with staff's view of the wildfire crisis as something that has diminished significantly, and that we should not be concerned about.

As Board Member Gaines pointed out last year during the hearing, the FAIR Plan program is in trouble. Because everyone's flocking to FAIR Plan. Because insurance carriers don't want to underwrite this risk anymore. And it's to the point that FAIR Plan is in trouble if there is a catastrophic fire.

I think Board Member Gaines last year said that they have a billion-dollars-worth of ability to pay claims. And that a catastrophic fire concentrated in a particular region, like, say, Lake Arrowhead, would result in $7 billion in claims.

So does that line up with staff's assertion that wildfire claims are nonrecurring expenses, or that the risk is mitigated so significantly that a willing buyer would not take it into account when purchasing Edison's assets?

So as we sit here today, it's very easy for us to have this academic discussion. We still have the Franklin Fire in Malibu that just occurred. It's only 54 percent contained as of today.

We know a few weeks ago the Mountain Fire ravaged Camarillo and destroyed, I believe, over 100 homes.

And so we're less than a week away from winter, and yet these fires continue to rage. So anyone just paying attention to the news would see articles like the December 13, LA Times article that predicted the so-called "wildfire season," in quotes, is gonna continue into January potentially due to bone-dry conditions, high winds in southern California, which, of course, is Edison's service territory.

So I think staff is painting an overly rosy picture here. But one that doesn't comport with reality.

Did Edison do what it needed to do to mitigate risk to the extent that it was able to?

The answer is yes. But the risk is still significant, as you can tell.

So staff also argues that these liabilities are not part of the assets, but they're liabilities of the business. But that doesn't make sense. Because in this regulated environment, Edison is strictly liable for damages caused by its property.

In other words, Edison does not have to be at fault in any of this. The only thing required for Edison to be liable is for its equipment to have caused the fire. A vehicle can crash into an Edison power line, a branch can fall on an Edison power line, and a blaze can be ignited. Edison can be determined to have no fault at all, but is still on the hook.

And so it's not Edison -- it's not -- the claim accrues to the property, not to Edison's actions or judgment.

So if a prudent investor were to buy that asset, it would know that, despite its best efforts, it would still be liable for any damages caused by that asset. It's strict liability.

So, in any event, staff's position that these expenses are nonrecurring runs counter to the established science, business considerations, the regulatory practice of the CPUC, the regulatory practice of the Department of Insurance, the EY test and our common sense. Staff's position on this issue is completely untethered from fair market value.

Okay. So the third issue is the wildfire mitigation capital expenditures. So in a regulated utility context, historical cost is driven by the CPUC rate base, because that is what measures the earning power of the utility.

In other words, if there was a potential purchaser wanting to buy these assets, they would look at CPUC's rate base.

Can we all agree to that? Can we all agree that historical cost is there to measure the earning power of the utility?

I think we can, because the words I just uttered about a potential purchaser are not my words, they're the words of your own counsel at last year's hearing.

So staff agrees that the historical cost is there to determine the earning power of the utility in a regulated environment. So why is it that they insist on including capital expenditures in the historical cost indicator that are not in the rate base, and that Edison can't earn on?

Remember, rate base is the base of assets that CPUC allows Edison to earn a return on, right?

They compute the rate base. They compute an authorized rate of return based on the assets that comprise rate base.

And then they get to Edison's earnings. And, of course, this is what investors look to. Okay? So -- but by law, we're not allowed to earn on these expenditures. The AB 1054 capital expenditures, by law, we're not allowed to earn a return on them.

We're also not allowed to include depreciation expense on these assets and our cost of service for ratemaking purposes.

So despite what staff tells you, there's no return on, return of, recovery of, recovery on anything on any of this property.

But, just as important, because capital expenditures are non-income-producing assets in this case, they don't have any accessible value. Because no willing buyer would pay for assets that do not earn a return. And that's the key concept that we keep coming back to.

These are income-producing assets that -- and these assets, if they don't produce a return, then that's -- the valuation method ceases to lose relevance.

In the alternative -- in the alternative, the capital expenditures here created an intangible asset.

So if someone were to argue, "Well, gee, I know you can't earn a return on them, but there's some other benefit to being in compliance with AB 1054. Such as entry in the wildfire insurance fund, and favorable standards in future proceedings for recovery of losses."

I would say, "Okay. Fine." In that situation, those are intangible rights, and they're nonassessable any way, so they must be removed.

So whether you consider these to be intangibles, whether you consider them to be nonperforming capital expenditures, they must be removed.

Now, the final issue -- and I know Ms. Wilkman said there were five issues, but I'm going to combine the reconciliation and the weighting, because I think they go hand in hand.

So, as you know, staff is using a 75/25 historical cost to income approach weighting; 75 cost, 25 income.

We believe that Rule 8, your Board's own regulation, which has the force and effect of law, requires that the weighting here be predominantly, if not entirely, based on the income approach.

Here's what Rule 8 says. This is your rule:

The income approach is the preferred approach for the appraisal of improved real properties when reliable -- and personal properties when reliable sales data are not available.

Which is the case here. And the cost approaches are unreliable, because the reproducible property has suffered considerable physical depreciation, functional obsolescence, or economic obsolescence.

That's what we have here under performing assets. It says substantial over or underimprovement is misplaced or is subject to legal restrictions on income that are unrelated to cost.

Again, legal restrictions on income unrelated to cost. We can't recover on AB 1054 capital expenditures, right? We have liability for claims that are potentially nonrecoverable. These are legal restrictions on income in a regulated environment that impact the ability of the property to generate income.

So staff's position last year, right, as expressed by its counsel during last year's hearing is that -- they were questioned, "Well, why are you using the 75/25 weighting?"

And what staff said is that because Petitioner is rate-regulated, we believe that HCLD is clearly, clearly the most reliable approach.

And that's because in rate regulation, the regulator, the CPUC, begins with the value of the assets. And they take those value of the assets, and then they determine how much income those assets earn.

Okay. So far so good. We don't disagree.

Staff continues.

I don't think this is staff's word. I don't think we would argue with the sort of the general premise that potential purchasers would look to the income.

But if there was a potential purchaser wanting to purchase these assets, they would look at CPUC's rate base and the income that that could produce, over looking at our CEA income indicator. All right.

So what staff is communicating here is that the historical cost approach is not inherently indicative of fair market value. It's only relevant here, to the extent that the assets included in historical cost generate income, right?

So the market doesn't care about net book value, right? If you go to buy -- if you go to buy a property of this nature, you're not gonna go up to the seller and say, "Oh, please show me what the net book value is," right?

Unless that is what the regulator's using as a base to determine the earning power of the property, right?

And if the regulator is excluding certain assets from the ability to generate income, then those assets need to be removed from rate base.

And of course the other sort of, you know, corollary principle here is that if you have underperforming assets, right --

MS. CICHETTI: Five minutes remaining.

MR. DAKESSIAN: -- not generating income.

Thank you.

Not generating income, then that's called external obsolescence, right? The obsolescence must be cured by removing the non-income-producing asset from the cost indicator.

And if there's too much in the way of obsolescence, right? In other words, too many assets included in the historical cost indicator that don't generate income, then historical cost is not a reliable indicator of fair market value. Again, because no prudent investor would pay for assets that don't generate income.

And so we're not saying that historical cost is inherently unreliable, or that it shouldn't be considered. We're saying that -- look at the full picture. Don't just say, "Oh, well, you know, historical cost. This is regulated utility. End of discussion."

No. Look to see whether this is actually in line with the income indicator. Because you have the historical cost and income indicators that are both designed to do one thing, which is to measure the earning power of the assets.

Why is one $8 billion more than the other?

That appears, to me, on its face, that we have $8 billion in asset that don't generate income. That's what this appears to be.

And your own handbook confirms that. Your own handbook says that even where Rule 3(d) provides that the appraiser shall consider historical cost as an appropriate indicator of value for rate-based regulated companies, the appraiser should also consider other indicators.

For instance, an income indicator, which is much lower than historical cost, may indicate that obsolescence exists in the property. To such an extent that the owner may not earn the rate of return allowed by the regulatory agency.

Bingo. That's what's going on here.

We presented that to staff. Staff says, "Oh, well, it says 'may.' It says 'may' indicate that obsolescence exists."

But there's no other explanation listed there, nor has staff offered one in the five years plus of this dispute. So it is obsolescence.

And because it's obsolescence, the historical cost approach -- obsolescence in the billions, and the historical cost approach is 24 percent higher than the income approach, it's unreliable.

The income approach is what a willing buyer would consider in an open-market transaction. Because cash flows are what matter to investors.

We've offered staff several solutions to correct this. They can make the adjustments we requested. They can make an obsolescence adjustment. They can use the income approach. Or at the very least, at least change the weighting to arrive at a reasonable valuation.

They refuse to implement any of these solutions, and the result is an inflated value that does not reflect what a willing buyer would pay for this property in an open-market transaction.

In an open-market transaction, right? That's the key. That is the standard here.

So with that, I'll conclude our opening presentation, and save the balance of our time for rebuttal.

And thank you for your attention.

MS. LIEBER: Thank you, Mr. Dakessian.

We will now go to the Department for their presentation. They will also have 20 minutes for their presentation.

If you would please introduce yourself for the record.

MR. LUJAN: Yes.

Good morning, Chair Lieber and Honorable Members of the Board.

Thank you. My name is David Lujan.

With me also is Sonya Yim, and we are both with the Legal Department.

Also representing SAPD, we have Jack McCool with us as well.

Before we address the specific issues raised in this year's petition, I would first like to address some background.

First, because this is the fifth year the

Petitioner has presented the same issues with essentially no new argument or information to support its reduction requests, we recommend that the Board denies this year's petition as it has the previous four years.

Second, for the current tax year at issue, Petitioner added approximately $2.7 billion in new property, yet it is asking for a $3.2 billion reduction from last year's Board-adopted value.

Finally, as in previous years, Petitioner again cites the continuous and increasing risk of catastrophic wildfires, following the large wildfire events from 2017 and 2018 as the foundational basis for its value-reduction request.

Staff has looked at this issue each year. And while climate change and an increase in general wildfire risks continue to be real concerns, the specific risks faced by Petitioner that the operation of their equipment causes a catastrophic wildfire have meaningfully decreased since 2017/2018.

This has been confirmed by the credit markets and the PUC. But perhaps most importantly, Petitioner itself has recognized this decline in wildfire risk, announcing in a March 2023 press release, that through the execution of its wildfire mitigation plan, it has reduced the probability of catastrophic wildfires associated with its equipment by about 75 to 80 percent.

Again, we want to be clear that we are not saying that climate change is not real, or that wildfire risks do not remain, or that things couldn't take a turn for the worse in the future.

What we are pointing out is that Petitioner's foundational basis for requesting significant reductions over the past five years has not been borne out.

In fact, the specific risks facing Petitioner have gotten better, not worse. By Petitioner's own calculations in public statements, the probability of catastrophic wildfires associated with its equipment is reduced by 75 to 80 percent.

Finally, we would note that we made the same wildfire-related adjustments as in previous years. The largest of which was to add an equity risk premium to their cap rate, which resulted in about a $2 billion reduction to their overall value.

Overall, all wildfire adjustments taken together, combined to reduce Petitioner's unitary value by approximately $2.6 billion.

Concerning the weighting and reconciliation, in doing its assessment, SAPD took all relevant information into account, and appropriately computed and reconciled both an HCLD and an income or CEA indicator of value, considering the data available and the relative appropriateness of the approaches.

Here, pursuant to property tax rules, HCLD is the most reliable value method, because the HCLD indicator begins with the actual assets on which PUC allows Petitioner to earn a return. It reflects the amount actually invested to put the property into service, thus, staff weighed it more heavily.

Petitioner criticizes the weighting of the HCLD and the CEA because of the difference between the two values. They simply conclude, however, that this difference is economic obsolescence due to wildfire risk, and that the CEA must be given more weight, because it's a lower number.

But there is nothing that makes it necessarily true that any difference between HCLD and CEA is always obsolescence.

In fact, it might be that HCLD is too high. But, of course, it's entirely possible that the CEA is too low.

While obsolescence is one potential reason for the difference between the indicators, other possible factors, including regulatory lag and spending related to business decisions in the management of assets that may not be recoverable in the context of the PUC's prudence standard.

Additionally, to the extent that a difference between CEA and HCLD might be due to obsolescence, as previously explained, an adjustment has already been made for obsolescence by allowing an increase to Petitioner's rate of return.

Thus, staff believes that all appropriate obsolescence adjustments for wildfire risk have been made.

Concerning the wildfire liability, Petitioner requested approximately $689,000,000 reduction to its Board-adopted value for its lawsuit liabilities accrued on its books.

This liability, however, is not deductible, because it is not an ordinary expense, one that is expected to be paid to maintain or operate the property.

Rather, this liability accrual stems from lawsuit settlements from 2017 to 2018 wildfires and mudslides, some of which may have been started by Petitioner's equipment, and damaged properties owned by others.

This is important, because it means that these liabilities may affect the price someone would pay for the entire company, i.e., the entire business, sometimes referred to as going concern. But it does not affect the value of the taxable property, and what is being appraised is the taxable property.

It is also important to point out that Petitioner has applied to the PUC for recovery of these liabilities. If the PUC approves, they will recover in rates and a property tax deduction is not appropriate.

If the PUC does not approve because the SoCal -- Petitioner did not meet PUC's prudence standard, it would be inappropriate to make a reduction of property tax value for property operated imprudently.

This is supported by the Assessors' Handbook, the property tax rules, judicial decisions, and generally-accepted appraisal practice.

Petitioner states that they could not sell their property without the liabilities attached; however, even if true, it does not change the value of the asset.

The liability may change the amount the purchaser pays for the business, but it does not change the value of the asset. A simple example will illustrate why this is.

If we own a hotel that's worth a million dollars, and someone slips and falls and sues for 100,000, the building will still be worth a million dollars. But the amount of money that I, as the seller, will receive from the sale will be reduced by 100,000, because of the lawsuit. But that does not reduce the price the prospective purchaser would pay for the building, because it does not affect the ability to operate the building.

That is essentially the situation here. Petitioner used its property, caused damage to other property owners, and must now pay damages.

This liability may reduce the price a prospective purchaser might be willing to pay for the entire business, but it does not affect the price a prospective purchaser would pay for the taxable property. Because it does not affect the property's ability to generate income.

Essentially, Petitioner is asking the Board to reduce its taxable value of its property for damage done to someone else's property.

Petitioner's own documents admit that any expense related to this liability affects the price of the entire business, but not the taxable assets.

In the EY report on which it relies -- in the EY report, it states, it is reasonable to assume that a prospective buyer would consider this expense as part of the going concern of the business operations.

It does not matter when they pay out the liability, whether yesterday, today, or in the future, payment of this lawsuit liability does not affect the CEA model, because it's not an ordinary expense. It is not expected to be necessary to maintain or operate the property.

Concerning the wildfire mitigation capital expenditures, in accordance with AB 1054, Petitioner spent about $1.6 billion on wildfire mitigation capital expenditure, for which they were allowed to earn no equity return.

The statutes are clear, they prohibit Petitioner from earning a return on that investment, which is reflected in the equity portion of their rate base.

But Petitioner is not prohibited from earning a return of its investment, which is reflected in its recovery of amount spent. And staff made an adjustment to that. Staff removed the equity portion of their rate base that AB 1054 does not allow.

Concerning the wildfire fund initial contribution, Petitioner's initial contribution of $2.4 billion to the wildfire fund, as required by AB 1054, is not considered an operating expense under basic appraisal theory, because it is not an expected recurring cash expense. Instead, it is an amortized, past accounting expense that need not be paid again.

Petitioner, itself, identifies the initial $2.4 billion contribution as a noncore item in its annual report.

Noncore items includes income or loss from discontinued operations, and income or loss from significant discrete items that management does not consider representative of ongoing earnings, such as income and expense related to changes in law. This is a perfect description of this payment.

In essence, Petitioner acknowledges in its annual report that this amount will not be paid again, but is asking the Board to treat it like it is.

Although Petitioner clearly admits this is a noncash extraordinary amortized accounting expense, Petitioner points to language in Assessors' Handbook 502 regarding prepaid insurance as supposedly supporting its position that accounting expense can be deducted; however, the Assessors' Handbook refers to anticipated and recurring prepaid amounts that represent future cash flows.

They say that certain expenditures are annualized when using the direct capitalization model. The specific example given is of insurance prepaid for three years, because there is an assumption that after three years, another three years of insurance would need to be paid.

It allows annualization of a three-year prepaid insurance amount, because of the assumption that after three years, there will be another cash outlay.

In contrast, it is undisputed that this single, one-time AB 1054 initial contribution does not reoccur. Therefore, unlike the Assessors' Handbook example where you get a distortion of capitalizable income if you do not annualize the prepaid insurance; here, you get a distortion of income if you do annualize the initial contribution.

Because it will never be paid again, it is improper to allow it as an expense, and then project that onto the -- into perpetuity as is done in the direct capitalization model.

Alternatively, Petitioner argues that its $2.4 billion initial contribution to the wildfire fund creates some type of intangible asset that must be deducted from its valuation; however, Petitioner does not provide evidence or legal or appraisal authority to explain why those expenditures create some kind of intangible asset.

But perhaps more importantly, even assuming

Petitioner is correct that these expenditures create some kind of intangible asset, in order for that intangible asset to be deductible, it would have to be taxed in the first place.

SAPD did not include any such intangibles in its valuation. They were not added to the HCLD, and there is no separate contribution of income that should be deducted from the income approach.

In conclusion, SAPD recommended -- has recommended all appropriate adjustments for Petitioner's general and specific reductions related to wildfire, consistent with relevant authorities and Petitioner's own public statements.

Further, SAPD's valuation is supported by reality over the past five years. In 2020, Petitioner requested general reductions because catastrophic wildfire risks were an existential threat to their business. AB 1054 and their own actions have mitigated much of that risk.

They also requested specific adjustments for their initial contribution to the wildfire fund and their 2017/2018 lawsuit liabilities, on the premise that such contributions and lawsuit liabilities would be recurring; however, no additional initial contribution has been required for the wildfire fund. And they have been able to obtain wildfire insurance, for which additional costs were allowed as expenses.

And the estimated life of the wildfire fund has extended from 10, to 15, and now 20 years.

As far as the lawsuit liabilities, Petitioner states in its own 10-K that any losses incurred in connection with the post 2018 wildfires will be covered by insurance recoveries through electric rates or third-party receivables, and expect that any such losses after insurance recoveries would not be material.

Notably, Petitioner states that this is the case even if they incur material losses in excess of the amounts accrued for each of the post 2018 wildfires.

And, again, we would like to emphasize that we are not saying that risk, even material risk from wildfires does not remain, or that things couldn't change overnight.

What we are saying is that the specific risks facing Petitioner's property have been meaningfully mitigated based on this trend, as recognized by the PUC, the credit markets, and Petitioner itself, we have made all appropriate adjustments.

For these reasons, we recommend denying the petition on all issues.

Thank you.

MS. LIEBER: Thank you.

Mr. Dakessian, you now have 10 minutes to make your rebuttal.

MR. DAKESSIAN: Thank you. Thank you.

And if it's okay, Madam Chair, I may have some of my colleagues step in on particular issues.

But -- if that's okay with you.

MS. LIEBER: If you would just ask them to introduce themselves.

MR. DAKESSIAN: Certainly. Certainly.

So, you know, there's a lot to -- a lot to go through here. But I think staff knows better.

First of all, this business of we added 2.7 billion in new assets, and we're requesting a $3.6 billion reduction off of last year's Board-adopted value, of course our position is that last year's Board-adopted value was grossly inflated.

So, you know, I'm not sure what Mr. Lujan is trying to prove with that statement. But I think he knows better than that.

Second, in terms of the credit markets, you know, we've heard this last year. We heard it again this year. Let's be clear about one thing, before the 2017/2018 Thomas and Woolsey Fires, Edison had an A minus credit rating from Fitch. After the Thomas and

Woolsey Fires, its rating was dropped down to B, B, B minus. That's a three-step drop.

What Mr. Lujan is referring to is that they got upgraded, because of the mitigation measures that they've taken from B, B, B minus to B, B, B.

They're not where they were before the 2017/2018 wildfire expenses. But of course he doesn't say that. He just gives you part of the picture.

In terms of the equity risk premium, the equity risk premium doesn't address the specific items of adjustments that we're seeking. That's an adjustment to the cap rate.

It's not an adjustment to the capital expenditures. It's not an adjustment to the insurance initial contribution. It's not an adjustment reflecting the claims. And it doesn't do anything to address the significant obsolescence that the property is suffering from. And that is reflected in an $8 billion difference between the cost of income indicators.

And, again, he had his entire time to present an explanation for the $8 billion difference. I didn't hear one, and we haven't heard one for five years.

All he says is he basically disagrees with the Board's own handbook that the only plausible explanation listed in the Board's handbook is that the difference in value indicators is a sign of obsolescence.

He says it could be regulatory lag. It could be this, it could be that. It's their appraisal, and they haven't done anything to explain it. So that's that.

In terms of recovery of liabilities, I would like Ms. Andrea Wood, Vice President of Tax for Southern California Edison Company, to address that.

MS. LIEBER: Certainly.

MS. WOOD: Thank you, Mr. Dakessian. I appreciate that.

Yeah. I would like to respond to a couple of things. And then I would like to talk about the point that the State has made about decreasing risk. Because I think that's important.

But just real quick on the recovery of the claims, I know that was mentioned. And we have -- we have proceedings where they are trying to pursue that.

But I also want people to think about, you know, you denied the accrual of the claims, you denied the payment of the claims, which is cash. But, yet, you're willing to pick up the recovery of the claims if we're successful. So we need to think about, like, economically, what's right there.

And then the analogy around a buyer of a building, you know, wouldn't take into account that somebody had tripped and fallen there, and the liability associated with that. And I would disagree with that.

Because if you're going to buy a building, a shopping center, a restaurant, people trip and fall in those establishments all the time. So if you were going to buy it, you would have to take into account the fact that a trip and fall may occur in the future.

Same as if wildfires were to occur in the future. That's a risk that you would assess.

And then core versus noncore. I would just say that, you know, noncore is not a Gap Concept. It's not a generally-accepted county principle concept. It's determined by the company.

And, really, the distinction there for us is that core activities are what you use to forecast. So they're predictable.

Noncore activities are not predictable. They're unusual things that happen, but that can still affect the value of the company.

For example, this wildfire risk and inverse condemnation. The risk goes on and on. For example, in the claims, you know, we've accrued 9.4 billion claims over six years. That's not nonrecurring.

And if you want to think about cash, we've made payments of 7.4 billion over five years, with likely more to come in the future. So, again, not nonrecurring.

And then I will speak to the risk issue just real quick. In 2024, this is this year, there's been almost 8,000 wildfires that have burned over a million acres.

MS. CICHETTI: Five minutes remaining.

MS. WOOD: And roughly half of that is in our territory. Okay. So, you know, that shows you that while we've done mitigation efforts, and they've been well planned and well executed, the risk of wildfires are still occurring. And they are not necessarily going down. The 2024 fire season was much more damaging than 2022 and 2023.

So that's -- those are real facts that are occurring, regardless of what, you know, statements have said, you know, construing them to me that the risk is going away. It's not.

And I think the insurance markets would particularly support that. It's been increasingly more expensive for us to obtain wildfire insurance. In fact, in a recent decision by the CPUC, they conceded that the future cost of retaining the billion dollar of insurance that we need to participate in the AB 1054 wildfire fund could cost up to 50 percent.

So that's a million-dollar home, 500,000 of insurance each year to cover. And that's just -- it's not allowed. And so the CPUC has conceded that.

They've recognized there's all kinds of reasons why the cost of risks are going up, and the costs are going up. And it's evidence by the market not being able to obtain insurance at reasonable prices.

So I'll stop there, Marty, and give you the last few minutes.

MR. DAKESSIAN: Sure. Appreciate that.

So let me see if we've got any other points to make here. I think you've heard it all for the most part.

You know, the insurance initial contribution, he says that's not a recurring expense. But what I would tell the Board, again, don't focus on the fact that this is an insurance initial contribution, focus on the fact that it's an insurance payment, right?

So I don't think that we should be reading the, you know -- reading the situation that narrowly. It's an insurance. It's a prepaid insurance. It's an initial contribution. Whether you have to make that payment again, or another form of insurance payment in the future, that's what you should be focussed on.

And to Ms. Woods' point to the insurance market, I mean, no real response to that, right?

So the insurance -- these are the most sophisticated, you know, companies, in terms of actuarial studies and in terms of gaging risk. And for good reason, because they're going to be the ones liable to pay that risk.

So staff can sit there and say, you know what, Fitch upgraded Edison from B, B, B minus, to B, B, B, and, therefore, everything's okay. It's not okay.

And so just look to the people who are the most financially self-interested. Which would be, you know, the insurance companies, right? Look at that market.

There isn't a meaningful response coming from staff on that, because that completely belies their entire position that this is somehow a risk that is now manageable, or going away, or reduced to the extent that a willing buyer wouldn't consider it.

And I guess, just in conclusion, I would bring us back to the willing buyer concept. Put yourselves in the shoes of someone that's going to come and buy these assets, right?

Are you going to be concerned about wildfire risk? Are you going to be concerned about regulatory non-recovery on expenditures you have to make?

Of course the answer is yes, right?

This isn't a hotel where someone slips and falls because somebody didn't properly dry the floor after cleaning it. This is strict liability, right?

These assets -- these assets cause the liability, right? It's not whether Edison did anything to cause it, it's any -- any causal link between the property and the ignition of a fire, and the owner of the property is liable for it.

It's sort of like -- sort of like owning a dog, owning a dog that is ill-tempered or vicious, right? Versus a dog that's well-behaved. In both cases, the law says the owner is strictly liable for the damage caused by that asset.

That's the concept of strict liability. Obviously different factual situations. But if we're trying to get into the world of torts, as staff is trying to do, then that would be a more appropriate analogy, right?

Where something -- something is inherent to the condition of the property that causes this sort of damage, right? That's a more appropriate way of looking at this.

And if you know that no matter how well you maintain this property, no matter what litigation efforts you've taken, that you're going to be on the hook for this, of course a willing buyer would take that into account. How could staff say otherwise?

Anybody in this room that were buying these assets would consider this backdrop in whether to buy the property. And that gets back to the full cash value concept, right, and fair market value.

MS. CICHETTI: Time's expired.

MS. LIEBER: Thank you, Mr. Dakessian.

Members, do you have any questions for the Petitioner, the Department, or the Appeals Attorney?

Mr. Vazquez.

MR. VAZQUEZ: My question is with the Department first.

You know, the Petitioner has long argued that the burden of proof is really on the Board to prove or reconcile the material differences between the value and indicators. They say it is not up to them, and that the burden of proof standard falls back on the Department.

Are there any cases, anything in the books where the burden of proof fell on the Department to support the conclusion?

MR. LUJAN: No, we are not aware of that.

MR. VAZQUEZ: Okay.

And I think you mentioned in your opening remarks that nothing has changed in terms of the evidence. I mean, this has been going on, like you mentioned, five years now.

MR. LUJAN: Yes.

MR. VAZQUEZ: It's the same situation?

MR. LUJAN: Yeah. These are essentially the same arguments over five years. Yeah.

MR. VAZQUEZ: Thank you.

MS. LIEBER: Okay. Mr. --

MR. DAKESSIAN: May I respond to that last point?

MS. LIEBER: No. Excuse me. The question was for the Department. I'm sorry.

Mr. Gaines.

MR. GAINES: I'd -- I'd like to just ask a question of Mr. Dakessian.

In terms of the valuation aspect, because, you know, if you take a look at an entity with a declining Fitch rating financially, right?

So it was an A minus-rated company. It's now a triple B. Doesn't that indicate a decline in value?

MR. DAKESSIAN: Well, to us, it does.

Now, you know, staff will, you know -- I think we need to distinguish the value of the enterprise from the value of the property.

But since staff's the one raising the credit ratings -- and I think it's a fair rebuttal, Mr. Gaines, that -- that what you're saying is in fact true.

If they're using the credit rating increase to try to demonstrate some sort of increase in value, or that a reduction is inappropriate, then I think it's fair game to point out the contrary.

You know, and I would say also, just if I may, just to respond. We're not saying that the burden of proof, by the way, is on the Board. We're not saying that.

We're saying that we have evidence to show that the disparity in value indicators is due to economic obsolescence, and that evidence is your own handbook. And staff doesn't have any countervailing evidence.

So I don't want anybody in this room to confuse -- or to say that we're just putting it back on the Board. That's -- that's not what we're doing.

MR. GAINES: All right. Thank you.

I'd like to ask staff this question on the rating.

Because you're indicating -- you're really indicating that things are improved, that the risk is reduced. And I just don't see that in terms of the -- really -- it's really an insurance exposure in California. And our market, the insurance market is still in disarray.

I think -- I think there are elements that are going to be put in place that will mitigate some of the risk. But the risk continues. It's just a matter of figuring out how do we fund it to make sure that there is enough premium and basically capital available for future claims.

But, yeah, I'd like to just hear your response in terms of the rating and how that -- because in my view, that affects -- I mean, from a market standpoint, that affects value, in my view. It's like, why would I invest in a triple B-rated company, when I can invest in an A-rated company?

MR. LUJAN: Well, I think Mr. Dakessian is correct when he said that that has to do more with the going concern value of the entire business. Whereas our task is to look at the property value, and not the entire business.

MR. GAINES: Okay. But it has to do with the expense as it relates to an insurance payment.

MR. LUJAN: Yeah. So to the extent that we brought up the credit ratings, we just think that's an indication of external indications of where the risk is going when Fitch made upgrade.

You know, they pointed to cumulative structures being destroyed by Petitioner declined more than 90 percent over those years.

They point to Petitioner-linked wildfires being significantly smaller, and exposures in terms of third-party liabilities much more manageable.

And then they also noted Petitioner's ongoing efforts to enhance wildfire resilience, along with local efforts, credit-supportive elements of AB 1054. They all contribute to the rating increase.

And, again, that rating increase is a reflection of the general risks facing the business. So we're not saying that the credit rating is the reason for the property valuation, but we think it's an indicator. Again, a third-party independent group taking a look at risk and seeing which direction it's going.

MR. GAINES: Okay. But isn't the argument over nonproducing assets, and whether they should be charged a tax or not?

MR. LUJAN: Yeah. So I would say a couple things to that.

One, I think you've commented earlier about there being still some risk. And we acknowledge that there's still risk. That's why we made the obsolescence adjustment, .85 percent to the risk premium. That was a risk premium adjustment that was actually requested by Petitioner coming out of the 2017/2018 wildfires. And it's something that staff is looking at each year.

But, you know, with things getting better, it would be interesting to take a look to see what was going on with the -- with the risk premium.

MR. GAINES: Okay. Great.

I'd like a comment, if I could, from Mr. Dakessian, in terms of the factor that's been applied for a reduction in value, the .85.

MR. DAKESSIAN: Yeah. Thanks, Board Member Gaines.

That doesn't go to the specific adjustments we've been requesting. That goes to the cap rate. And that concerns adjustments -- that's an adjustment with respect to future -- future wildfire risk, but it doesn't go to the specific adjustments.

And I have to say, you know, Mr. Lujan mentioned the Fitch credit rating in his opening, he mentioned it in the middle of his presentation, and he closed with it. So for him to now sit before us and say, "Well, gee, it doesn't really matter. And, you know, we're just citing it for overall risk." When I point out that we're not back at the A-minus level pre 2017/2018, that's really not fair.

But I would say that there is a -- there is a fine line here, right?

We're not looking at individual assets. We're looking at the assets themselves as a growing concern, right?

You need to take out the enterprise, the things that accrued to the business versus the things that accrued to the property.

But you're looking at -- this is a unitary valuation. You're looking at the network of property as a whole, versus assets here and there.

So I don't know if that sheds any further light on any of this, but -- but I do think that if staff is going to say that, "Oh, you know, the Fitch credit rating shows there's been an improvement," and then we point out that it's not -- it's not close to A minus, which is what it was before, you know, the Thomas and Woolsey fires, then, you know, I think that's a fair point for us to make.

MR. GAINES: Okay. Great. Thank you.

MS. LIEBER: Thank you.

Controller Cohen.

MS. COHEN: Thank you.

Good morning, everyone.

My first questions are for the staff, BOE staff.

Could you please come back. Sorry.

I was wondering if you could ask the parties to explain whether the money spent on the wildfire mitigation capital expenditures has any value that should be reflected in property tax valuation calculations.

MR. LUJAN: Well, fundamentally, when we look at the -- you're talking about the wildfire mitigation capital expenditure?

MS. COHEN: Yes.

MR. LUJAN: You've bought property --

MS. COHEN: Right.

MR. LUJAN: -- and that property's been installed on the system. And we have a mandate to -- to tax property.

I think there's some arguments about whether they can earn a return on it or not. And we've made an appropriate adjustment for that. We've removed the return on portion. They did get a return of their investment through a securitization procedure. And we calculated that, and that's what we find in HCLD.

MS. COHEN: So it should be reflected?
MR. LUJAN: It is reflected --
MS. COHEN: Is is reflected.
MR. LUJAN: -- in the HCLD. Yes.
MS. COHEN: All right.
Are there any other utility companies that have made this petition or are making these claims?
MR. LUJAN: Well, I -- well, this -- no, I couldn't really comment on that. I can't comment on what other petitions are happening with other companies.
MS. COHEN: Mm-hm. I'm just wondering if there's some sort of a trend that we're seeing.
MR. LUJAN: Not to my knowledge.
MS. COHEN: Thank you.
Okay. Appreciate that.
Mr. Dakessian, thank you for your presentation today, you and your team.
In regards to your argument outlining wildfire risks, do you contest that the CPUC's final conclusion finding that the passage of AB 1054 and other investor-supportive policies in California have mitigated wildfire exposure faced by California utilities?
MR. DAKESSIAN: I think that the answer is the risk could be mitigated somewhat, but it's still

significant.

And, Controller Cohen, nice to see you again.

I would just say that, look to what the insurance markets are doing. Look to what people are doing that are going to underwrite this risk. How much weight do they give a CPUC determination or a finding?

So the insurance market is in such disarray in California right now that the regulators -- the insurance regulators needed to step in to try and bring the fire insurance carriers back into the state of California.

To me, that's much more relevant in terms of Edison's ongoing wildfire risk than a determination that the risk has been mitigated due to capital expenditures and grid hardening, and things of that nature.

And what I would say on that point is, I think when staff says that, you know, these assets are in the system, I think that we're conflating two different types of valuation approaches.

Remember, historical cost, in some ways, in my view, is a misnomer, right? Because it's only looking at cost to the extent that those assets generate income, right? It's a way of measuring the earning power of the utility.

And if an asset's not earning income and generating income, then it needs to be excluded, right? That's really the key.

It's not like another type of replacement cost or reproduction cost where you're looking at it just sort of to see what it costs to reproduce that property or to replace the property.

You're looking at net book value only to determine that the earning power of the utility in a regulated environment, if it's not earning, which is undisputable that it's not in this case, then it needs to be removed.

And there's no return of, or recovery of, which in regulatory parlance means you have it on your books, and you can depreciate it for ratemaking purposes. That's -- we don't have that situation here. So it needs to be taken out entirely.

So you asked me a discrete question. I went a little broader. So thank you for indulging.

MS. COHEN: No problem.

I do have a followup question.

How many utility companies are in the state of California, do you know?

MR. DAKESSIAN: I don't know offhand.

MS. COHEN: I don't either. But I would imagine there's more than one. I'm curious why we always -- why we always hear from Edison, and where are the others?

And now you have license to be speculative --

MR. DAKESSIAN: Yeah.

MS. COHEN: -- and share with me some of your thoughts, and what you're seeing in -- from your vantage point.

MR. DAKESSIAN: Allowing me to speculate is dangerous, Controller Cohen.

I don't want to speculate. All I know is that this is an issue that affects Edison's ratepayers. I'm not sure of what the impact these discreet issues are on the property tax value of, for instance, you know, PG&E or Sempra. I can't speak to that.

But what I do know is this is an important issue that impacts Edison and its ratepayers. And that's why we're here for five years in a row.

MS. COHEN: Yeah. Yeah.

MR. DAKESSIAN: Because it matters not just to the company, but to the ratepayers.

MS. COHEN: One more -- one last question. And then I'll let you go.

Hasn't the utility itself recognized a significant reduction to its risk as stated -- as stated in the press release?

MR. DAKESSIAN: Yes.

I mean, I think, you know -- I think we addressed that with Ms. Woods' comments.

But, Ms. Woods, if you would like to come back online to -- with Controller Cohen's permission.

Is that okay?

MS. COHEN: Yes. Yeah, that's --

Madam Chair?

MS. LIEBER: Certainly.

MS. WOODS: Hi, Ms. Cohen. How are you?

MS. COHEN: Hi. Thank you.

Would you like me --

MS. WOODS: Yeah. I --

MS. COHEN: Would you like me to repeat the question?

MS. WOODS: No, I think I get the gist of it.

I mean, I realize that there are statements -- public statements that talk about our mitigation plans, and how we've executed all those plans. I do think that does reduce the risk.

I mean, that involves things like covered conductors, replacing wooden poles with concrete poles, or wooden poles with fire retardant. More extreme vegetation management, you know, those are some things that we can do to keep our -- our equipment from causing fires.

But the fact is, is that the climate here in California, and, you know, weather-induced risks, it could create fires that everything that we've done could have mitigated some things, but things still happen, and fires still exist.

Like the statistics I went over, the 2024 fires alone, they outmatch 2023 and 2022. So the fires aren't going away. They're still here.

AB 1054, the insurance fund, does help. But you do have to have, you know, in the back of your mind, there could be a catastrophic wildfire, like there have been in the past, that could deplete the funds.

So we don't think the risk -- well, first of all, in the earlier years, we don't think the risk was quantified properly at all.

And then going forward, it might have decreased from maybe those first years, but it's not gone away. And the 85 basis points is not sufficient to cover the risk.

And you're kind of going back to the core versus noncore. You know, core things are things we can depend on, that we can forecast, that we know are going to happen. And that helps us understand, you know, the cash flows of our business.

Noncore things are things that are hard to predict. They still impact your business, and they still impact cash flow, but they are hard to predict.

And a willing buyer or willing seller, you know, could put together a model that models out the core activities, but it can't necessarily identify what might occur in the future that's noncore.

And so what they do is they risk adjust it. So they say, okay, well, here's your cash flow for the core activities, and then, by the way, I know all these things are happening in California, inverse condemnation, climate change, past catastrophic wildfires.

And there would have to be a risk adjustment on that potential earnings and potential cash in order to determine what a willing buyer might pay.

MS. COHEN: Thank you.

Just to answer my own question about how many utility companies are in the state of California, there are more than 40 publicly-owned. And I can't get my hands on the number of how many privately, investor-owned utility companies there are. But we can say there are many.

I'm just trying to understand why we only hear from one on a continual basis for the last five years.

Thank you.

MS. LIEBER: Okay.

Mr. Schaefer, any questions?

Please.

MR. SCHAEFER: To staff, we have -- was told there was 2,000 exhibits you have here today, and we're going to be using our desktop here to review some, is that still so?

MR. LUJAN: I don't think we need to look at those in this case.

MR. SCHAEFER: But it's our -- it's your exhibits, right?

MR. LUJAN: Yes. Well, actually, just to be clear -- just to be clear, we were asked what items might be introduced as exhibits. And so that's the list that we gave. And I think they were prepared sort of for administrative convenience so that you could see them in case they were pointed to.

MR. SCHAEFER: Well, I figured it out, if I spent 30 seconds looking at each exhibit, I would be here eight days. But, you know --

MR. LUJAN: Well, I promise to take that into consideration the next time we submit exhibits.

MR. SCHAEFER: We have a California law that limits memorandums in opposition to 10 pages, unless you get leave of court.

We're not responding here. We're the moving party a lot of the times. But I would think fewer is better. And if I had the rulemaking power, I would limit our exhibits to 200 instead of 2,000. I think we'd save a lot of trees that way.

MS. LIEBER: And let's hear from Ms. Himovitz.

MS. HIMOVITZ: Hi. Excuse me. Good morning.

Julia Himovitz on behalf of the Legal Department.

Your comment is taken; however, this is not the same as a regular court, so those rules don't necessarily apply here.

MR. SCHAEFER: Sure.

MS. HIMOVITZ: But I would also note that to save trees, that is being provided to you electronically. So -- although we're not referencing them now.

So thank you.

MR. SCHAEFER: Less -- less sometimes is better. I mean, Jerry Brown taught us that.

MR. HIMOVITZ: That is noted.

Thank you.

MR. SCHAEFER: All right.

Thank you.

MS. LIEBER: Thank you, Mr. Schaefer.

Now, Members, the recommended motion is to deny the petition by Southern California Edison.

Do we have a motion to that effect?

Anyone who would like to make that motion?

If not, I'll go ahead and make the motion.

And is there a second?

MR. SCHAEFER: Second.

MS. LIEBER: Seconded by Mr. Schaefer.

In terms of public comment, we do not have any written comments, nor anyone who submitted a comment card from the auditorium. So we'll go to our AT&T moderator for comments on this item.

Moderator, if you would please let us know if there is anyone on the telephone line who would like to make a public comment regarding Item 2.

AT&T MODERATOR: If you would like to make a comment, please press one, then zero.

And at this time, there are no comments.

MS. LIEBER: Thank you.

Members, do you have any further discussion on the item?

Seeing none, we'll go ahead to state that I have made a motion to deny the petition by Southern California Edison.

That was seconded by Mr. Schaefer.

Ms. Cichetti, if you would please call the roll.

MS. CICHETTI: Chair Lieber.

MS. LIEBER: Aye.

MS. CICHETTI: Vice Chair Gaines.

MR. GAINES: No.

MS. CICHETTI: Member Vazquez.

MR. VAZQUEZ: Aye.

MS. CICHETTI: Member Schaefer.

MR. SCHAEFER: Aye.

MS. CICHETTI: Controller Cohen.

MS. COHEN: Aye. Aye.

MS. CICHETTI: Thank you.

MS. LIEBER: Okay. Members, the motion passes with four votes.

Thank you very much, Members, for hanging in here.

It is now 11:30, and we will take our 10-minute break, and we'll reconvene at 11:40.

(Whereupon Item 2 concluded.)

REPORTER'S CERTIFICATE

State of California)
) ss
County of Sacramento)

I, Jillian Sumner, Hearing Reporter for the California State Board of Equalization, certify that on December 17, 2024, I recorded verbatim, in shorthand, to the best of my ability, the proceedings in the above-entitled hearing; that I transcribed the shorthand writing into typewriting; and that the preceding pages 1 through 64 constitute a complete and accurate transcription of the shorthand writing.

Dated: January 8th, 2025

Jillian Sumner
____
JILLIAN SUMNER, CSR #13619
Hearing Reporter