Louis A. Ambrose (SBN 169466)
Board of Equalization, Legal Department
PO Box 942879, MIC:121
Sacramento, CA 94279
Tel: (916) 274-3435

Appeals Attorney

STATE OF CALIFORNIA

BOARD OF EQUALIZATION

In the Matter of the Petition for Reassessment of the 2025 Unitary Value for: **SOUTHERN CALIFORNIA EDISON COMPANY (0148)** Petitioner	**APPEALS ATTORNEY'S HEARING SUMMARY FOR ORAL HEARING ON PROPERTY TAX PETITION** Appeal No.: SAU 25-003

Representing the Parties:

For the Petitioners:	Mardiros H. Dakessian, Attorney Dakessian Law, LTD. Charles Moll, Attorney McDermott Will & Emery
For the Respondent:	Sonya Yim, Attorney V Attorney for State-Assessed Properties Division David Lujan, Attorney Attorney for State-Assessed Properties Division Jack McCool, Chief State-Assessed Properties Division
Appeals Attorney:	Louis A. Ambrose, Attorney IV

VALUES AT ISSUE

	Value	Penalty	Total
2025 Board-Adopted Unitary Value	$41,664,500,000	$0	$41,664,500,000
Petitioner's Requested Unitary Value	$35,821,100,000	$0	$35,821,100,000
Respondent's Appeal Recommendation	$41,664,500,000	$0	$41,664,500,000

ISSUES

1. **Whether Petitioner Has Shown that the State-Assessed Properties Division (SAPD or Respondent) Has Failed to Reconcile the Historical Cost Less Depreciation (HCLD) Value Indicator and the Capitalized Earning Ability (CEA) Indicator of Value.**
2. **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.**
3. **Whether Petitioner Has Shown that Respondent Must Adjust the Board-Adopted Value for SCE's Liabilities for the 2017/2018 Wildfires and Mudslides.**
4. **Whether Petitioner Has Shown that Respondent Erred in its Treatment of Wildfire Insurance Fund-Related Contributions.**
5. **Whether Petitioner Has Shown that Respondent Improperly Assessed the Wildfire Mitigation Capital Expenditures.**

Appeals Attorney's Recommendation and Note[1]

The Appeals Attorney recommends that the Board deny the petition for reassessment, based on the evidence and argument submitted to the record to date.

This appeal involves an amount in controversy that is $500,000, or more, in tax and thus is governed by Rev. and Tax. Code (R&TC) section 40. Please see Staff Comment on page 40 for additional detail.

Background Information

Southern California Edison Company (SCE or Petitioner), a wholly owned subsidiary of Edison International, is a public utility subject to rate regulation by the California Public Utilities Commission (Commission or CPUC). SCE is primarily engaged in the business of supplying electric energy in central, coastal, and southern California, excluding the City of Los Angeles and certain other cities. Petitioner's service area encompasses 50,000 square miles, which includes 103,000 miles of distribution and transmission lines, serving a population of approximately 15 million people.

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[1] Unless the Board holds otherwise, the Board shall take official notice of: Petitioner's property statement filed with the Board and any attachments thereto; any reports to regulatory agencies such as the U.S. Securities and Exchange Commission and the California Public Utilities Commission (CPUC), and any annual reports to shareholders; the Appraisal Data Report (ADR) prepared by the State-Assessed Properties Division (SAPD) together with any workpapers; the Notice of Unitary Value; any correspondence between SAPD and Petitioner, and the existence of any lawsuits between the Board and Petitioner.

The CPUC establishes rates for utilities under its jurisdiction in a rate-setting procedure called the General Rate Case (GRC).[2] In establishing rates for a utility, the CPUC considers the utility's rate base. Rate base is the value of property on which a public utility is permitted by the Commission to earn a specified rate of return. In general, the rate base consists of the cost of property as used by the utility in providing service.

Petitioner's 2025 Board-adopted value of $41,664,500,000 is based on 75 percent reliance on the Historical Cost Less Book Depreciation (HCLD)[3] value indicator ($43,694,103,015) and 25 percent reliance on the Capitalized Earning Ability[4] (CEA) value indicator ($35,575,639,318).

On appeal, Petitioner contends that the 2025 Board-adopted unitary value is overstated and is instead requesting a unitary value of $35,821,100,000.

In the briefing and evidence submitted, Petitioner and the State-Assessed Properties Division (SAPD or Respondent) each discussed general information relevant to the issues raised in the briefings, including information related to SCE's past, current, and future financial and economic situation, along with the risks associated with wildfires, the context of the Board's valuation, and the state of the regulated electric generation industry as a whole. Set forth below is a summary of these general concerns to provide context to the specific issues raised by this Petition followed by the presentation of the five issues raised by the parties.[5]

At the Appeals Conference, the parties did not reach agreement on any of the issues raised.

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[2] The Commission's Rules of Practice and Procedure Article 2 and Appendix A of the Commission decision (D07-07-004) set the rules and procedures for GRC review process.

[3] The HCLD value indicator is a form of the cost approach to value. The Historical Cost Less Depreciation (HCLD) value indicator derivation includes the historical or original acquisition cost of all property less nontaxable items and property assessed elsewhere. This results in the taxable historical cost. The taxable historical cost is then reduced for the assessee's regulatory accounting depreciation of the taxable property. This results in the assessable HCLD. The value of any possessory interest and/or noncapitalized leased properties are added to arrive at the final HCLD value indicator. HCLD is one of the more important indicators of value for closely regulated public utilities. See Cal. Bd. Of Equaliz. *Unitary Valuation Methods (UVM)* (2003), pp. 1-4.

[4] The CEA value indicator is a form of the income approach to value. The income approach to value may be generally described as any method that converts future anticipated income into present value. The conversion process is commonly known as income capitalization. See Cal. Bd. Of Equaliz. *UVM*, (2003), pp. 35-37.

[5] The 2025 petition lists seven issues, lettered A through G. (Petition, p. 12.) Issues A and B dispute Respondent's value indicator reliance and those are combined as Issues 1 and 2 in the Hearing Summary. Issues F and G are discussed in the petition under Issues B and E, respectively, and are presented in that respect in the Hearing Summary.

General Concerns Raised by the Parties

Each party provided remarks on the overall reasonableness of SCE's 2025 Board-adopted unitary value. Petitioner contends that the magnitude of the $8 billion difference between the HCLD and CEA value indicators is unacceptable and indicates substantial obsolescence or impairment which supports its general claim that SAPD's appraisal is unlawful and improper. (Petition for Reassessment and Claim for Refund ("Petition"), p. 3 and p. 15.) Respondent notes that Petitioner had $4.4 billion of asset additions this year.[6] (SAPD Analysis, p. 4) The Appraisal Data Report (ADR) is included as Exhibit 2 of the SAPD Analysis and summarizes Petitioner's 2025 calendar year asset additions and retirements and provides a high-level comparison of the 2025 assessment with Petitioner's 2024 assessment.

Petitioner raises four general concerns[7], asserting these are the various business risks and other factors affecting SCE's 2025 unitary value: 1) the risk of increasing catastrophic wildfires in California; 2) California's use of "inverse condemnation[8]," its impact on Investor-Owned utilities and uncertainty as to whether the CPUC will allow liability to be recovered in the rate base even if the utility acts prudently[9]; 3) the challenges and cost prohibitive nature of obtaining insurance coverage due to wildfire risk arising from its ordinary operations, as well as recent impacts to the California homeowner insurance market; 4) Wildfire Mitigation Plans and the Wildfire Insurance Fund, including

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[6] Respondent notes the approximately $4.4 billion in asset additions is exclusive of both retirements and approximately $2.8 billion in construction work in progress (CWIP). (SAPD Analysis, p. 4, fn. 12.)

[7] See Petition, pp. 3-11.

[8] Inverse condemnation is a legal concept that entitles property owners to just compensation if their property is damaged by a public use. This liability rule applies to all government agencies, as well as utilities. After a wildfire, inverse condemnation is the way that victims of fires (residents, businesses, and local agencies) recover their costs. See League of California Cities "Inverse Condemnation Fact Sheet" https://www.counties.org/post/inverse-condemnation-fact-sheet.

[9] Petitioner cites an article in Moody's Investors Service (12/4/2017) reporting on a 2017 CPUC ruling for San Diego Gas & Electric company (SDG&E), which held SDG&E liable for damages after finding SDG&E had not taken reasonable actions prior to 2007 and thus not properly invoked inverse condemnation to allow cost-sharing through utility rates. (CPUC, App. No. 15-09-010 and Decision 17-11-033.)

However, courts have expressed skepticism regarding the uncertainty of recoverability suggested by Petitioner; in *Pac. Bell v. So. Cal. Edison Co*. (2012) 208 Cal.App.4th 1400, the Court noted in response to Edison's argument that the loss-spreading rationale should not apply to an investor-owned public utility due to lacking the taxing authority to raise rates without the approval of the CPUC, "Edison has not pointed to any evidence to support its implication that the Commission [CPUC] would not allow Edison adjustments to pass on damages liability during its periodic reviews." (*Id*. at 1407.) However, it should be noted the legal standards applicable to CPUC's consideration of rate base recoverability in this case have since changed.

specifically California's Senate Bill (SB) 901[10] (Ch. 626, Stats. 2018) and the Wildfire Insurance Fund created by Assembly Bill (AB) 1054[11] (Ch. 79, Stats 2019), which statutorily required Petitioner to make an initial contribution of $2.4 billion, and 10 annual contributions of $95 million each, and the statutory requirement that Petitioner maintain reasonable insurance coverage, which must be exhausted prior to reimbursement from the Wildfire Insurance Fund.[12] (Petition, pp. 3-11.)

Respondent notes that the risks cited by Petitioner do not acknowledge the adjustments made to Petitioner's 2025 Board-adopted unitary value. (SAPD Analysis, p. 2.) Respondent highlights four specific adjustments which have already been included in SCE's the unitary value:

- AB 1054 requires SCE to pay an additional $95 million per year for 4 additional years into the wildfire fund. Staff has made an adjustment to account for this requirement.

- SCE has requested a .85% wildfire risk premium be added to its capitalization rate. Staff has made an adjustment to account for this request.

- AB 1054 requires SCE to make $1.6 billion in capital expenditures over a three-year period for fire risk mitigation purposes. The assembly bill precludes SCE from earning an equity return on these capital expenditures. Staff has made an adjustment to account for SCE's inability to earn an equity return on these expenditures.

- Staff made an obsolescence adjustment to the HCLD indicator to acknowledge additional obsolescence resulting from the .85% equity risk premium addition to the capitalization rate.

(SAPD Analysis, pp. 2-3; see also SAPD Analysis, Exhibit 2, Appraisal Data Report. See also Appraisal Narrative, 2025 Lien Date, for Southern California Edison Company.)

Respondent states that, in each of the last five years, the Board has rejected Petitioner's requests for extraordinary wildfire adjustments that were based on a general increase in business risk due to wildfires, including inverse condemnation, because those risks have already been accounted for

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[10] SB 901 established, among other provisions, CPUC's reasonableness review of utility activities to determine whether, or not, cost recovery through the rate base is allowable when the wildfire is caused by the utility's equipment, without altering California's application of inverse condemnation.

[11] Assembly Bill 1054 (Ch. 79, Stats. 2019) (AB 1054) created a $21 billion fund funded by contributions from investor-owned utilities, including Petitioner, and from ratepayers. This fund is available to pay certain wildfire claims made against Petitioner and other fund participants.

[12] Petitioner notes that it purchased $1 billion of insurance coverage, subject to $100 million self-insured retention and co-insurance per fire, for approximately $450 million in costs for FY 2022-2023. (Petition, p. 11.)

in its valuation.[13] Further, Respondent notes these are the same arguments the CPUC rejected in SCE's request for a wildfire risk premium adjustment to increase the return on equity[14] (ROE) allowed in 2019. (SAPD Analysis, p. 3; citing CPUC Decision 19-12-056 (Dec. 19, 2019), pp. 40-41.) In the CPUC case,[15] the CPUC stated:

> After considering the evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors including business risk [which includes wildfire risk], and interest coverage presented by the parties and applying our informed judgment ... We find that SCE's authorized test year 2020 ROE should be 10.30%. *This ROE is reasonably sufficient to assure confidence in the financial soundness of the utility and to maintain investment grade credit ratings while balancing the interests between shareholders and ratepayers*.[16]

Further, Respondent points to the CPUC's conclusion that "*We find that the passage of AB 1054 and other investor supportive policies in California have mitigated wildfire exposure faced by California's utilities."* (SAPD Analysis, p. 3 quoting CPUC Decision 19-12-056, at p. 37; emphasis added by Respondent.) The CPUC also stated, "[b]ased on the above financial, business, and regulatory risks discussion, we conclude the ROE ranges adopted in the proceedings…adequately compensate the utilities for these risks." (*Id.,* at p. 40.) Respondent notes that Petitioner also recognized its significant reduction of risk of liability, as Petitioner voluntarily significantly reduced its ROE increase request in the CPUC case following the passage of AB 1054 from 6 percent to .85 percent, which was also ultimately rejected by the CPUC. (SAPD Analysis, p. 3 citing CPUC Decision 19-12-056, at p. 28.)

Respondent states that in 2022 the CPUC affirmed its 2019 decision that "AB 1054 has substantially mitigated wildfire liability as well as liquidity concerns" and lowered Petitioner's ROE

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[13] California State Board of Equalization, Appeal SAU 20-015, decided December 16, 2020, Appeal SAU 21-007, decided December 14, 2021, SAU 22-006, decided December 13, 2022, SAU 23-010, decided December 12, 2023, and SAU 24-003, decided December 17, 2024. The Appeals Attorney notes each of these four Board decisions is being appealed by Petitioner in superior court. However, the instant petition is to be decided de novo by the Board.

[14] A utility's Rate of Return, or Cost of Capital, is the weighted average cost of debt, preferred equity, and common stock, a utility has issued to finance its investments. Return on Equity (ROE) is the return to common equity. The CPUC attempts to set the authorized ROE at a level that is adequate to enable the utility to attract investors to finance the replacement and expansion of its facilities so it can fulfill its public utility service obligation. In practice, this level is determined by estimating market returns on investments for other companies with similar levels of risk. In general, a higher ROE allows greater earnings and would be appropriate to reflect increased risks and uncertainties. See generally: <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/cost-of-capital> and <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/historical-electric-cost-data/rate-of-return> [As of Dec. 2, 2024.]

[15] California Public Utilities Commission Decision 19-12-056 (D1912056) (Dec. 19, 2019), p. 28 available at <https://docs.cpuc.ca.gov/DecisionsSearchForm.aspx> [as of Nov. 4, 2025].

[16] *Id.* at pp. 40-41, emphasis added by Respondent.

by .25 percent to 10.05 percent even though Petitioner had again asked for an increase, in part, due to wildfire risk.[17] Finally, Respondent notes that in 2024, the CPUC set Petitioner's 2025 ROE at 10.33% and did not mention wildfire risk at all in its decision.[18]

Respondent states that though there still exists a risk of catastrophic wildfires by Petitioner's business, the CPUC and the credit markets recognize that such risk has been significantly reduced. Respondent points to Petitioner's press release recognizing a significant reduction to its risks, stating, "**[it] has reduced the probability of catastrophic wildfires associated with its equipment by about 75%-80% since 2018**".[19] Further, Respondent notes that Fitch Ratings, one of the three major credit rating agencies, upgraded Petitioner's long-term issuer credit ratings from 'BBB-'/Outlook Positive to 'BBB'/Outlook Stable.[20] (SAPD Analysis, p. 4.) Respondent notes this opinion was reviewed and reconfirmed by Fitch on December 18, 2023.[21] (SAPD Analysis, p. 4, fn 11.) Respondent also maintains that any increase to ordinary insurance cost is already accounted for in its appraisal. (SAPD Analysis, p. 4.)

In the Reply to SAPD's Analysis, Petitioner contends that SAPD made a single adjustment by adding a 0.85% wildfire risk premium to the capitalization rate that adjusts Edison's CEA indicator. However, according to Petitioner, that single adjustment does not fully capture the external obsolescence shown by Petitioner. (Reply to SAPD Analysis ("Reply"), p. 3.) Petitioner further contends that Respondent's other "purported" adjustments did not adequately address external obsolescence and are misleading for several reasons.

With respect to the adjustment for the $95 million annual contributions to the wildfire fund, Petitioner claims that Respondent simply allowed a deduction for an insurance premium that Petitioner already claimed as allowed by Rule 8. Petitioner further claims that Respondent increased the value of

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[17] California Public Utilities Commission Decision 22-12-031 (Dec. 15, 2022), p. 48.
[18] California Public Utilities Commission Decision 24-10-008 (Oct. 17, 2024), p. 36.
[19] Edison International, Southern California Edison Improves Grid Safety, Significantly Reduces Wildfire Threat (March 27, 2023) <Southern California Edison Improves Grid Safety, Significantly Reduces Wildfire Threat | Edison International | Newsroom> (as of Nov. 4, 2025.) Further details are set forth in Petitioner's 2023-2025 Wildfire Mitigation Plan available at <https://www.sce.com/sites/default/files/AEM/Wildfire%20Mitigation%20Plan/2023-2025/2023-03-27_SCE_2023_WMP_R0.pdf> (as of Nov. 4, 2025.)
[20] Fitch Ratings, Fitch Upgrades Edison International's & So. Cal. Ed's IDRs to 'BBB'; Outlook Stable (April 28, 2023) <Fitch Upgrades Edison International's & So. Cal. Ed's IDRs to 'BBB'; Outlook Stable (fitchratings.com)> (as of Nov. 4, 2025.)
[21] https://www.fitchratings.com/entity/southern-california-edison-company-80088928 (As of Nov. 4, 2025.)

Petitioner's CEA indicator by declining to remove from Edison's capitalized income stream the largest economic component of the Wildfire Insurance Fund premium which was the upfront payment of $2.4 billion for prepaid insurance. According to Petitioner, this $2.4 billion payment was a prepaid insurance premium and should have been spread ratably over future years. (Reply, p. 4.)

Petitioner further argues that Respondent incorrectly claims it made adjustment to account for Edison's inability to earn an equity return on the wildfire mitigation capital expenditures required by AB 1054, which are statutorily excluded from rate base. Contrary to Respondent's claim that the adjustment resulted in a $700 million value reduction, Petitioner asserts that Respondent negated this adjustment by erroneously increasing Petitioner's HCLD indicator by $1.4 billion as an AB 1054 securitization cost add back resulting in a net increase of $700 million to Petitioner's overall value. Finally, Petitioner argues that Respondent's 0.85% wildfire risk premium adjustment which reduces the CEA indicator by approximately $2 billion was offset by Respondent's disallowance of wildfire-related expenses of $793 million which increased the CEA indicator by over $8.3 billion resulting in a net increase of over $6 billion. (Reply, pp. 4-5.)

Appeals Conference

Parties met at the Appeals Conference on October 16, 2025. At the conference, Petitioner and Respondent discussed and renewed their positions as set forth in the briefings.

Appeals Attorney's Analysis and Comments

While the general risks and factors described above are relevant to the context of this appeal, the Appeals Attorney notes that Petitioner has not presented any evidence that Respondent erred in the calculation of SCE's 2025 Board-adopted unitary value. Petitioner generally asserts that Respondent did not consider, or fully consider, external obsolescence in the development of the 2025 HCLD and CEA value indicators, which it contends is demonstrated by the differential between the indicators. However, Respondent confirms it has considered risks and factors in its valuation methodology, and explains certain adjustments[22] to SCE's 2025 valuation that reflect increased wildfire risk, including

[22] Detailed in SCE's 2025 Appraisal Data Report Narrative.

the allowance of a 0.85 percent wildfire risk premium added to the capitalization rate.[23] Further, the Appeals Attorney notes that Petitioner maintains the burden of showing that Respondent's underlying assessment is incorrect or illegal. (*ITT World Communications v. Santa Clara* (1980) 101 Cal.App.3d 246 (*ITT*); see also Cal. Code Regs., tit. 18, § 5541, subd. (a).) This requires specificity and verifiable evidence or error. Accordingly, to the extent that Petitioner is using these general risks and factors to show error in Respondent's assessment, Petitioner maintains the burden of providing evidence and proving the existence of the specific errors within Respondent's calculation of the 2025 Board-adopted unitary value in the following five specific issues raised.

At the hearing, the parties should be prepared to discuss these general contentions as they relate and provide context to the specific issues raised in this petition.

ISSUES 1 AND 2

Whether Petitioner Has Shown that Respondent Has Failed to Reconcile the Historical Cost Less Depreciation (HCLD) Value Indicator and the Capitalized Earning Ability (CEA) Indicator of Value and/or Otherwise Erred in Placing 75 Percent Reliance on the HCLD Value Indicator and 25 Percent Reliance on the CEA Indicator of Value.

Petitioner's Contentions

Based on the two contentions outlined below, Petitioner requests that the Board revise its 2025 unitary value by instead placing 25 percent reliance on the HCLD value indicator and 75 percent reliance on the CEA value indicator. [24] (Petition, pp. 13-15.)

Respondent has not reconciled the value difference between the HCLD and CEA value indicators, rendering the value conclusion invalid.

Petitioner asserts Respondent's appraisal is flawed because of the disparity in the values produced by the two indicators. (Petition, pp. 13-14.) Petitioner alleges that due to this disparity, and as Respondent's analysis does not explicitly state the value approaches were reconciled, Respondent must

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[23] Note, this risk premium is above what the CPUC was willing to entertain for Petitioner; discussed *supra* at p. 6. See also California Public Utilities Commission Decision D1912056 referenced in fn. 15.

[24] Petitioner asserts this adjustment would result in a reduction to its unitary value of $4,059,231,848. (Petition, p.12.) However, the Appeals Attorney notes that this estimation is dependent upon success of Petitioner's other requested issues and is currently indeterminable as to what value is attributable to this issue solely.

have decided to simply place 75 percent reliance on the HCLD value indicator and 25 percent reliance on the CEA value indicator, without reconciling the indicators in an analytical manner based on verified market data, contrary to the guidance within Assessors' Handbook (AH), section 501, *Basic Appraisal* (AH 501). (*Id.* pp. 13-14.) Petitioner also asserts that the disparity in value indicators signals the existence of substantial obsolescence or impairment in Petitioner's unitary property, as the Assessors' Handbook section 502, *Advanced Appraisal* (AH 502), warns is possible. (*Id*. p. 15.) Respondent has improperly placed 75 percent reliance on the HCLD value indicator and 25 percent reliance on the CEA approach.

Petitioner asserts that Respondent has arbitrarily and improperly weighted the value indicators, which is underscored by the admission that it is the same reliance used to value Petitioner's property in each of the past 10 years, despite economic obsolescence and legal restrictions unrelated to cost that render the HCLD indicator unreliable. (*Id.* at p. 15.) Petitioner requests that the Board instead determine Petitioner's unitary value by placing 75 percent reliance on the CEA approach and 25 percent reliance on the HCLD indicator. (*Ibid*.)

Petitioner further asserts that Property Tax Rule[25] 8 indicates that greater reliance must be placed on the income approach. (*Id*. at p. 16.) Petitioner states that the rate base determined by the CPUC is intended to achieve a fair balance between what ratepayers bear and what utility shareholders earn, and not to establish the fair market of the utility's property. (*Id*. at p. 16.) Petitioner further argues that the HCLD indicator calculated by SAPD is unreliable when Respondent includes assets not included in the rate base and does not recognize impairments due to regulatory restrictions placed on certain assets (i.e., the inability to earn a return). (*Id*. at p. 16.) Petitioner cites an Ernst & Young, LLP (EY) report[26] it commissioned in the SAU 20-015 appeal for lien date 2020 as support for its position that Petitioner "is no longer operating under normal business conditions" and, for that reason, the weightings of the value indicators should not be "aligned with previous assessments that were

[25] All references to "Property Tax Rule" or "Rule(s)" are to sections of title 18 of the California Code of Regulations.
[26] Petitioner has included a draft copy of the Ernst & Young, LLP (EY) Valuation Analysis, November 9, 2020 (EY Report) as Petition, Appendix A). However, it should be noted this report was prepared for lien date 2020, **not lien date 2025**, i.e. the subject of this appeal; thus, while referenced, the EY report is not an appraisal for the lien date at issue. Further, the EY report does not publish any conclusion as to what it believed to be the proper weighting, nor is this attached report the finalized copy.

reflective of historically normal operating conditions."[27] (*Id.* at p. 17.) Petitioner further contends that Respondent acknowledges a limited understanding of "regulatory lag"[28] but continues to argue that the CEA indicator should be given less reliance in Petitioner's overall value, contrary to Rule 8. (*Id*. at p. 17.)

Petitioner asserts the changes that have taken place during the last 10 years in terms of wildfires and shifts in the business environment and regulatory restrictions, coupled with Respondent's failure to reconcile the $8 billion difference in the HCLD and CEA approaches have rendered Respondent's appraisal completely disconnected from what a willing buyer would pay. (*Id.* at p. 17.)

In its reply, Petitioner asserts that its argument that the difference between the two value indicators is attributable to obsolescence is supported by AH 502, which states a "CEA indicator which is much lower than HCLD may indicate that obsolescence exists in the property." (Reply, pp. 14-15.) Additionally, Petitioner argues that the risk of increasing wildfires caused by climate change creates external obsolescence, which adversely impacts the value of Edison's property and is not reflected in the HCLD approach, whereas the CEA approach does account for all forms of depreciation. (Reply, p. 15.)

Petitioner argues that the HCLD indicator is not a legally valid or reliable methodology under Rule 3 because the CPUC has not used historical cost or HCLD as a rate base for the years at issue largely due to wildfire risk. Petitioner cites, as an example, ratesetting proceedings in which the CPUC has excluded a substantial amount of SCE's wildfire capital investments from rate base and, in separate proceedings, the CPUC determined whether SCE may recover some of its wildfire-related expenses. Petitioner maintains that this procedure creates a rift between rate base and HCLD which is compounded when Respondent seeks to include wildfire capital expenditures in its assessment but fails to fully account for the external obsolescence caused by rate regulation in the existing wildfire environment. (Reply, p. 15.)

Based on the foregoing, Petitioner requests that the Board adopt Petitioner's requested reliance

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[27] Petitioner does not, however, acknowledge that the draft 2020 EY Report does not provide its conclusion as to the relative weight placed on each of the two approaches to value, and merely states more relative weight was placed on the income approach. (Petition, Appendix B, p. 59 of 2024 Petition pdf.)

[28] Regulatory lag is the time delay between a utility's costs and any adjustment CPUC may make to the rate base to account for these costs. This process creates a lag between the time the assets are placed in service and the time the company begins to get a recover of and recovery on the assets.

on the value indicators.

Respondent's Contentions

Respondent notes that value differences in the two approaches can and may occur and cites Assessors' Handbook, section 501 (AH 501) *Basic Appraisal,* which states that

> *Theoretically*, the approaches to value should produce identical value indicators. *In practice, however, this is rarely the case, and significant differences may occur*. To produce a final value estimate, the appraiser reconciles the indicators from each approach utilized. Value indicators should be reconciled considering: (1) the appropriateness of the approach given the purpose of the appraisal; and (2) the adequacy and reliability of the data available to perform the appraisal. The appraiser should examine and reconcile all value indicators.

(SAPD Analysis, p. 5; citing AH 501, p. 62, emphasis added by Respondent.) Respondent also cites the AH 502 which describes the process and criteria that should be considered when analyzing and reconciling value indicators to arrive at a final value estimate:

> The final value estimate is an appraiser's *opinion of value*. There is no mathematical formula or statistical technique to which the appraiser can ultimately refer in order to reach the final value estimate. It is an opinion that should be based on the appraiser's application of generally accepted appraisal methods and procedures. It is generally inappropriate to use the arithmetic mean of the value indicators as the final value estimate. Simply calculating an average implies that all the value indicators have equal validity. While this may occur in certain instances, it is usually not the case. Appraisers must follow Rule 3, noted above, and consider the appropriateness of the value approaches, the relative accuracy of the value indicators, and the quantity and quality of the data available when reconciling value indicators to reach the final value estimate.

(SAPD Analysis, p. 5; citing AH 502, p. 111, emphasis added by Respondent.)

Respondent states that the HCLD approach is a reliable indicator of market value for closely regulated public utilities like Petitioner, as HCLD, with some modification, approximates the rate base that regulators use in establishing revenue requirements. (SAPD Analysis, pp. 6; citing *Unitary Valuation Methods* (*UVM*) (2003), p. 1.) HCLD reflects the market value contribution of all taxable property including the depreciated historical cost of plant in service, possessory interests, construction work in progress, and materials and supplies, and is:

> A generally accepted method for valuing property interests of rate base regulated utilities, whether centrally or locally assessed, is by use of the historical cost approach. Certain industries have been and continue to be subject to rate base regulation, as a result of which authorized earnings, or rates of return, are set by regulators and measured by rate base. Under Rule 3(d), the assessing agency shall consider as relevant to value the amount actually invested in the property or the amount invested less depreciation, if the income from the property is

> regulated by law and the regulatory agency uses historical cost, historical cost less depreciation (HCLD), or trended original cost as a rate base. Thus, the historical cost approach is considered relevant for estimating the market value of public utility properties depending upon regulatory influences.

(AH 502, p. 146.) Further, HCLD is,

> **one of the more important indicators of value for closely regulated public utilities**. The general practice of the California Public Utilities Commission (CPUC) and most other regulatory agencies is to use historical or original cost less depreciation (with various adjustments) as the rate base. The regulatory agencies establish a rate base and a rate of return; utilities are permitted to earn at this established rate on the rate base.

(SAPD Analysis, p. 7; citing *UVM,* p. 1. Emphasis added.)

Respondent also notes that Property Tax Rule 8, subdivision (a), indicates the CEA value indicator is appropriate to use when the property has "an established income stream…," and here, Petitioner has an established income stream. (SAPD Analysis, p. 6.)

Respondent states that consistent with the relevant HCLD and CEA value indicator authorities and considerations, and Petitioner being a utility, rate regulated by the CPUC, Respondent considered HCLD to be the most reliable indicator of value and, therefore, placed 75 percent reliance on the indicator. (SAPD Analysis, p. 6.) Respondent notes that due to Petitioner's significant growth in actual and planned capital expenditures to replace and expand distribution and transmission infrastructure, and to construct and replace generation assets, Petitioner is experiencing "regulatory lag." (*Ibid.*) Accordingly, in Respondent's opinion, it is appropriate to weight the CEA value indicator 25 percent to account for regulatory lag in rate adjustment for items on which Petitioner is not currently earning a return. (*Ibid.*)

Respondent also notes the 75/25 percent reliance on HCLD and CEA, respectively, is the same reliance used by SAPD to value Petitioner's unitary property in each of the past 14 years, as well as the same reliance Respondent places on the value indicators of other investor-owned, rate-regulated utilities. (SAPD Analysis, p. 7.) While Petitioner sees this consistency as a flaw or indication that

changes have not been made to reflect factors related to the climate, utility industry, and to Petitioner specifically, Respondent asserts Petitioner ignores the fact that a change in weighting is not the sole method by which significant value adjustments can be made to reflect such factors. (*Id.*at p. 7.)

Respondent also notes that Petitioner's assertion that the difference between the HCLD and CEA methods is entirely attributable to economic obsolescence is wholly unsubstantiated. *(Id.* at p. 7.) Further, Respondent notes it is unclear how Petitioner arrived at its requested weighting of the CEA and HCLD indicators. (*Ibid.*) Respondent points out that in 2020, Petitioner requested 50 percent weighting of the CEA value indicator in its original petition. (*Ibid.*) Then in 2021, Petitioner requested a 35 percent weighting of the CEA value indicator based on the same arguments, with no explanation for the change. (*Id*. at p. 8.) Now, in 2025, Petitioner requests a 75 percent weighting of the CEA value indicator based on the same arguments and presumptive risk analysis developed in 2020, without explanation for the change. (*Ibid*.) Respondent concludes that while Petitioner criticizes SAPD's reasoning Petitioner has not provided a basis for its reconciliation of the value indicators in an "analytical manner" that is based on a "reasoned and defensible opinion of verified market data". (*Ibid,* quoting Petition, p. 11, citing AH 502, p. 62.)

For these reasons, Respondent recommends no adjustment for this issue.

Appeals Conference

Parties met at the Appeals Conference on October 16, 2025. At the conference, Petitioner and Respondent discussed and renewed their positions as set forth in the briefings. The parties agreed that Respondent would make a written request for certain information relevant to the difference in values yielded by the two indicators. The information requests and the responses from Petitioner are as follows:

Expenses Not Included in Revenue Requirement

Please provide a list of calendar year 2024 expenses, with general ledger descriptions, that were not included in the revenue requirement.

Petitioner's response: SCE has a pending Superior Court case against the SBE which addresses this recurring issue. Please refer to the filings associated with that case and Staff's workpapers, which are based on the information that SCE has already provided to Staff.

Capital Assets not yet Earning a Rate of Return.

Please provide a list of capital assets included on the balance sheet that are not yet included in rate base and therefore have not started earning a rate of return as of 12/31/24.

Petitioner's response: This recurring issue and related amounts are also addressed in the Superior Court filings and in Staff's workpapers, which are based on the information that SCE has already provided to Staff.

Respondent's Reply to both issues: Petitioner never provided a complete list of capital assets on its balance sheet as of Dec. 31, 2024, which did not earn a rate of return. Additionally, Petitioner has never provided a complete list of expenses that were not included in its revenue requirement. The requested information has not been provided in any filings associated with any case or lawsuit with the SBE and this information is not in SAPD's workpapers. Petitioner states that it has provided a response to this question because it "…has provided the exact capital expenditures it was required to make under AB 1054 but is not allowed to include in rate base and earn and return on." However, SAPD is not requesting additional information regarding the AB 1054 capital expenditures, and the treatment of those assets has already been appropriately addressed in SAPD's analysis and is not within the scope of this request. Regarding the capital assets specifically, as already stated, SAPD is asking for a listing of **ALL** capital assets that were included on the balance sheet as of December 31, 2024, that were not earning a rate of return. Notwithstanding the confluence of issues, this is a distinct proceeding from the litigation, and as previously discussed over several years, any further consideration of the difference between the HCLD and CEA indicators begins with SAPD's ability to review the information Petitioner has yet to provide.

Equity Risk Premium

Please provide an explanation as to why the equity risk premium that has been incorporated into prior assessments is still appropriate considering current market conditions.

Petitioner's response: The .85% equity risk adjustment incorporated into SCE's prior assessments is inappropriately low and has been for several years. The significant and ongoing wildfire risk to SCE's property is well documented in the Superior Court filings and is further supported by recent devastating wildfire events in Southern California. It is beyond doubt that these adverse events have a substantial negative impact on current market conditions and on the fair market value of SCE's

property.

Respondent's Reply: Petitioner's explanation that the equity risk premium is too low because wildfires have a negative impact on its property value is insufficient to justify the continuation of the risk premium considering the following: Petitioner has made public statements that it has reduced the probability of catastrophic wildfires associated with its equipment by about 75%-80% since 2018 (SAPD Analysis, p. 4), and updated that percentage to 85%-88% in April 2024. (SCE's Wildfire Mitigation Efforts Show Positive Results | Energized by Edison.) In the same article, Petitioner published that it has already exceeded its Wildfire Mitigation Plan and has significant plans to modify its infrastructure from 2024-2028 in order to mitigate wildfire risk. Petitioner also initiated a Public Safety Power Shutoff (PSPS) program, implemented Wildfire Mitigation Plans for 2020-2022 and 2023-2025, and made a $1.6 billion wildfire mitigation capital expenditure. In light of the above, Petitioner has failed to justify any alternative equity risk premium.

Applicable Law and Appraisal Principles

Burden of Proof

Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.) Therefore, Petitioner has the burden of showing that the assessment is incorrect or illegal. (*ITT World Communications v. Santa Clara* (1980) 101 Cal.App.3d 246; see also Cal. Code Regs., tit. 18, § 5541, subd. (a).)

Value Standard

Property Tax Rule 2, subdivision (a) states that "in addition to the meaning ascribed to them in the Revenue and Taxation Code, the words "full value," "full cash value," "cash value," "actual value," and "fair market value" mean the price at which a property, if exposed for sale in the open market with a reasonable time for the seller to find a purchaser, would transfer for cash or its equivalent under prevailing market conditions between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains and neither being in a position to take advantage of the exigencies of the other."

HCLD Approach to Value

Property Tax Rule 3, subdivision (d) provides the HCLD approach to value shall be considered "[i]f the income from the property is regulated by law and the regulatory agency uses historical cost or historical cost less deprecation as the rate base, the amount invested in the property or the amount invested less depreciation computed by the method employed by the regulatory agency." HCLD, with some modification, approximates the rate base that regulators use in establishing revenue requirements. (See *UVM*, p. 1.) HCLD reflects the market value contribution of all taxable property including the depreciated historical cost of plant in service, possessory interests, construction work in progress, and materials and supplies. (AH 502, p. 146.) HCLD is,

> one of the more important indicators of value for closely regulated public utilities. The general practice of the California Public Utilities Commission (CPUC) and most other regulatory agencies is to use historical or original cost less depreciation (with various adjustments) as the rate base. The regulatory agencies establish a rate base and a rate of return; utilities are permitted to earn at this established rate on the rate base.

(UVM (2003), p. 1.) Further, Board guidance states,

> Appraisal depreciation in the form of obsolescence may be present in utility property and deducted from HCLD. Such deductions may be proper when the utility's economic income has been impaired and the rate or tariff-setting regulators have recognized such impairment.

(UVM, p. 1.)

Depreciation and the Cost Approach

In general, the cost approach recognizes three types of depreciation: physical deterioration, functional obsolescence, and external, or economic, obsolescence, through the application of the Board's replacement cost new trend factors and "percent" good factors. Obsolescence may occur when property is outmoded (functional obsolescence) or when some event has substantially diminished the future earning power of the property (economic obsolescence). (See Assessors' Handbook section 501, *Basic Appraisal* (January 2002), pp. 80-83.) Functional obsolescence is the loss of value in a property caused by the property's loss of capacity to perform the function for which it was intended. (*Id*. at p. 81.) Economic obsolescence is the diminished utility of a property due to adverse factors external to the property being appraised and is incurable by the property owner. (*Id*. at p. 82.) The existence of any additional or extraordinary obsolescence must be supported with verifiable documentation and evidence, consistent with Board Guidelines. (See Property Tax Rule 6, subds. (d) & (e); Assessors'

Handbook section 502, *Advanced Appraisal* (Reprinted January 2015) (AH 502), pp. 20-21; *Unitary Valuation Methods*, (2003), p. 30; and Cal. Bd. of Equalization, *Guidelines for Substantiating Additional Obsolescence*, at p. 1.)

Income Approach to Value

Property Tax Rule 8, subdivision (a), states that "the income approach is used in conjunction with other approaches when the property under appraisal is typically purchased in anticipation of a money income and either has an established income stream or can be attributed a real or hypothetical income stream by comparison with other properties." Subdivision (b) describes the income approach to value as the valuation method whereby, "an appraiser values an income property by computing the present worth of a future income stream. This present worth depends upon the size, shape, and duration of the estimated stream and upon the capitalization rate at which future income is discounted to its present worth." Subdivision (c) provides that "the amount to be capitalized is the net return which a reasonably well-informed owner and reasonably well-informed buyers may anticipate on the valuation date that the taxable property existing on that date will yield under prudent management and subject to legally enforceable restrictions as such persons may foresee as of that date."

Reconciliation of Value Indicators

Property Tax Rule 3 requires that, in estimating value, the assessor shall consider one or more of the approaches to value "as may be appropriate for the property being appraised," which includes the comparative sales approach, the cost approach (e.g., HCLD valuation methodology), or the income approach (CEA valuation methodology). The appropriateness of an approach is often related to the type of property being appraised and the available data. (AH 502, p. 109.) In addition, the validity of a value indicator will depend upon the accuracy of data and adjustments made to the approach. That is, the accuracy of a value indicator depends on the amount of available comparable data, the number and type of adjustments, and the dollar amount of adjustments. Finally, if a large amount of comparable data is available for a given approach, the appraiser may have more confidence in that approach. For example, if income, expense, and capitalization rate data can be obtained from many properties comparable to the subject, the appraiser may attribute significant accuracy to the income approach. The greatest reliance should be placed on that approach, or combination of approaches, that best measures the type of benefits the subject property yields. The final value

estimate reflects the relative weight that the appraiser assigned, either implicitly or explicitly, to each approach. (AH 502, p. 112.)

Appeals Attorney's Analysis and Comments

Respondent is presumed to have correctly determined the value of the property at issue, and Petitioner bears the burden of proving error in that determination.

Here, Petitioner contends that because Respondent's calculated HCLD value indicator exceeds the CEA value indicator by approximately $8.1 billion, Respondent's 2025 Board-adopted unitary value is flawed, "as this Board's own *Assessors' Handbook* states that the various approaches to value should produce relatively similar values, and if substantial differences occur, the appraiser must reconcile the differences between the indicators." (Petition, p. 3.) Further, Petitioner contends Respondent did not properly reconcile the two value indicators, as required by Property Tax Rule 3 and Board Guidance, but instead "simply states that the final value estimate is an appraiser's opinion of value." (Petition, p. 11.) Petitioner appears to be asserting that the Board should adopt the appraisal judgment of the 2020 draft EY Report or, alternatively, adjust the weighting of the indicators pursuant to its request, without any specific argument or evidence to support their request for additional reliance to be placed on the CEA value indicator.

Respondent cites the AH 501 for the proposition that significant differences may occur in validly calculated indicators. (SAPD Analysis, p. 5, citing AH 501, p. 62.) Further, Respondent notes that the HCLD value indicator is a reliable indicator of value for closely regulated public utilities because HCLD, with some modification, approximates the rate base that regulators use in establishing revenue requirements. Accordingly, Respondent contends, in light of all available evidence, it was reasonable and appropriate to place 75 percent reliance on the HCLD value indicator, which reflects the consideration of many factors, including: Petitioner's "regulatory lag," Petitioner's established

income stream, the relative reliance placed on the value indicators of other rate-base regulated utilities, and conformity with Property Tax Rules 3, 6, and 8, as well as relevant Board guidance. Further, Respondent contends Petitioner makes a wholly unsupported allegation that the difference in the HCLD and CEA value indicators is attributable to economic obsolescence. Accordingly, Respondent concludes Petitioner has provided no evidence or argument to require a revised weighting of the value indicators.

Based on the evidence and arguments submitted to the record to date, the Appeals Attorney finds that Petitioner has not provided evidence or argument to prove that its HCLD indicator is overstated, nor shown that its CEA value indicator should be given greater reliance. In this regard, Petitioner did not provide, in response to Respondent's request, a complete list of capital assets which did not earn a rate of return on its balance sheet as of December 31, 2024, nor did Petitioner provide a complete list of expenses that were not included in its revenue requirement. Petitioner argues that Respondent's appraisal judgment and valuation approach are flawed, without presenting any specific evidence, and that the Board should instead adopt the appraisal judgment of the draft 2020 EY Report or Petitioner's unsupported claims in the instant petition.[29] Because the burden of proof is on the Petitioner, such treatment is inconsistent with relevant law and appraisal principles, and would also be inequitable to other rate-regulated electricity-generating utilities assessed by this Board.

At the hearing, Petitioner should be prepared to explain with specificity why less reliance should be placed on Respondent's HCLD indicator, despite long-standing Board guidance that the HCLD indicator is appropriate for closely regulated utilities, and to support its position with verifiable evidence and relevant legal and appraisal principles. In addition, Petitioner should present evidence and cite relevant appraisal and legal principles to support its position that substantially greater reliance should be placed on the CEA value indicator relative to the HCLD value indicator; and why Petitioner's value indicators should be weighted differently compared to other similarly situated investor-owned, rate-regulated utilities.

[29] Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)

ISSUE 3

Whether Petitioner Has Shown that Respondent Must Adjust the Board-Adopted Value for SCE's Accrual for Liabilities for the 2017/2018 Wildfires and Mudslides.

Petitioner's Contentions

Petitioner asserts the 2025 Board-adopted value does not account for SCE's accrual for liabilities for the 2017/2018 wildfires and mudslides which erroneously disregards costs for estimated claims and settlements before the enactment of AB 1054. Petitioner states that Respondent followed this practice in the 2019 through 2025 assessments of Petitioner's unitary property. (Petition, p. 17.) Petitioner argues that Respondent has improperly made no adjustments to reflect the expected losses and settlement payments in SCE's unitary assessments, even though the valuation of a going concern requires the consideration of forecasted future expenses, because a potential buyer would assume those liabilities and factor those obligations into the purchase price. (*Id.* at pp. 17-19.) On this basis, Petitioner requests an adjustment of $903 million to account for these operating expenses above and beyond insurance recoveries. (*Id*. at p. 19; Petition, Exhibit B.)

Petitioner asserts that Respondent considers Petitioner's wildfire-related expenses to be past expenses that are not anticipated to be incurred again in the future. (*Id*. at p. 20.) Petitioner disputes this treatment and contends that the $903 million amount represents quantifiable operating expenses which negatively impact the going concern value of its property, i.e., a "claims" liability rather than a contractual or financing liability. (*Ibid*.) Petitioner contends such expenses are ordinary and necessary to SCE's operation as a going concern, and even if they were not ordinary in the "new normal" of year-round wildfires in California. Petitioner further contends that Respondent does not provide citation to authorities to support excluding a non-ordinary expense that is anticipated in the future.[30] (*Id*. at pp. 20-21.) Petitioner further asserts that Rule 8 and AH 502 require the inclusion of anticipated income and operating expenses, and that Respondent cites no authority to exclude a non-ordinary expense that is anticipated in the future. (*Id*. at p. 21.)

[30] In support, Petitioner cites a general statement from AH 502 to support this position. AH 502, p. 67 states, "Cost trends relating to the components of operating expenses should be studied to estimate the future level of operating expenses." Petitioner asserts such costs are anticipated to continue in the future but does not address the likelihood of such claims in the context of AB 1054, which is designed to reduce the likelihood of such expenses if and until the wildfire mitigation fund is exhausted.

In its Reply, Petitioner argues that SAPD disregards Petitioner's wildfire-related losses, by improperly relying upon Rule 8, subdivision (c) which excludes debt payments from outgo. The types of debt to be excluded are "[d]ebt payments [that] reflect the return on and return of the *debt, or mortgage, interest in the property*." (AH 502, p.74.) Petitioner argues that the liabilities at issue are not debt payments but rather claims and payments that may have a significant impact on the value of public utility property. By erroneously treating these items as debt payments, Petitioner contends that Respondent improperly excludes them from the CEA approach indicator. (Reply, p. 12.)

Petitioner does not dispute that the liabilities at issue stem from 2017 and 2018 events but asserts that SAPD incorrectly assumes that these claims and settlements will not continue to increase or be paid in the foreseeable future. (Reply, p. 13.) Between December 31, 2023, and December 31, 2024, SCE claims to have accrued additional losses of $743 million additional losses related to these events. Petitioner states that it has also paid $10 billion in settlements related to these events through December 31, 2024. (*Id.,* p. 13.)

Petitioner asserts that Respondent also continues to limit its definition of what are to be considered "ordinary expenses" for valuation purposes. Assuming for the sake of argument that these are non-ordinary expenses, Petitioner contends that SAPD has not cited any legal authority, guidance, or appraisal principles—and Petitioner is aware of none— to support the exclusion of non-ordinary expenses that are anticipated to be incurred in the future.

Petitioner further asserts that SAPD conflates "the remedies of AB 1054 with the losses and settlements related to the 2017/2018 wildfire and mudslide events" by claiming that "Petitioner itself believes that much of that risk has been mitigated through AB 1054." Petitioner argues that the Wildfire Insurance Fund established by AB 1054 is intended to partially cover wildfires ignited *on or after* July 12, 2019, and has no connection with the 2017/2018 wildfire and mudslide events. (*Id.* at pp. 13-14.)

Petitioner concludes by reasserting that while the initial liability stems from past events, it has resulted in ongoing expenses to SCE as claims are settled and paid, and such expenses would be considered by any willing buyer. (*Id.* at p. 14.)

Respondent's Contentions

Respondent contends that it is unclear that liabilities related to "Wildfire-related claims" dating back to 2017 and 2018, which may reduce the value of Petitioner's business as a going concern, necessarily result in a reduction to the value of its property as a going concern or its taxable unitary value. Respondent further contends that none of the authorities cited by Petitioner support its position that that the valuation of its property as a going concern may be equated with the value of its business as a going concern. ((SAPD Analysis, pp. 8-9.)

Respondent notes that California Constitution Article XIII, section 1, generally prescribes the value standard for taxation of property as fair market value. (SAPD Analysis, p. 8.) For the valuation of state-assessed properties, the California Supreme Court has ruled:

> From our review of the relevant constitutional and statutory provisions, we conclude that unit taxation is properly characterized not as the taxation of real property or personal property or even a combination of both, but rather as the taxation of *property as a going concern.* First, what the Board assesses is the value of the public utility *property* as a going concern; it considers the earnings of the *property* as a whole, and does not consider, less still assess, the value of any single real or personal asset.

(*Id.* at p. 9, quoting *ITT,* (1985) 37 Cal.3d at 864-865, emphases added by Respondent.) Respondent notes this is explained for purposes of California property tax purposes by AH 502 as follows:

> "Going concern value" is a term that has been used in a variety of contexts, and more than one definition of the term can be found in the appraisal literature. Also, there are different meanings for California property tax purposes and more than one meaning even within California property tax law.
>
> ¶ ... ¶
>
> Outside the property tax arena, going concern appraisals are commonly conducted for hotels and motels, restaurants, bowling alleys, industrial enterprises, shopping centers, retail stores, and similar business operations using real property. Generally, the real property is considered an integral part of the business operation. Without an allocation among the various elements contributing value to the business operation, however, *such an appraisal is not appropriate for California property tax purposes*....
>
> Where the unit principle of valuation is used, it has been said that the assessable property is valued as a going concern. *This means only that the taxable property of the business should be valued as if put to beneficial or productive use. It does not mean that the entire value of the business can be assessed or that the going concern value is assessable*.

(*Ibid.,* quoting AH 502, p. 157, emphases added by Respondent.) Accordingly, Respondent notes the appraised value reflects the total market value of all taxable *property* as a unit owned or used by

Petitioner, and not the "firm value," which can be thought of as an estimate of the price a potential buyer might be willing to pay for the entire *business*. (SAPD Analysis, p. 9.) Respondent contends the value of the entire business or firm value, by itself, is not relevant to California unitary property taxation. (*Ibid.*)

Respondent also remarks that this distinction is the reason that the CPUC's consideration of liabilities in evaluating a proposed acquisition is irrelevant, i.e., the CPUC is evaluating Petitioner's *entire business*. (*Id.*at pp. 9-10.) Respondent goes on to note that Petitioner's position, which would require a reduction in the unitary value of taxable property when firm value declines, ignores the fundamental difference between the value of "*the entire company*" and the unitary value of "*the company's taxable property*." (*Id.* at p. 9; emphases added by Respondent.) Instead, because Petitioner's "wildfire-related claims" are for the settlement or potential settlements of litigation arising out of wildfires and mudslides that occurred in 2017 and 2018, Respondent contends those liabilities do not reduce the value of Petitioner's taxable property. (*Ibid.*)

Additionally, Respondent contends Petitioner's request for the same deduction to be made to the CEA value indicator is also not appropriate for the same reasons. (*Id.* at pp. 9-10.) Respondent notes the premise of the CEA value indicator calculation is to convert (or capitalize) a *future* income stream into present worth (Rule 8, subd. (a).), and the amount to be capitalized is:

> the net return which a reasonably well informed owner and reasonably well informed buyers may *anticipate* on the valuation date that the taxable property existing on that date will yield under prudent management and subject to such legally enforceable restrictions as such persons may foresee as of that date.

(SAPD Analysis, p. 9; citing Rule 8, subd. (c), emphasis added.) Thus, Respondent contends it is clear that neither past nor non-ordinary expenses may be deducted from a future income stream to be capitalized. (*Id.* at p. 10.) Accordingly, Respondent notes, the costs for which Petitioner seeks a reduction are past expenses and, regardless of whether other wildfire or mudslide liabilities will ordinarily occur again, it is undisputed that the liabilities at issue have been accrued from past claims and will not recur. (*Ibid.)*

Respondent also notes that Petitioner's argument that wildfire liabilities should now be considered ordinary expenses and that they will occur in the future, may or may not actually be true, but regardless, it is only the liabilities from these past events that are at issue. (*Ibid.*) Further,

Respondent notes it is undisputed that these liabilities are accrued for damages related to claims that resulted from wildfires and mudslides in 2017 and 2018 and will not recur. (*Ibid.)*

Finally, Respondent notes that while Petitioner appears to be arguing that because these past liabilities will be paid at some time in the future, they are deductible when calculating the CEA value indicator; however, Respondent notes the mere fact that they may be paid in the future does not mean that such expenses qualify as deductible, ordinary operating expenses. (*Id.* at p.10*.)*

For these reasons, Respondent recommends no adjustment as to this issue.

Appeals Conference

Parties met at the Appeals Conference on October 16, 2025. At the conference, Petitioner and Respondent discussed and renewed their positions as captured in the briefings.

Applicable Law and Appraisal Principles

Burden of Proof

Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.) Therefore, Petitioner has the burden of showing that the assessment is incorrect or illegal. (*ITT World Communications v. Santa Clara* (1980) 101 Cal.App.3d 246; see also Cal. Code Regs., tit. 18, § 5541, subd. (a).)

Value Standard

See Issues 1 and 2, Applicable Law, p. 14.

Income Approach to Value

See Issues 1 and 2, Applicable Law, pp. 15-16.

Subdivision (c) provides that "the amount to be capitalized is the net return which a reasonably well-informed owner and reasonably well-informed buyers may anticipate on the valuation date that the taxable property existing on that date will yield under prudent management and subject to legally enforceable restrictions as such persons may foresee as of that date." Net return is the difference between gross return and gross outgo. (Rule 8, subd. (c).) Amortization, depreciation, and debt retirement are explicitly excluded from gross outgo. (*Ibid*.)

Appeals Attorney's Analysis and Comments

Respondent is presumed to have correctly determined the value of the property at issue, and

Petitioner bears the burden of proving otherwise.

Here, Petitioner contends that Respondent's calculated unitary value inappropriately excludes Petitioner's $903 million in liabilities related to the 2017/2018 wildfires and mudslides and requests a corresponding reduction to each value indicator. Petitioner asserts such an adjustment is necessary as the liabilities reduce its firm value, or going concern as a business, and certainly would be considered by any prospective buyer or the CPUC in any proposed transaction. Further, Petitioner contends such an adjustment to the CEA value indicator calculation is necessary as such expenses are ordinary and recurring, as liabilities have continued to accrue in the current year related to the 2017/2018 Wildfires/Mudslides. Petitioner further contends Respondent misinterprets Property Tax Rules and Assessors' Handbooks by denying Petitioner's requested adjustments to the HCLD and CEA value indicators.

However, as Respondent points out, Petitioner has provided no evidence, or legal or appraisal authority to support its requested deduction of the past and non-ordinary expenses related to these liabilities for property tax purposes. Petitioner does not provide evidence or authority to support its position that such liabilities should be deducted from the HCLD indicator. Additionally, as Respondent points out deducting these expenses from the CEA indicator is contrary to Property Tax Rule 8 and relevant Board guidance. Further, even if the liability is still being finalized as remaining claims are settled, litigated, or otherwise resolved, the expenses are related to past events that are unlikely to occur in the future and Petitioner has provided no legal or appraisal support for the proposed deduction from the HCLD or CEA value indicators.

Accordingly, based on the evidence and arguments submitted to the record to date, the Appeals Attorney notes that Petitioner has not shown specific evidence or argument to prove that the claimed expenses must be deducted from both the CEA and HCLD value indicators, nor has Petitioner shown that such expenses represent ordinary and future, anticipated operating expenses.[31] Further, the Appeals Attorney notes such expenses are explicitly excluded from the CEA approach under Property Tax Rule 8. Additionally, even if wildfire liabilities should now be considered ordinary expenses reasonably occurring in the future, it is undisputed that these liabilities result from past wildfires and

[31] Even if one were to accept that it is ordinary for utilities to be regularly liable for causing or contributing to wildfire or mudslide incidents, the Legislature intended AB 1054 to mitigate the likelihood of wildfire expenses going forward.

mudslides (in 2017 and 2018), which are not appropriate to deduct from the future income stream to be capitalized. Petitioner does not provide any legal or appraisal authority to support its position that Respondent's appraisal judgment and treatment of these wildfire expenses is flawed and that this Board should allow a deduction of $903 million from both the CEA and HCLD value indicators.[32] However, it is well settled that the burden of proof is on the Petitioner.

At the hearing, the parties should be prepared to discuss the issue; further, Petitioner should be prepared to discuss the legal and appraisal authority that supports the deduction of these liabilities as expenses from the CEA and HCLD value indicators; and how Petitioner's requested adjustment can be reconciled with Property Tax Rule 8 and other Board-issued guidance, as quotes from the Assessors Handbooks' cited in isolation do not supersede Property Tax Rule 8 or the Board's guidance.

ISSUE 4

Whether Petitioner Has Shown that Respondent Improperly Assessed $700 million in Wildfire Mitigation Capital Expenditures in the HCLD Value Indicator

Petitioner's Contentions

Petitioner contends that Respondent improperly assessed $1.6 billion of wildfire mitigation capital expenditures in the 2025 assessment, based on the incorrect assumption that these assets generate a cash flow from ratepayers, allowing SCE to realize a return on investment for these capital expenditures. (Petition, pp. 24-25.) Petitioner contends that under AB 1054, SCE is required to make capital expenditures to the wildfire mitigation fund but is precluded from earning both a rate of return of and a return on the investment. (*Ibid*.) Petitioner asserts this inclusion results in approximately $700 million that should be removed from SCE's HCLD indicator.[33] (*Ibid*; see also Petition, Exhibit D.)

Petitioner further asserts that a potential buyer would not have the opportunity to recover the wildfire mitigation capital expenditures, and thus conclude that the first $1.6 billion of wildfire mitigation capital expenditures have little or no value. (Petition, p. 25.) Petitioner cites the analysis in the draft 2020 EY report to support its position that a prospective buyer would not pay for a $1.6

[32] See Petition p. 2 and Petition, Exhibit B; however, note that such claimed amounts mathematically tie to the requested revised reliance on the HCLD and CEA value indicators in Issues 1 and 2, and the accuracy thereof may be contingent upon the Board's determination of Issues 1 and 2.

[33] Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)

billion capital expenditure that produces no return. (*Id.* at p. 26.) Petitioner argues that Respondent's appraisal assumes that the expenditures are being capitalized and included in the rate base, on which utilities are permitted to earn a return, and concludes that if the capital expenditures are not included in Petitioner's rate base, they must be removed from the HCLD value indicator. (*Id*. at p 26, citing Assessors' Handbook 502, p. 147.)

Petitioner then argues that in the alternative, these capital expenditures are intangible assets exempt from taxation, as such expenditures are statutorily required for Petitioner to continue to operate, and thus confer intangible rights upon Edison and any future purchaser. (*Id.* at p. 26.)

Petitioner then adds that the property it spent $1.6 billion replacing has been discarded, so even if Petitioner may have the right to continue to receive a return with respect to the formerly owned property, since such property is no longer owned by Petitioner the right to receive a return on the former property is an intangible right not assessable for property tax purposes. (*Id*. at p. 26.) Further, the cost of this property should be removed from the HCLD indicator and the income Edison receives with respect to this intangible right should be excluded from the CEA indicator. (*Ibid.)*

In its Reply, Petitioner notes that the Board's guidance from the Unitary Valuation Manual, page 1 states that "*it is logical that prospective buyers and sellers would see the rate base as a significant factor in formulating investment decisions*." Petitioner contends that Respondent incorrectly argues that "[w]hether property is or is not included in the rate base of a regulated utility, however, is not solely determinative of whether it has 'value' and must or must not be included in HCLD. . . . Therefore, it is not true that all costs excluded from rate base must be excluded from HCLD." As support for its position, Petitioner states that Respondent cites a narrow misleading excerpt from the AH 502, page as follows, "The HCLD for property tax appraisal purposes, therefore, differs from the rate base as established by the regulatory agency. Some items included in the rate base are not included in the HCLD and some items included in the rate base are included in the HCLD." (Reply, p. 7-8.)

Specifically, Petitioner contends that while Respondent argues that Petitioner is being paid back for its cost through a special surcharge paid by ratepayers, CPUC D.20-11-007 requires that the

special surcharges collected from ratepayers will repay the bondholders of the Recovery Bond, such that Petitioner will not recover either the return of or a return on the wildfire mitigation investments. (*Id*., p. 8.) Petitioner then argues that Respondent ignores basic valuation principles, as Petitioner contends assets, to have value under a CEA approach, must produce income, or, under the HCLD approach, must be included in the rate base. (*Id.*, p. 9.) Finally, Petitioner generally renews several of its arguments, reaffirming the wildfire mitigation investments are not included in their rate base, (*Id.*, p. 9.)

Respondent's Contentions

Respondent contends no adjustment is appropriate for this issue. Respondent notes Petitioner essentially argues that because these costs are not included in rate base, these assets have no value and must be excluded entirely from the HCLD value indicator. (SAPD Analysis, p. 10.) However, Respondent explains that whether property is included in the rate base of a regulated utility is not the sole determinant of whether it has "value" for property tax purposes. (*Ibid.*) Respondent cites AH 502, which states:

> The HCLD for property tax appraisal purposes therefore, differs from the rate base as established by the regulatory agency. Some items included in rate base are not included in the HCLD, and some items not included in the rate base are included in the HCLD.

(*Ibid.,* citing AH 502, p. 146-147.) Therefore, Respondent contends Petitioner's view is false that all costs excluded from rate base must be excluded from HCLD. (SAPD Analysis, p. 11.)

Specifically, Respondent notes the wildfire mitigation capital expenditures have value, as Petitioner spent $1.6 billion to purchase those assets and had they not, Petitioner (or any potential purchaser) would not be compliant with AB 1054. (*Ibid.*)

Respondent notes SAPD has recognized that there is an impact on value to these capital expenditures being excluded from the rate base and has made a proper adjustment in Petitioner's 2025 Board-adopted value.[34] (*Ibid*.) Respondent notes when making capital expenditures, firms expect both a "return of" their invested capital as well as a "return on" their invested capital. (*Ibid*.) Respondent notes a "return of" capital accounts for a recovery of the investment while a "return on" capital

[34] Approximately $700 million was deducted from the HCLD value indicator. See SAPD Analysis, p. 11.

accounts for a reward for making an investment. (*Ibid.,* citing AH 502, p. 62.) Both of these components are captured in the capitalization rate, which provides explicitly or implicitly for both the return of and the return on capital. (*Ibid*.)

Respondent contends that because AB 1054 prohibits Petitioner from earning a return on equity but does not prohibit earning a "return of" or a debt return on its capital expenditure, SAPD made appropriate adjustments to the HCLD cost indicator to account for this, by calculating the present value of the income using a discount rate that excludes the equity portion of the capitalization rate. (SAPD Analysis, p.11.) The excluded equity portion represents the return *on* the investment, and properly leaves in the rate for return *of* the investment. (*Ibid.*) Respondent then removed the difference between this present value amount and the total $1.6 billion capital expenditure, resulting in an approximately $700 million reduction to the HCLD value indicator, which was reflected in Petitioner's 2025 Board-adopted unitary value. (*Ibid*.)

Respondent also contends that Petitioner's alternative arguments that the capital expenditures are intangible assets exempt from taxation, and that the property Petitioner spent $1.6 billion replacing has been discarded and is no longer owned by Petitioner, are each claimed without evidence. (SAPD Analysis, p. 11.) Respondent asserts that these arguments ignore the fact that $1.6 billion dollars of tangible, depreciable equipment was purchased and is currently installed as a part of Petitioner's physical infrastructure. (*Ibid*.) Respondent states that the value of the equipment that was replaced and discarded will be removed from the HCLD value indicator, as is done with all equipment that is retired and removed from an assessee's books and records. (*Ibid*.) Therefore, Respondent recommends no adjustment as to this issue.

Appeals Conference

Parties met at the Appeals Conference on October 16, 2025. At the conference, Petitioner and Respondent discussed and renewed their positions as set forth in the briefings.

Applicable Law and Appraisal Principles

Burden of Proof

Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)

Therefore, Petitioner has the burden of showing that the assessment is incorrect or illegal. (*ITT World Communications v. Santa Clara* (1980) 101 Cal.App.3d 246; see also Cal. Code Regs., tit. 18, § 5541, subd. (a).)

Value Standard

See Issues 1 and 2, Applicable Law, p. 14.

HCLD Approach to Value

See Issues 1 and 2, Applicable Law, pp. 14-15.

Appeals Attorney's Analysis and Comments

Respondent is presumed to have correctly determined the value of the property at issue, and Petitioner bears the burden of proving otherwise.

Here, Petitioner contends that Respondent should deduct the entire $1.6 billion wildfire capital expenditures from its HCLD value indicator because Petitioner is not allowed to earn a rate of return on the expenditures, and a prospective buyer would not pay for a $1.6 billion capital expenditure that produces zero return. Petitioner also argues that if the capital expenditures are not included in the rate base, they should be removed from the HCLD value indicator. However, Respondent explains that the HCLD approach for property tax appraisal purposes differs from the rate base, and that the capital expenditures have value as Petitioner spent $1.6 billion to purchase assets from which Petitioner will earn a return of the expenditures through depreciation and a return on the expenditures through the reimbursement of interest paid for debt service. Respondent additionally contends that since AB 1054 prohibits Petitioner from earning an equity return on this capital expenditure but does not prohibit it from earning a return of or a debt return on its capital expenditure, Respondent has already adjusted the HCLD value indicator appropriately for these expenses: by calculating the present value of the income using a discount rate that excludes the equity portion of the capitalization rate, reflecting that Petitioner will not receive a *return on* the investment, but properly leaving the rate for *return of* its capital expenditure, which Petitioner will receive the benefit of. Respondent noted this calculation resulted in an approximately $700 million reduction to the HCLD value indicator, which was already reflected in Petitioner's 2025 Board-adopted unitary value.

Petitioner contends that the capital expenditures, which are required for compliance with AB 1054, are intangible assets exempt from taxation, but provides no explanation, evidence, or legal or appraisal basis or authority to support this contention.[35] Petitioner further contends that the property Petitioner spent $1.6 billion replacing has been discarded and is no longer owned by Petitioner, but, as Respondent points out, Petitioner has provided no specific evidence of retired assets being assessed within its 2025 unitary value. Further, Respondent states that the $1.6 billion dollars of tangible, depreciable equipment was purchased and is currently installed as part of Petitioner's physical infrastructure.

Based on the record to date, the Appeals Attorney finds that Petitioner has not presented evidence or argument to prove error in Respondent's calculation of the existing adjustment to the HCLD indicator attributable to these assets rather than the $1.6 billion claimed by Petitioner.

At the hearing, the parties should be prepared to discuss the issue; further, Petitioner should be prepared to present legal and appraisal authority to show that Respondent erred in its calculation. Petitioner should also explain its assertion that there is no assessable value attributable to the capital expenditures, even though Petitioner received a return of its capital expenditure; and what legal and appraisal principles support the exemption of such assets for property tax purposes, such that the deduction of the full $1.6 billion from the HCLD approach is required under California property tax law. Additionally, if Petitioner continues to argue that it is being assessed on the costs of retired assets, Petitioner must provide verifiable evidence of the retirement of such assets to substantiate such requested adjustments.

ISSUE 5

Whether Petitioner Has Shown that Respondent Erred in Its Treatment of Wildfire Insurance Fund Related Contributions.

Petitioner's Contentions

[35] Cal. Const. Art. XIII, section 1 states: "Unless otherwise provided by this Constitution or the laws of the United States [a]ll property is taxable and shall be assessed at the same percentage of fair market value." The appeals attorney notes exemption from property tax does not wholly correspond to income tax or accounting deductions and the California Constitution specifically requires a constitutional or statutory basis for any exemption in property tax.

Petitioner notes that on September 9, 2019, it made an initial contribution of $2.4 billion to the Wildfire Insurance Fund, which is intended to provide some insurance coverage in the event of a catastrophic wildfire event, and Petitioner is making 10 annual contributions of approximately $95 million per year to the fund, consistent with section 3292, subdivision (a) of the California Public Utilities Code.[36] (Petition, p. 21.) Petitioner asserts Respondent erred in its treatment of the Wildfire Insurance Fund-related contribution by ignoring the initial contribution of $2.4 billion. Petitioner states that it is required by Generally Accepted Accounting Principles (GAAP) to treat the Wildfire Insurance Fund contributions similar to prepaid insurance and is allocating the total expense ratably based on an estimated twenty-year period of coverage. (*Ibid*.)

Petitioner disputes Respondent's argument, based on a response made in 2020 petition discussion, that a prospective purchaser would not consider the $2.4 billion prepaid insurance in the company's value. (Petition, p. 22.) Petitioner contends that Wildfire Insurance Fund contributions are equivalent to the payment of insurance premiums, and a potential purchaser would be willing to pay more for a utility that had prepaid this contribution, as compared to a utility that had not done so, due to the increased estimated insurance premium payments the purchaser would have to make absent these fund contributions. (*Ibid*.)

Petitioner also argues that Respondent mischaracterizes the prepaid expense as an amortization or depreciation expense which is not a cash flow and not allowed an expense in the CEA indicator model. Petitioner asserts that the reflection of the initial contribution is not depreciation of a capital asset but rather constitutes prepaid insurance or some other intangible asset that will reduce future expenses. Additionally, Petitioner contends that the AH 502 states that property insurance may be prepaid for three years and deducted as an expense in a direct capitalization income approach, though in Petitioner's case the coverage is estimated at 20 years, and that an "appraiser would annualize this expense in direct capitalization." (Petition, p. 23, citing AH 502, p. 71-72.)

Petitioner further contends that the $146 million annual expense should be included in the CEA value indicator because insurance premiums are bound to increase. Petitioner additionally notes Respondent's proper treatment of such expenses may increase income in future years due to reduced

[36] Petitioner cites its Form 10k (2024), at 151-152.

future expenses, and that portion of the increased income related to the initial contribution should be removed from the income approach as income from an intangible asset. (Petition, pp. 23-24.)

Finally, Petitioner claims that Respondent's treatment of Petitioner's fund contributions is not equally applied to all state assessees, claiming that the initial contribution was allowed for another state assessee. On this basis, petitioner asserts respondent is acting arbitrarily, unfairly, or otherwise non-uniform in its treatment of Petitioner. (Petition, p. 24.)

In its Reply, Petitioner contends that Respondent has incorrectly interpreted the holding in *De Luz Homes, Inc. v. County of San Diego* ("*De Luz*") (1955) 45 Cal.2d 546, by arguing that the court "made clear that amortized costs are not deducted from the anticipated income to be capitalized." Petitioner states that it agrees with the ruling in *De Luz*, wherein the court focused on depreciation in capital value and made "a clear distinction that amortization in the context of capital recovery through depreciation should not be included in the capitalized income method." However, Petitioner states that it is highlighting Respondent's error in misinterpreting the ruling and that Respondent has compounded that error by equating the expensing of prepaid insurance as amortization/depreciation in capital value because prepaid insurance is not equivalent to capital value. Rather, Petitioner argues, *De Luz* precludes a deduction for "depreciation of the property," but does not preclude a deduction for operating and maintenance expenses, such as the expensing of prepaid insurance. Additionally, Petitioner references Member Gaines' comments in the Board hearing of their 2020 appeal suggesting that the contributions should be treated as prepaid insurance. (Reply, p. 10.)

Petitioner cites the AH 502 to support its argument, wherein under a direct capitalization method, like the CEA, "expenses are annualized even though some expenditures may not actually occur on an annual basis" and prepaid property insurance is provided as an example. (Reply, p. 10, citing AH 502.)

Petitioner argues that while Respondent is attempting to create a requirement that another future AB 1054-like contribution will occur, the guidance does not create a requirement that the deduction of the prepaid insurance is only allowed when an identical payment is guaranteed to occur in the future. (Reply, pp. 10-11.) Additionally, Petitioner notes that its audited financial statements, as required by GAAP, show that these prepaid insurance expenses are being reflected as operating

expenses over a 20-year period ($146 million per year) which is how a prudent buyer would view these expenses. Petitioner further states that a prudent buyer would consider such expenses as regular and recurring in light of the new reality of wildfires in California. Therefore, the adjustment of approximately $706 million (CEA-adjusted present value of the annual expensing of $146 million over the remaining coverage period) for the prepaid insurance contribution of $2.4 billion and the annual contributions of $95 million is reasonable and must be allowed. (Reply, p. 11.)

Respondent's Contentions

Respondent contends that consistent with Property Tax Rule 8 and Board-issued appraisal guidance, Respondent appropriately disallowed the $2.4 billion initial contribution as an expense in the CEA value indicator. (SAPD Analysis, pp. 12; citing *UVM* pp. 35-37 and AH 502, p. 74.) Respondent explains that amortization and depreciation are not deducted when computing the future income stream to be capitalized because doing so would artificially lower that future income stream by subtracting non-cash expenses and would also cause the future income stream to no longer be a *future* income stream (since it would then include past expenses); in other words, deducting either is contrary to the principles on which the CEA indicator is premised. (SAPD Analysis, p. 12.) Thus, pursuant to Property Tax Rule 8 and the AH 502's interpretation thereof, Respondent did not allow the $2.4 billion initial contribution as an expense in the CEA value indicator because the contribution was made in a previous year. (*Ibid*.)

Respondent contends Petitioner admits that the Wildfire Insurance Fund-related initial contribution is both a past, non-recurring expense and that it is now being amortized over a 20-year period[37]. Respondent states that the treatment of amortized costs in the CEA indicator of value is explained in Rule 8 and AH 502. (SAPD Analysis, p. 13.) Further, in *De Luz*, the California Supreme Court made clear that amortized costs are not deducted from the anticipated income to be capitalized.[38]

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[37] Petitioner's 2024 Form 10-K report indicates the asset was amortized over 15 years in 2022 and 2023. (SCE Form 10-K;, p. 74.)

[38] Respondent includes selected excerpts to support its summary of *De Luz.* (SAPD Analysis, p. 14.) In determining what costs would be considered in valuing a leasehold interest under a capitalization of income method, the Court held that:

> ...anticipated net earnings equal expected gross income less necessary expenditures for maintenance, operation, and taxes.[fn omitted] *No deduction is made for the cost of the lease to the present lessee, i.e., his charges for rent and amortization of improvements*, for to a prospective assignee the value of a leasehold is measured solely by anticipated gross income less *expected necessary* expenditures.

(*De Luz Homes, Inc. v. County of San Diego, supra*, p. 566, emphasis added.)

While Respondent acknowledges that the items at issue in *De Luz* were leasehold improvements, Respondent maintains the Court's reasoning applies to capitalized assets generally. (SAPD Analysis, p. 13.)

Additionally, Respondent notes that the accounting treatment of the initial contribution is undisputed: an asset titled "Wildfire Insurance Fund contributions" was created on Petitioner's balance sheet and a corresponding amortized portion is deducted on SCE's income statement. Thus, Respondent asserts that consistent with the AH 502, the *De Luz* decision, and generally accepted appraisal practice, the initial contribution's treatment for property tax valuation purposes should also be undisputed. (SAPD Analysis, p. 13.)

Then, Respondent asserts Petitioner's contention that the expense be treated like prepaid insurance and ratably deducted over some coverage period, misses the issue, which is not whether the initial contribution is prepaid insurance. Rather, respondent asserts the issue is whether the initial contribution is an ordinary, recurring expense and Petitioner has admitted that it is not in its 2024 Form 10-K.[39] (SAPD Analysis, pp. 13-14.) Respondent also contends Petitioner's argument that the amortized expense will be recurring due to the new reality of wildfires is unavailing. Respondent asserts the issue is whether the Petitioner will need to make another AB 1054-like initial contribution, something no one can know at this time. (SAPD Analysis, p. 14.)

Respondent also notes that Petitioner itself does not know how long the AB 1054 fund will last, as in 2019, SCE estimated 10 years (SCE 2020 10-k, p. 65), while in 2020-2023, the estimate was increased to 15 years in its 2020 Form 10-k (SCE 2020 10-k, p. 122.). (SAPD Analysis, p. 14.) However, Respondent notes that in 2019, the CPUC stated that "arguments positing that the fund may be exhausted before 2035 are premature." (*Ibid.;* quoting CPUC, Decision D19-12-056, p. 37.) Accordingly, Respondent concludes any deduction allowed of this initial contribution based on some

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The Court concluded:

> Furthermore, in determining the income to be capitalized to establish value for appraisal purposes, *no deduction can be made for amortization*. [Citation.] '[N]o concept of income which includes ... depreciation in capital value as a positive or negative item of income, is acceptable as a basis of valuation under the 'capitalized income method. [Citation.]
> (*Ibid*.)

[39] SAPD Analysis, pp. 14-15, citing Edison International's 2024 Form 10-K, p. 6, where SCE lists various "non-core items" that "management does not consider representative of ongoing earnings," which includes a line item under this descriptor stating, "Charges of $213 million ($153 million after-tax) recorded in 2023 and $214 million ($154 million after-tax) recorded in 2022 from the amortization of SCE's contributions to the Wildfire Insurance Fund."

likelihood that some future AB 1054-like contribution will have to be made is pure speculation. (SAPD Analysis, p. 14-15.) Because the $2.4 billion initial contribution is a past expense that need not be paid again, Respondent contends that it may be deducted as amortization in future years only for the purpose of computing accounting net income, and is not deductible from the future income stream to be capitalized for property tax purposes. (SAPD Analysis, p. 15.)

Respondent also reaffirms that while the initial contribution is not deductible, the required annual contributions to the Wildfire Insurance Fund are deductible, as they are ordinary expenses expected to be paid for a 10-year term. (*Ibid.*) Respondent notes this resulted in an allowance for a deduction for the annual contribution payments by taking the present value of the remaining annual future payments of $95 million dollars. (SAPD Analysis, p. 15.)

Finally, Respondent contends that the allowance or disallowance of the initial contributions were based on a consistent application of the same principles to all utilities that contributed to the fund. (SAPD Analysis, p. 15.) Respondent further rejects all other arguments made by Petitioner on this issue, particularly that valuation violates Article XIII, Section 1 of the California Constitution, the Due Process Clauses of the state and federal Constitutions, the Equal Protection Clauses of the state and federal Constitutions, and those that attempt to liken the initial contribution to a deductible intangible asset. (SAPD Analysis, p. 15.)

For these reasons, Respondent recommends no adjustment as to this issue.

Appeals Conference

Parties met at the Appeals Conference on October 16, 2025. At the conference, Petitioner and Respondent discussed and renewed their positions as captured in the briefings.

Applicable Law and Appraisal Principles

Burden of Proof

Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.) Therefore, Petitioner has the burden of showing that the assessment is incorrect or illegal. (*ITT World Communications v. Santa Clara* (1980) 101 Cal.App.3d 246; see also Cal. Code Regs., tit. 18, § 5541, subd. (a).)

Value Standard

See Issues 1 and 2, Applicable Law, p. 14.

Income Approach to Value

See Issues 1 and 2, Applicable Law, pp. 15-16.

The Income Approach: Amortization and Depreciation

The income approach to value is generally described as any method that converts future anticipated income into present value. (UVM, p. 35.) It is premised on the assumption that investors will buy and sell property based on the income it is *expected* to yield. (*Ibid*.) The income that is converted into present value is appraisal income, or "net return" as defined by Rule 8. (UVM, pp. 35-37; Rule 8, subd. (c).) Net return is the difference between gross return and gross outgo. (Rule 8, subd. (c).) Amortization and depreciation are explicitly excluded from gross outgo. (*Ibid*.) AH 502 explains why this is the case:

> The reference to depreciation and amortization in subdivision (c) [of Rule 8] refers to the accounting concept of depreciation (in this context, **amortization is a synonym for depreciation**). Accounting depreciation and **amortization** charges are **non-cash expenses** designed to spread, or match, the cost of a **previously incurred** cash expenditure over future accounting periods. There are at least two theoretical reasons for the exclusion of accounting depreciation charges as expenses. First, doing so incorporates the recognized cash flow concept of the amount of income to be capitalized. Second, accounting depreciation is a means of capital recovery based on past expenditures. **However, in real estate valuation the point is not to recover past expenditures, but rather to estimate the value that future income will be able to recover.**

(AH 502, p. 74; Emphases added.) In other words, amortization and depreciation are not deducted when computing the future income stream to be capitalized because doing so would artificially lower that future income stream by subtracting non-cash expenses and would also cause the future income stream to no longer be a *future income* stream, as it would include past expenses. The *Supreme Court* has confirmed this understanding in *De Luz*; the Court concluded:

> Furthermore, ***in determining the income to be capitalized*** to establish value for appraisal purposes, ***no deduction can be made for amortization***. [Citation.] '[N]o concept of income which includes ... depreciation in capital value as a positive or negative item of income, is acceptable as a basis of valuation under the 'capitalized income' method.' [Citation.]

(*De Luz Homes, Inc. v. County of San Diego, supra*, p. 566, emphasis added.)

Appeals Attorney's Analysis and Comments

Respondent is presumed to have correctly determined the value of the property at issue, and Petitioner bears the burden of proving otherwise.

Here, Petitioner contends that Respondent's calculated present value deduction for the remaining, future Wildfire Insurance Fund payments understates the annualized and prepaid-expenses associated with the full contribution to the wildfire insurance fund; instead, Petitioner asserts the initial contribution of $2.4 billion and the 10 annualized payments should be treated as prepaid insurance expenses, and capitalized within the Respondent's CEA value indicator calculation as expenses over a 20-year period, as such treatment is reasonable in its opinion, as well as consistent with its own, recently revised, accounting treatment of such expenses.

However, Respondent notes Petitioner admits the initial contribution has been amortized, and contends amortized or past, non-ordinary expenses are not properly deducted when calculating the CEA indicator, as that approach only reflects future, ordinary expenses, and not past expenses, consistent with Property Tax Rule 8 and relevant appraisal principles.

Based on the appeal record to date, the Appeals Attorney finds that Petitioner has not shown specific evidence or argument to prove error in Respondent's calculation, which deducts the present value of the future remaining annual payments of $95 million already reflected in Petitioner's 2025 Board-adopted value. Instead, Petitioner continues to assert the full $2.4 billion initial fund should be annualized and deducted as ordinary, operating expenses ($146 million annualized as asserted in Petition) as it is "reasonable" and analogous to prepaid insurance payments. However, Petitioner fails to reconcile its position with Property Tax Rule 8 and relevant Board guidance, which disallow amortized expenses from being deducted in the CEA approach which capitalizes future income.

In general, the Appeals Attorney notes the difference between the parties in this issue seems to stem from Petitioner's disagreement that accounting principles and treatment do not have directly identical treatment under relevant property tax law and appraisal principles. Additionally, Petitioner claims the expense at issue alternatively constitutes some other intangible asset that will reduce future expenses, based presumably on the fact that the initial contribution was a legal prerequisite that gave Petitioner the right to participate in the fund, but Petitioner provides no explanation, evidence or legal or appraisal authority that supports the treatment of such as an intangible or nontaxable right.

Also, Petitioner claims inequitable treatment, violation of due process and equal protection clauses, and otherwise unfair or inequitable application of relevant law compared to other state assessees but provides no evidence thereof.

At the hearing, the parties should be prepared to discuss the issue. Petitioner should be prepared to explain why the amortized initial contribution must be capitalized and reflected as an annualized ordinary expense, despite the holding in *De Luz,* and Property Tax Rule 8, and relevant Board guidance; and discuss the legal or appraisal principles that support the allowance of past, amortized expenses in the CEA approach.

Staff Comment: Rev. & Tax. Code, Section 40

As noted above, this matter is subject to R&TC section 40. The Board's decision on this petition is final. (Cal. Code Regs., tit. 18, § 5345, subd. (a)(1).) Thus, within 120 days from the date of the Board's vote to decide the appeal, a written opinion (i.e., Summary Decision or Formal Opinion) must be published on the Board's website. (Cal. Code Regs., tit. 18, § 5552, subds. (b), (f).)

Following the conclusion of this hearing, if the Board votes to decide the appeal, but does not specify whether a Summary Decision or a Formal Opinion should be prepared, staff will expeditiously prepare a nonprecedential Summary Decision and submit it to the Board for consideration at a subsequent meeting. (Cal. Code Regs., tit. 18, § 5551, subd. (b)(2).) Unless the Board directs otherwise, the proposed Summary Decision would not be confidential pending its consideration by the Board (Cal. Code Regs., tit. 18 § 5551, subd. (b)(5)); accordingly, it would be posted on the Public Agenda Notice for the meeting at which the Board will consider and vote on the Summary Decision.

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