

CALIFORNIA STATE BOARD OF EQUALIZATION

SUMMARY DECISION UNDER REVENUE AND TAXATION CODE SECTION 40

In the Matter of the Petition for
Reassessment of the 2025 Unitary Value for:

**SOUTHERN CALIFORNIA EDISON
COMPANY (0148)**

Petitioner

Appeal No.: SAU 25-003

Oral Hearing Date:
November 19, 2025¹

Representing the Parties:

For the Petitioners:

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Charles Moll, Attorney
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For the Respondent:

Sonya Yim, Attorney V
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Appeals Attorney:

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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
Board Determined Value	\$41,664,500,000	\$0	\$41,664,500,000

¹ At the oral hearing, the Board denied the petition as to all issues, by a 4-1 vote of the Members, with Vice-Chair Lieber, Member Vazquez, Member Schaefer and Controller Cohen voting aye, and Chairman Gaines voting no.

Factual Background

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.

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 utilities, the CPUC considers the utilities' 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 unitary 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 Ability⁴ (CEA) value indicator (\$35,575,639,318).

On appeal, Petitioner contends that their 2025 Board-adopted unitary value is overstated and instead request a unitary value of \$35,821,100,000. The parties met for an Appeals Conference but did not reach agreement on any of the issues raised. On November 19, 2025, the parties appeared at oral hearing before the Board.

General Contentions Raised by the Parties

Petitioner and the State-Assessed Properties Division (SAPD or Respondent) each discussed information relevant to the context of the five specific issues raised within their briefings and at the

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.

1 oral hearing; this included information related to SCE’s past, current, and future financial and
2 economic situation, the risks associated with wildfires, the context of the Board’s valuation, and the
3 state of the regulated electric generation industry as a whole. The specific issues Petitioner raised in its
4 petition are addressed under Legal Issues 1 through 5, while a summary, analysis, and disposition of
5 the general contentions is provided first to establish the context of the Board’s disposition of this
6 petition.

7 Each party provided remarks on the overall reasonableness of SCE’s 2025 Board-adopted
8 unitary value. Petitioner contends that the mere magnitude of the \$8 billion discrepancy between the
9 HCLD and CEA value indicators is unacceptable from an appraisal standpoint, which in short,
10 allegedly supports their general claim that SAPD’s appraisal is unlawful and improper. However,
11 Respondent notes that Petitioner had \$4.4 billion of asset additions this year.⁵

12 Additionally, Petitioner raises four general concerns, asserting these are the various business
13 risks and other factors affecting SCE’s 2025 unitary value: 1) the context of increasing catastrophic
14 wildfires in California; 2) California’s use of “inverse condemnation⁶,” its impact on investor-owned
15 utilities, and the uncertainty as to whether the CPUC will allow liability costs to be recovered in the
16 rate base even if the utility acts prudently⁷; 3) the challenges and cost prohibitive nature of obtaining
17 insurance coverage due to wildfire risk arising from its ordinary operations, as well as recent impacts
18 to the California homeowner’s insurance market; 4) Wildfire Mitigation Plans and the Wildfire
19 Insurance Fund, including specifically California’s Senate Bill (SB) 901⁸ (Ch. 626, Stats. 2018) and
20 the Wildfire Insurance Fund created by Assembly Bill (AB) 1054⁹ (Ch. 79, Stats 2019), which

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22 ⁵ Respondent notes the approximately \$4.4 billion in additions is exclusive of both retirements and approximately \$2.8
23 billion construction work in progress (CWIP).

24 ⁶ Inverse condemnation is a legal concept that entitles property owners to just compensation if their property is damaged by
25 a public use. This liability rule applies to all government agencies, as well as utilities. After a wildfire, inverse
26 condemnation is the way that victims of fires (residents, businesses, and local agencies) recover their costs. See League of
27 California Cities “Inverse Condemnation Fact Sheet” <https://www.counties.org/post/inverse-condemnation-fact-sheet>

28 ⁷ 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 based on a finding that SDG&E had not taken
reasonable actions prior to 2007 and thus had not properly invoked inverse condemnation to allow cost sharing through
utility rates. (CPUC, App. No. 15-09-010 and Decision 17-11-033.)

⁸ SB 901 established, among other provisions, CPUC’s reasonableness review of utility activities to determine whether 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.

⁹ Assembly Bill 1054 (Ch. 79, Stats. 2019) (AB 1054) created a \$21 billion fund by requiring 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.

1 statutorily required Petitioner to make an initial contribution of \$2.4 billion, and 10 annual
2 contributions of \$95 million each, and Petitioner’s statutory requirement to maintain reasonable
3 insurance coverage, which must be exhausted prior to Wildfire Insurance Fund reimbursement
4 becoming available to Petitioner.¹⁰

5 However, Respondent notes that the broad risks Petitioner cited do not acknowledge the
6 adjustments already within Petitioner’s 2025 Board-adopted unitary value. Respondent highlights four
7 specific adjustments which have already been included in SCE’s 2025 Board-adopted value:

- 8 • AB 1054 requires SCE to pay an additional \$95 million per year for five
9 additional years into the wildfire fund. Staff has made an adjustment to account for this
10 requirement which resulted in an approximately \$112 million value reduction.
- 11 • SCE has requested a .85% wildfire risk premium be added to its capitalization
12 rate. Staff has made an adjustment to account for this request.
- 13 • AB 1054 requires SCE to make \$1.6 billion in capital expenditures over a three-
14 year period for fire risk mitigation purposes. AB 1054 precludes SCE from earning an
15 equity return on these capital expenditures. Staff has made an adjustment to account for
16 SCE’s inability to earn an equity return on these expenditures.
- 17 • Staff made an obsolescence adjustment to the HCLD indicator to acknowledge
18 additional obsolescence resulting from the .85% equity risk premium addition to the
19 capitalization rate.

20 Respondent states that, in each of the last five years, the Board has rejected Petitioner’s
21 requests for extraordinary wildfire adjustments that were based on a general increase in business risk
22 due to wildfires, including inverse condemnation, because those risks have already been accounted for
23 in its valuation.¹¹ Further, Respondent notes these are the same arguments the CPUC rejected in SCE’s
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27 ¹⁰ Petitioner also notes that maintaining \$1 billion of insurance coverage has become increasingly expensive, citing \$450
28 million in costs for FY 2022-2023, and estimates those costs will increase, which questions their ability to obtain a
reasonable amount of wildfire insurance.

¹¹ 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. We note 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.

1 request for a wildfire risk premium adjustment to increase the return on equity¹² (ROE) allowed in
2 2019. (CPUC Decision 19-12-056 (Dec. 19, 2019), pp. 40-41.)¹³ The CPUC held that:

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

8 (*Ibid.*) Further, Respondent notes that the CPUC’s final conclusion was that “We find that the passage
9 of AB 1054 and other investor supportive policies in California have mitigated wildfire exposure faced
10 by California’s utilities.” (*Id.*, at p. 37.) The CPUC also stated, “[b]ased on the above financial,
11 business, and regulatory risks discussion, we conclude the ROE ranges adopted in the
12 proceedings...adequately compensate the utilities for these risks.” (*Id.*, at p. 40.) Respondent notes that
13 Petitioner also recognized its significant reduction of risk of liability, as Petitioner voluntarily
14 significantly reduced its ROE increase request in the CPUC case following the passage of AB 1054
15 from 6 percent to .85 percent, which was also ultimately rejected by the CPUC. (*Id.*, at p. 28.)

16 Respondent states that in 2022 the CPUC affirmed its 2019 decision that “AB 1054 has
17 substantially mitigated wildfire liability as well as liquidity concerns” and lowered Petitioner’s ROE
18 by .25 percent to 10.05 percent even though Petitioner had again asked for an increase, in part, due to
19 wildfire risk.¹⁴ Finally, Respondent notes that in 2024, the CPUC set Petitioner’s 2025 ROE at 10.33%
20 and did not mention wildfire risk at all in its decision.¹⁵

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24 ¹² A utility’s Rate of Return, or Cost of Capital, is the weighted average cost of debt, preferred equity, and common stock, a
25 utility has issued to finance its investments. Return on Equity (ROE) is the return to common equity. The CPUC attempts
26 to set the authorized ROE at a level that is adequate to enable the utility to attract investors to finance the replacement and
27 expansion of its facilities so it can fulfill its public utility service obligation. In practice, this level is determined by
28 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 Nov. 4, 2025.]

¹³ 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].

¹⁴ California Public Utilities Commission Decision 22-12-031 (Dec. 15, 2022), p. 48.

¹⁵ California Public Utilities Commission Decision 24-10-008 (Oct. 17, 2024), p. 36.

1 Respondent states that though there still exists a risk of catastrophic wildfires by Petitioner's
2 business, the CPUC and the credit markets recognize that such risk has been significantly reduced.
3 Respondent points to Petitioner's press release recognizing a significant reduction to its risks, stating,
4 "[it] has reduced the probability of catastrophic wildfires associated with its equipment by about 75%-
5 80% since 2018".¹⁶ Further, Respondent notes that Fitch Ratings, one of the three major credit rating
6 agencies, upgraded Petitioner's long-term issuer credit ratings from 'BBB-/Outlook Positive to
7 'BBB'/Outlook Stable.¹⁷ Respondent notes this opinion was reviewed and reconfirmed by Fitch on
8 December 18, 2023.¹⁸ Respondent also maintains that any increase to ordinary insurance cost is
9 already accounted for in its appraisal.

10 Petitioner contends that Respondent made a single adjustment by adding a 0.85% wildfire risk
11 premium to the capitalization rate that adjusts Petitioner's CEA indicator. However, according to
12 Petitioner, that single adjustment does not fully capture the external obsolescence shown by Petitioner.
13 Petitioner further contends that Respondent's other "purported" adjustments did not adequately address
14 external obsolescence and are misleading for several reasons.

15 With respect to the adjustment for the \$95 million annual contributions to the wildfire fund,
16 Petitioner claims that Respondent simply allowed a deduction for an insurance premium that Petitioner
17 already claimed as allowed by Rule 8. Petitioner further claims that Respondent increased the value of
18 Petitioner's CEA indicator by declining to remove from Petitioner's capitalized income stream the
19 largest economic component of the Wildfire Insurance Fund premium which was the upfront payment
20 of \$2.4 billion for prepaid insurance. According to Petitioner, this \$2.4 billion payment was a prepaid
21 insurance premium and a deduction for that should have been spread ratably over future years.

22 Petitioner further argues that Respondent incorrectly claims it made adjustment to account for
23 Petitioner's inability to earn an equity return on the wildfire mitigation capital expenditures required
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26 ¹⁶ Edison International, Southern California Edison Improves Grid Safety, Significantly Reduces Wildfire Threat (March
27 27, 2023) <[Southern California Edison Improves Grid Safety, Significantly Reduces Wildfire Threat | Edison International
28 Newsroom](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.) 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](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.)

¹⁷ 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 \(fitchratings.com\)](https://www.fitchratings.com/entity/southern-california-edison-company-80088928)> (as of Nov. 4,
2025.)

¹⁸ <https://www.fitchratings.com/entity/southern-california-edison-company-80088928> (As of Nov. 4, 2025.)

1 by AB 1054, which are statutorily excluded from rate base. Contrary to Respondent's claim that the
2 adjustment resulted in a \$700 million value reduction, Petitioner asserts that Respondent negated this
3 adjustment by erroneously increasing Petitioner's HCLD indicator by \$1.4 billion as an AB 1054
4 securitization cost addback, resulting in a net increase of \$700 million to Petitioner's overall value.
5 Finally, Petitioner argues that Respondent's 0.85% wildfire risk premium adjustment which reduces
6 the CEA indicator by approximately \$2 billion was offset by Respondent's disallowance of wildfire-
7 related expenses of \$793 million which increased the CEA indicator by over \$8.3 billion resulting in a
8 net increase of over \$6 billion.

9 Applicable Law and Appraisal Principles

10 Burden of Proof

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

15 Analysis and Disposition of General Contentions

16 Respondent is presumed to have correctly determined the value of the property at issue, and
17 petitioner bears the burden of proving otherwise. Here, Petitioner contends that the mere magnitude of
18 the \$8 billion discrepancy between the HCLD and CEA value indicators is unacceptable from an
19 appraisal standpoint and proves that economic conditions, risk, and other uncertainties were not fully
20 considered by Respondent and supports Petitioner's claim that the Board-adopted unitary value is
21 unlawful and improper.

22 However, Respondent confirms it has considered many factors in its assessment, including
23 those Petitioner mentions, and discusses certain adjustments made in the calculation of Petitioner's
24 2025 unitary value that reflect the consideration of risk, including the allowance of a 0.85 percent
25 wildfire risk premium added to the capitalization rate. Additionally, Respondent raises Petitioner's
26 prior CPUC proceeding as additional evidence that such risk was viewed as adequately captured in the
27 rate base; however, we note that while such a finding has relevance to the determination of the rate
28 base utilized by Respondent in the development of the HCLD value indicator, Petitioner's specific

1 factual contentions and legal issues have been fully considered by this Board, herein, as a case of first
2 impression.

3 While these general risks and factors are relevant to the context of this appeal, we find that no
4 general concern raised proves that Respondent erred in the calculation of Petitioner's 2025 Board-
5 adopted unitary value. Further, we also find that, to the extent that Petitioner is using these general
6 risks and factors to assert that specific errors exist within the 2025 Board-adopted unitary value,
7 Petitioner bears the burden of proof regarding the specific legal issues raised herein.

8
9 **Legal Issues 1 and 2: Whether Petitioner Has Shown that Respondent Failed to Reconcile the**
10 **Historical Cost Less Depreciation (HCLD) Value Indicator and the Capitalized Earning Ability**
11 **(CEA) Indicator of Value and/or Otherwise Erred in Placing 75 Percent Reliance on the HCLD**
12 **Value Indicator and 25 Percent Reliance on the CEA Indicator of Value.**

13 **Findings of Fact and Related Contentions**

14 Based on the contentions described below, Petitioner requests that the Board revise its 2025
15 unitary value by placing 25 percent reliance on the HCLD value indicator and 75 percent reliance on
16 the CEA value indicator rather than utilizing Respondent's reconciliation of the two value indicators.

17 First, Petitioner asserts Respondent's appraisal is flawed as the two value approaches utilized
18 produced widely varying results. Petitioner alleges that due to this disparity, and as Respondent's
19 analysis does not explicitly state the value approaches were reconciled, Respondent must have decided
20 to simply place 75 percent reliance on the HCLD value indicator and 25 percent reliance on the CEA
21 value indicator without reconciliation, which, in Petitioner's opinion, is contrary to the guidance
22 provided by the Assessors' Handbook (AH), section 501, *Basic Appraisal* (AH 501). Petitioner also
23 asserts that the disparity in value indicators signals the existence of substantial obsolescence or
24 impairment, as the AH 502, *Advanced Appraisal*, warns is possible.

25 Second, Petitioner asserts that its claim of improper weighting is underscored by Respondent's
26 admission that Respondent used the same reliance to value Petitioner's property in each of the past 10
27 years, despite recent changes in circumstances and increasing risks and costs related to the ownership
28 of Petitioner's property.

1 Petitioner further asserts that Property Tax Rule¹⁹ 8 indicates the income approach must be
2 given greater reliance. Petitioner states that rate base is intended to achieve a fair balance between what
3 ratepayers bear and what utility shareholders earn, and not to establish the fair market value of the
4 utility's property. Petitioner further argues that the HCLD indicator is unreliable when Respondent
5 includes assets not included in the rate base and does not recognize impairments due to regulatory
6 restrictions placed on certain assets (i.e., the inability to earn a return). Moreover, Petitioner argues that
7 greater reliance on the income indicator captures economic impairment due to wildfire risks and
8 increased regulatory restrictions. Petitioner notes that the Ernst & Young, LLP (EY) report it
9 commissioned in the SAU 20-015 appeal of its 2020 unitary value, supports its view and reconciles the
10 two approaches appropriately, in its opinion.

11 Petitioner further contends that Respondent acknowledges a limited understanding of
12 "regulatory lag"²⁰ but, nonetheless, maintains that the CEA indicator should be given less reliance in
13 the calculation of Petitioner's unitary value, which Petitioner views as contrary to Rule 8. Petitioner
14 asserts that the changes that have taken place during the last 10 years in terms of wildfires and shifts in
15 the business environment and regulatory restrictions, coupled with Respondent's failure to reconcile
16 the \$8 billion difference in the HCLD and CEA approaches have rendered Respondent's appraisal
17 completely disconnected from what a willing buyer would pay.

18 Petitioner asserts that its argument that the difference between the two value indicators is
19 attributable to obsolescence is supported by the AH 502, *Advanced Appraisal*, which states a "CEA
20 indicator which is much lower than HCLD may indicate that obsolescence exists in the property."
21 Additionally, Petitioner argues that the risk of increasing wildfires caused by climate change creates
22 external obsolescence, which adversely impacts the value of Petitioner's property and is not reflected
23 in the HCLD approach, whereas the CEA approach does account for all forms of depreciation.

24 Respondent asserts that the HCLD and CEA value indicators were properly calculated and
25 reconciled, consistent with relevant law and appraisal guidance. Respondent notes that significant
26 differences in the two value approaches can and may occur, as stated in the AH 501 *Basic Appraisal*,
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28 ¹⁹ All references to "Property Tax Rule" or "Rule(s)" are to sections of title 18 of the California Code of Regulations.

²⁰ 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.

1 without compromising the validity of the underlying value approach, quoting:

2 The reconciliation of value indicators from the separate approaches to value and the
3 resulting final value estimate is the next step in the appraisal process. *Theoretically*, the
4 approaches to value should produce identical value indicators. *In practice, however,*
5 *this is rarely the case, and significant differences may occur.* To produce a final value
6 estimate, the appraiser reconciles the indicators from each approach utilized. Value
7 indicators should be reconciled considering: (1) the appropriateness of the approach
8 given the purpose of the appraisal; and (2) the adequacy and reliability of the data
9 available to perform the appraisal. The appraiser should examine and reconcile all
10 value indicators.

11 (AH 501, p. 62, italics added.) Specifically, Respondent notes that when analyzing and reconciling
12 value indicators to arrive at a final value estimate, the criteria described in the AH 502, *Advanced*
13 *Appraisal* should be considered:

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

24 (AH 502, p. 111; italics added.)

25 Respondent notes the HCLD approach is a reliable indicator of market value for closely
26 regulated public utilities like Petitioner, because the HCLD approach, with some modification,
27 approximates the rate base that regulators use in establishing revenue requirements. (citing *Unitary*
28 *Valuation Methods (UVM)* (2003), p. 1.) The HCLD approach 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.

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

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

7 (*UVM*, p. 1. Emphasis added.)

8 Respondent also notes that Property Tax Rule 8, subdivision (a), indicates the CEA value
9 indicator is appropriate to use when the property has “an established income stream...,” and here,
10 Petitioner has an established income stream.

11 Respondent states that consistent with the relevant HCLD and CEA value indicator authorities
12 and considerations, because Petitioner is a utility rate regulated by the CPUC, Respondent considered
13 HCLD to be the most reliable indicator of value, placing 75 percent reliance on the indicator.

14 Respondent notes that Petitioner experienced “regulatory lag” due to Petitioner’s significant growth in
15 actual and planned capital expenditures to replace and expand distribution and transmission
16 infrastructure, and to construct and replace generation assets. Accordingly, in Respondent’s opinion, it
17 is appropriate to weight the CEA value indicator 25 percent to account for regulatory lag in rate
18 adjustment for items on which Petitioner is not currently earning a return.

19 Respondent also notes the 75/25 percent reliance on the HCLD and CEA indicators,
20 respectively, is the same reliance used by Respondent to value Petitioner’s property in each of the past
21 14 years, as well as the same reliance Respondent places on the value indicators of other investor-
22 owned, rate-regulated utilities. While Petitioner sees this consistency as a flaw or indication that
23 changes have not been made to reflect factors related to the climate, utility industry, and to Petitioner’s
24 specific circumstances, Respondent asserts Petitioner ignores the fact that a change in weighting is not
25 the sole method by which significant value adjustments can be made to reflect such factors.

26 Respondent also notes that Petitioner’s assertion that the difference between the HCLD and
27 CEA approaches is entirely attributable to economic obsolescence is wholly unsubstantiated. Further,
28 Respondent notes it is unclear how Petitioner arrived at its requested weighting of the CEA and HCLD
indicators. Respondent points out that in 2020, Petitioner requested 50 percent weighting of the CEA
value indicator in its original petition. Then in 2021, Petitioner requested a 35 percent weighting of the

1 CEA value indicator based on the same arguments, with no explanation for the change. For 2025
2 Petitioner requests a 75 percent weighting of the CEA value indicator based on the same arguments
3 and presumptive risk analysis developed in 2020, without explanation for the change. Respondent
4 concludes that Petitioner has not provided a basis for the reconciliation of the value indicators it
5 requests in this petition in an “analytical manner” that is based on a “reasoned and defensible opinion
6 of verified market data”. (AH 502, p. 62.)

7 Applicable Law and Appraisal Principles

8 Burden of Proof

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

13 Value Standard

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

21 HCLD Approach to Value

22 Property Tax Rule 3, subdivision (d) provides the HCLD approach to value shall be
23 considered “[i]f the income from the property is regulated by law and the regulatory agency uses
24 historical cost or historical cost less depreciation as the rate base, the amount invested in the property
25 or the amount invested less depreciation computed by the method employed by the regulatory
26 agency.” HCLD, with some modification, approximates the rate base that regulators use in
27 establishing revenue requirements. (See *UVM*, p. 1.) HCLD reflects the market value contribution of
28 all taxable property including the depreciated historical cost of plant in service, possessory interests,

1 construction work in progress, and materials and supplies. (AH 502, p. 146.) HCLD is,
2 one of the more important indicators of value for closely regulated public utilities. The general
3 practice of the California Public Utilities Commission (CPUC) and most other regulatory
4 agencies is to use historical or original cost less depreciation (with various adjustments) as the
5 rate base. The regulatory agencies establish a rate base and a rate of return; utilities are
6 permitted to earn at this established rate on the rate base.

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

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

11 (UVM, p. 1.)

12 **Depreciation and the Cost Approach**

13 In general, the cost approach recognizes three types of depreciation: physical deterioration,
14 functional obsolescence, and external, or economic, obsolescence, through the application of the
15 Board's replacement cost new trend factors and "percent" good factors. Obsolescence may occur when
16 property is outmoded (functional obsolescence) or when some event has substantially diminished the
17 future earning power of the property (economic obsolescence). (See AH 501, *Basic Appraisal* (January
18 2002), pp. 80-83.) Functional obsolescence is the loss of value in a property caused by the property's
19 loss of capacity to perform the function for which it was intended. (*Id.* at p. 81.) Economic
20 obsolescence is the diminished utility of a property due to adverse factors external to the property
21 being appraised and is incurable by the property owner. (*Id.* at p. 82.) The existence of any additional
22 or extraordinary obsolescence must be supported with verifiable documentation and evidence,
23 consistent with Board Guidelines. (See Property Tax Rule 6, subds. (d) & (e); AH 502, *Advanced*
24 *Appraisal* (Reprinted January 2015) (AH 502), pp. 20-21; *Unitary Valuation Methods*, (2003), p. 30;
25 and Cal. Bd. of Equalization, *Guidelines for Substantiating Additional Obsolescence*, at p. 1.)

26 **Income Approach to Value**

27 Property Tax Rule 8, subdivision (a), states that "the income approach is used in conjunction
28 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

1 to value as the valuation method whereby, “an appraiser values an income property by computing the
2 present worth of a future income stream. This present worth depends upon the size, shape, and
3 duration of the estimated stream and upon the capitalization rate at which future income is discounted
4 to its present worth.” Subdivision (c) provides that “the amount to be capitalized is the net return
5 which a reasonably well-informed owner and reasonably well-informed buyers may anticipate on the
6 valuation date that the taxable property existing on that date will yield under prudent management and
7 subject to legally enforceable restrictions as such persons may foresee as of that date.”

8 **Reconciliation of Value Indicators**

9 Property Tax Rule 3 requires that, in estimating value, the assessor shall consider one or more
10 of the approaches to value “as may be appropriate for the property being appraised,” which includes
11 the comparative sales approach, the cost approach (e.g., HCLD valuation methodology), or the
12 income approach (CEA valuation methodology). The appropriateness of an approach is often related
13 to the type of property being appraised and the available data. (AH 502, p. 109.) In addition, the
14 validity of a value indicator will depend upon the accuracy of data and adjustments made to the
15 approach. That is, the accuracy of a value indicator depends on the amount of available comparable
16 data, the number and type of adjustments, and the dollar amount of adjustments. Finally, if a large
17 amount of comparable data is available for a given approach, the appraiser may have more confidence
18 in that approach. For example, if income, expense, and capitalization rate data can be obtained from
19 many properties comparable to the subject, the appraiser may attribute significant accuracy to the
20 income approach. The greatest reliance should be placed on that approach or combination of
21 approaches that best measures the type of benefits the subject property yields. The final value estimate
22 reflects the relative weight that the appraiser assigned, either implicitly or explicitly, to each approach.
23 (AH 502, p. 112.)

24 **Analysis and Disposition**

25 Respondent is presumed to have correctly determined the value of the property at issue, and
26 Petitioner bears the burden of proving otherwise. Here, Petitioner contends that because Respondent’s
27 calculated HCLD value indicator exceeds the CEA value indicator by approximately \$8 billion, the
28 2025 Board-adopted unitary value is flawed, as the various approaches to value must yield

1 approximately the same results. Further, Petitioner asserts differences of such a magnitude indicate that
2 the value indicators were not properly reconciled, as required by Property Tax Rule 3 and Board
3 Guidance, but instead Respondent “simply states that the final value estimate is an appraiser’s opinion
4 of value.” However, as Board guidance and Respondent note, significant differences may occur in
5 validly calculated indicators. (AH 501, p. 62.) Petitioner asserts that the difference in the two valuation
6 approaches must be due to additional, uncaptured economic or functional obsolescence but submits no
7 additional evidence to substantiate this claim. However, Respondent has conducted its appraisal by
8 calculating and reconciling the HCLD and CEA value indicators, consistent with relevant law and
9 appraisal guidance.²¹ Respondent notes significant differences in the two value approaches can and
10 may occur, as stated in AH 501 *Basic Appraisal*, without compromising the validity of the underlying
11 value approaches. Respondent maintains that in light of all available evidence, it was reasonable and
12 appropriate to place 75 percent reliance on the HCLD value indicator, as the HCLD value indicator is a
13 reliable indicator of value for closely regulated public utilities and that reliance reflects the
14 consideration of many factors, including: Petitioner’s “regulatory lag”, Petitioner’s established income
15 stream, the relative reliance placed on the value indicators of other rate-base regulated utilities, and
16 consistency with Property Tax Rules 3, 6, and 8, as well as relevant Board guidance.

17 Based on the evidence and arguments submitted, we find that Petitioner has not provided
18 specific evidence or argument to prove that its HCLD indicator reliance is overstated, nor has
19 Petitioner shown that greater reliance should be placed on the CEA value indicator. Further, Petitioner
20 has not shown that Respondent failed to reconcile the two valuation approaches. Finally, we note
21 Petitioner’s claim that the difference in the HCLD and CEA value indicators is due to additional,
22 uncaptured obsolescence is unsupported in the evidentiary record. For the foregoing reasons, we find
23 that Petitioner has not met its burden of proof as to these two issues.

24
25 **Legal Issue 3: Whether Petitioner Has Shown that Respondent Must Adjust the Board-Adopted**
26 **Value for Petitioner’s Accrual of Liabilities for the 2017/2018 Wildfires and Mudslides.**

27 **Findings of Fact and Related Contentions**
28

²¹ Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)

1 Petitioner asserts the 2025 Board-adopted unitary value does not account for SCE's accrual for
2 liabilities for the 2017/2018 wildfires and mudslides, erroneously disregarding costs for estimated
3 claims and settlements before the enactment of AB 1054, just as Respondent has done previously in
4 its 2019 through 2024 assessments. Petitioner argues that Respondent must make adjustments to
5 reflect the expected losses and settlement payments in SCE's unitary assessments, as valuation of a
6 going concern would require consideration of forecasted future expenses because a potential buyer
7 would become responsible for those liabilities and factor those obligations into the purchase price. On
8 this basis, Petitioner requests an adjustment of \$903 million to account for these operating expenses
9 above and beyond insurance recoveries.

10 Petitioner asserts that Respondent ignores Petitioner's wildfire-related expenses as past
11 expenses that are not anticipated to be incurred again in the future. Petitioner refutes this treatment by
12 stating that its request for an adjustment of \$903 million represents quantifiable operating expenses
13 which negatively impact the going concern value of its property, rather than a contractual or financing
14 liability. Petitioner contends such expenses are ordinary and necessary parts of SCE's operation as a
15 going concern, and even if they were not ordinary in the "new normal" of year-round wildfires in
16 California, Respondent does not provide citation to support excluding a non-ordinary expense that is
17 anticipated in the future.²² Petitioner further asserts that Rule 8 and the AH 502 require the inclusion
18 of anticipated income and operating expenses, and that Respondent cites no authority to exclude a
19 non-ordinary expense that is anticipated in the future.

20 Petitioner does not dispute that the liabilities at issue stem from 2017 and 2018 events but
21 asserts that Respondent is wrong that these claims and settlements will not continue to increase or be
22 paid in the foreseeable future. Between December 31, 2023, and December 31, 2024, Petitioner
23 claims to have accrued additional losses of \$743 million additional losses related to these events.
24 Petitioner states that it has also paid \$10 billion in settlements related to the events through December
25 31, 2024. Additionally, Petitioner notes that AB 1054's remedies do not address the losses and
26

27 _____
28 ²² 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.

1 settlements related to the 2017 and 2018 Wildfire/Mudslide events, as it only covers wildfires
2 occurring on or after July 12, 2019.

3 Respondent argues that it is unclear why these liabilities, which arguably reduce the value of
4 Petitioner's *business* as a going concern, necessarily result in a reduction to the value of its *property*
5 as a going concern or its taxable unitary value, nor why Petitioner equates the valuation of its *property*
6 as a going concern with the value of its *business* as a going concern, as none of the authorities
7 Petitioner cites supports that proposition.

8 Respondent notes that consistent with the California Constitution Article XIII, section 1, the
9 standard of value for property tax assessment is fair market value. Further, for state-assessed
10 properties, the California Supreme Court has stated:

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

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

19 "Going concern value" is a term that has been used in a variety of contexts, and more
20 than one definition of the term can be found in the appraisal literature. Also, there are
21 different meanings for California property tax purposes and more than one meaning even
22 within California property tax law.

23 ¶ ... ¶

24 Outside the property tax arena, going concern appraisals are commonly conducted for
25 hotels and motels, restaurants, bowling alleys, industrial enterprises, shopping centers,
26 retail stores, and similar business operations using real property. Generally, the real
27 property is considered an integral part of the business operation. Without an allocation
28 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.*

(AH 502, p. 157, italics and underlining added by Respondent.) Accordingly, Respondent notes the

1 unitary value reflects the total market value of all taxable *property* as a unit owned or used by
2 Petitioner, not the “firm value,” which can be thought of as an estimate of the price a potential buyer
3 might be willing to pay for the entire *business*. Respondent contends the entire business or firm value,
4 by itself, is not relevant to California unitary property taxation. Respondent also remarks that this
5 context is the reason that the CPUC’s consideration of liabilities in evaluating a proposed acquisition is
6 irrelevant, because the CPUC is instead evaluating the *entire business*.

7 Respondent goes on to note that Petitioner’s equating of “firm value” with the value of the
8 entire company, i.e., requiring a decline in the unitary value of taxable property when firm value
9 declines, ignores the fundamental difference between the value of “the entire company” and the unitary
10 value of “the company’s taxable property.” Instead, because Petitioner’s “wildfire-related claims” are
11 payments for the settlement or potential settlements of litigation arising out of wildfires and mudslides
12 that occurred in 2017 and 2018, Respondent notes it does not reduce the value of Petitioner’s taxable
13 property.

14 Additionally, Respondent contends Petitioner’s request for the same deduction from the CEA
15 value indicator is also not appropriate for the same reasons. Respondent notes the premise of the CEA
16 calculation is to convert (or capitalize) a *future* income stream into present worth (Rule 8, subd. (a).),
17 and the amount to be capitalized is:

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

21 (Rule 8, subd. (c), italics added.) Thus, Respondent contends that neither past nor non-ordinary
22 expenses may be deducted from a future income stream to be capitalized. Accordingly, as Respondent
23 notes the costs for which Petitioner seeks a reduction are past expenses and, regardless of whether
24 other wildfire or mudslide liabilities will ordinarily be incurred again in the future, it is undisputed
25 that the particular liabilities at issue have been accrued from the 2017 and 2018 wildfires and
26 mudslides, all of which will not recur.

27 Finally, Respondent notes that Petitioner appears to be arguing that these past liabilities are
28 deductible when calculating the CEA value indicator because they will actually be paid at some time in

1 the future; however, Respondent notes the mere fact that they may be paid in the future does not mean
2 that such expenses qualify as deductible, ordinary operating expenses.

3 Applicable Law and Appraisal Principles

4 Burden of Proof

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

9 Value Standard

10 See Issues 1 and 2, Applicable Law, p. 12.

11 HCLD Approach to Value

12 See Issues 1 and 2, Applicable Law, pp. 12-13.

13 Income Approach to Value

14 See Issues 1 and 2, Applicable Law, pp. 13-14.

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

21 Analysis and Disposition

22 Respondent is presumed to have correctly determined the value of the property at issue, and
23 Petitioner bears the burden of proving otherwise. Petitioner contends that Respondent’s calculated
24 unitary value inappropriately excludes Petitioner’s \$903 million in liabilities related to the 2017 and
25 2018 wildfires and mudslides and requests a corresponding reduction to each value indicator.
26 Petitioner asserts such an adjustment is necessary as the liabilities reduce its firm value, or going
27 concern as a business, and certainly would be considered by any prospective buyer or the CPUC in any
28 proposed transaction. Further, Petitioner contends such an adjustment to the CEA value indicator

1 calculation is necessary as such expenses are ordinary and recurring, as liabilities have continued to
2 accrue in the current year related to the 2017/2018 Wildfires/Mudslides. Petitioner further contends
3 Respondent misinterprets Property Tax Rules and Assessors' Handbook guidance by denying
4 Petitioner's requested adjustments to the HCLD and CEA value indicators.

5 However, as Respondent points out, Petitioner has provided no legal or appraisal authority to
6 support its proposed deduction of the past and non-ordinary expenses related to its pre-AB 1054
7 liabilities. For purposes of the HCLD approach, Petitioner does not provide evidence or authority to
8 show that such liabilities reduce Petitioner's property value. Additionally, as Respondent points out,
9 for purposes of the CEA approach, such a deduction would be directly contrary to Property Tax Rule 8
10 and relevant Board guidance. Further, no legal or appraisal support is provided with respect to the
11 proposed deduction to the HCLD or CEA value indicators, as such expenses are undisputedly related
12 to past events that are unlikely to occur in the future, even if the liability from such past events is still
13 being finalized as remaining claims are settled, litigated, and paid.

14 We find that Petitioner has not proven that Respondent erred by not deducting the claimed
15 expenses from both the CEA and HCLD value indicators, nor has Petitioner shown that such expenses
16 represent ordinary and future, anticipated operating expenses. Further, we concur with the Respondent
17 that such expenses are explicitly excluded as deductions from the CEA approach under Property Tax
18 Rule 8. It is undisputed that the liabilities at issue here are a result of past wildfires and mudslides (in
19 2017 and 2018), which are not appropriate to deduct from a future income capitalization. Based on the
20 foregoing, Petitioner has not met its burden of proof as to this issue.

21
22 **Legal Issue 4: Whether Petitioner Has Shown that Respondent Improperly Assessed \$700 million**
23 **in Wildfire Mitigation Capital Expenditures in the HCLD Value Indicator**

24 **Findings of Fact and Related Contentions**

25 Petitioner contends that Respondent improperly assessed wildfire mitigation capital
26 expenditures, based on the incorrect assumption that these assets generate a cash flow from ratepayers
27 and allow SCE to realize a return on investment for these expenditures. Petitioner contends that under
28 AB 1054, SCE is required to make capital expenditures for the wildfire mitigation fund and is

1 precluded from earning both a return of and a return on the investment. Petitioner asserts the inclusion
2 of these expenditures improperly results in approximately \$700 million that should be removed from
3 SCE's HCLD indicator.

4 Petitioner further asserts that a potential buyer would not have the opportunity to recover the
5 wildfire mitigation capital expenditures and thus would conclude that the first \$1.6 billion of wildfire
6 mitigation capital expenditures have little or no value. Petitioner cites the analysis in the draft 2020
7 EY report to support its position that a prospective buyer would not pay for a \$1.6 billion capital
8 expenditure that produces no return. Petitioner argues that Respondent's appraisal assumes that the
9 expenditures are being capitalized and included in the rate base, on which utilities are permitted to
10 earn a return, and concludes that if the capital expenditures are not included in Petitioner's rate base,
11 they must be removed from the HCLD value indicator.

12 Petitioner then argues that, in the alternative, these capital expenditures are intangible assets
13 exempt from taxation, as such expenditures are statutorily required for Petitioner to continue to
14 operate, and thus confer intangible rights upon SCE and any future purchaser.

15 Petitioner then adds that the property it spent \$1.6 billion replacing has been discarded, so
16 even if Petitioner may have the right to continue to receive a return with respect to the formerly
17 owned property, such property is no longer owned by Petitioner and the right to receive a return on
18 the former property is an intangible right not assessable for property tax purposes. Further, the cost of
19 this property should be removed from the HCLD indicator, and the income Petitioner receives with
20 respect to this intangible right should be excluded from the CEA indicator.

21 Petitioner notes that the Board's guidance from the Unitary Valuation Manual, page 1 states
22 that "*it is logical that prospective buyers and sellers would see the rate base as a significant factor in*
23 *formulating investment decisions.*" Petitioner contends that Respondent incorrectly argues that
24 "[w]hether property is or is not included in the rate base of a regulated utility, however, is not solely
25 determinative of whether it has 'value' and must or must not be included in HCLD. . . . Therefore, it is
26 not true that all costs excluded from rate base must be excluded from HCLD." As support for its
27 position, Petitioner states that Respondent cites a narrow misleading excerpt from the AH 502, pages
28 146-147 as follows, "The HCLD for property tax appraisal purposes, therefore, differs from the rate

1 base as established by the regulatory agency. Some items included in the rate base are not included in
2 the HCLD and some items not included in the rate base are included in the HCLD.”

3 Petitioner contends that while Respondent argues that Petitioner is being paid back for its cost
4 through a special surcharge paid by ratepayers, CPUC D.20-11-007 requires that the
5 special surcharges collected from ratepayers will be used to repay the bondholders of the Recovery
6 Bond, such that Petitioner will not recover either a return of or a return on the wildfire mitigation
7 investments. Petitioner then argues that Respondent ignores basic valuation principles, as Petitioner
8 contends that to have value assets must produce income, or, under the HCLD approach, must be
9 included in the rate base.

10 Respondent contends no adjustment is appropriate for this issue. Respondent notes Petitioner
11 essentially argues that because these costs are not included in rate base, these assets have no value and
12 must be excluded entirely from the HCLD value indicator. However, Respondent explains that whether
13 property is included in the rate base of a regulated utility is not solely determinative of whether it has
14 “value” for property tax purposes and is thus included in the HCLD indicator. Respondent cites the AH
15 502 as follows:

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

19 (AH 502, p. 146-147.) Respondent contends that Petitioner’s position that all costs excluded from rate
20 base must be excluded from HCLD is incorrect.

21 Specifically, Respondent notes the wildfire mitigation capital expenditures have value, as
22 Petitioner spent \$1.6 billion to purchase those assets and if not, Petitioner (or any potential purchaser)
23 would not be compliant with AB 1054. Respondent recognizes that there is an effect on value to these
24 capital expenditures being excluded from the rate base and contends that a proper adjustment has been
25 made to Petitioner’s 2025 Board-adopted value.²³ Respondent notes when making capital expenditures,
26 firms expect both a “return of” their invested capital as well as a “return on” their invested capital.
27 Respondent notes a “return of” capital accounts for a recovery of the investment while a “return on”
28

²³ Approximately \$700 million was deducted from the HCLD value indicator.

1 capital accounts for a “economic reward” for making an investment. (AH 502, p. 62.) Both of these
2 components are captured in the capitalization rate, which provides explicitly or implicitly for both the
3 return of and the return on capital.

4 Respondent contends that because AB 1054 prohibits Petitioner from earning a return on
5 equity but does not prohibit earning a “return of” or a debt return on its capital expenditure,
6 Respondent made appropriate adjustments to the HCLD indicator by calculating the present value
7 of the income using a discount rate that excludes the equity portion of the capitalization rate. The
8 excluded equity portion represents the return *on* the investment and properly leaves in the rate for
9 return *of* the investment. Respondent then removed the difference between this present value
10 amount and the total \$1.6 billion capital expenditure, resulting in an approximately \$700 million
11 reduction to the HCLD value indicator, which was reflected in Petitioner’s 2025 Board-adopted
12 unitary value.

13 Respondent also contends that Petitioner fails to provide evidence to support its alternative
14 arguments that the capital expenditures are intangible assets exempt from taxation and that the
15 property Petitioner spent \$1.6 billion replacing has been discarded and is no longer owned by
16 Petitioner. Respondent asserts that these arguments ignore the fact that \$1.6 billion dollars of
17 tangible, depreciable equipment was purchased and is currently installed as a part of Petitioner’s
18 physical infrastructure. Respondent states that the equipment that was actually replaced and
19 discarded will be removed from the HCLD value indicator, as is done with all equipment that is
20 retired and removed from an assessee’s books and records.

21 Applicable Law and Appraisal Principles

22 Burden of Proof

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

27 Value Standard

28 See Issues 1 and 2, Applicable Law, p. 12.

1 **HCLD Approach to Value**

2 See Issues 1 and 2, Applicable Law, pp. 12-13.

3 **Analysis and Disposition**

4 Respondent is presumed to have correctly determined the value of the property at issue, and
5 Petitioner bears the burden of proving otherwise. Petitioner contends that Respondent should deduct
6 the entire \$1.6 billion wildfire capital expenditure amount from its HCLD value indicator because
7 Petitioner is not allowed to earn a rate of return on the expenditures, and a prospective buyer would not
8 pay for a \$1.6 billion capital expenditure that produces zero equity return. Petitioner also argues that if
9 the capital expenditures are not included in the rate base, they should be removed from the HCLD
10 value indicator. However, Respondent explains that the HCLD approach for property tax appraisal
11 purposes differs from rate base, and that the capital expenditures have value as Petitioner spent \$1.6
12 billion to purchase assets from which Petitioner will earn a return of the expenditures through
13 depreciation and a return on the expenditures through the reimbursement of interest paid for debt
14 service.

15 Respondent additionally contends that since AB 1054 prohibits Petitioner from earning an
16 equity return on this capital expenditure but does not prohibit a return of its capital expenditure,
17 Respondent has already adjusted the HCLD value indicator appropriately: by calculating the present
18 value of the income using a discount rate that excludes the equity portion of the capitalization rate,
19 reflecting that Petitioner will not receive a *return on* the investment, but properly leaving the rate for
20 *return of* its capital expenditure. Respondent noted this calculation resulted in an approximately \$700
21 million reduction to the HCLD value indicator, which was already reflected in Petitioner's 2025
22 Board-adopted unitary value. Accordingly, we concur with Respondent and find that Petitioner has not
23 proven error in Respondent's HCLD indicator calculation.

24 While Petitioner contends in the alternative that the capital expenditures are intangible assets
25 exempt from taxation, Petitioner provides no legal or appraisal basis or authority to support this
26 contention.²⁴ Petitioner further contends that the property Petitioner spent \$1.6 billion replacing has
27 been discarded and is no longer owned by Petitioner, but, as Respondent points out, Petitioner has
28

²⁴ 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."

1 provided no specific evidence of retired assets being assessed in the calculation of its 2025 unitary
2 value. Further, Respondent states that the \$1.6 billion dollars of tangible, depreciable equipment was
3 purchased and is currently installed as part of Petitioner's physical infrastructure. Accordingly, we
4 concur with Respondent that neither AB 1054, nor any other provision of law, supports the exclusion
5 of these assets from property taxation.

6 Based on our consideration of the evidence and arguments, we find that Petitioner has not met
7 its burden of proof as to this issue.

8
9 **Legal Issue 5: Whether Petitioner Has Shown that Respondent Erred in Its Treatment of Wildfire**
10 **Insurance Fund Related Contributions.**

11 **Findings of Fact and Related Contentions**

12 Petitioner notes that on September 9, 2019, SCE made an initial contribution of \$2.4 billion to
13 the Wildfire Insurance Fund, which is intended to provide some insurance coverage in the event of a
14 catastrophic wildfire event, and thereafter Petitioner will make 10 annual contributions of
15 approximately \$95 million per year to the fund, consistent with section 3292, subdivision (a) of the
16 California Public Utilities Code.²⁵ Petitioner asserts Respondent erred in its treatment of the Wildfire
17 Insurance Fund-related contribution by excluding the value of the initial contribution of \$2.4 billion.
18 Petitioner states that it is required by Generally Accepted Accounting Principles (GAAP) to treat the
19 Wildfire Insurance Fund contributions like prepaid insurance and to allocate the total expense ratably
20 based on an estimated twenty-year period of coverage.

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

28

25 Petitioner cites its Form 10k (2024), at pp.151-152.

1 Petitioner argues that Respondent mischaracterizes the prepaid expense as excludable
2 amortization or depreciation expense, as the expense at issue constitutes prepaid insurance or some
3 other intangible asset that will reduce future expenses, as the initial contribution was a legal
4 prerequisite that gave Petitioner the right to participate in the Fund, which is an intangible right.
5 Additionally, Petitioner contends that the AH 502 states that property insurance may be prepaid for
6 three years and deducted as an expense in a direct capitalization income approach, though in
7 Petitioner’s case the coverage is estimated at 20 years, and that an appraiser would annualize this
8 expense in direct capitalization.

9 Petitioner further contends that the \$146 million annual expense should be included in the CEA
10 value indicator because future insurance premiums will increase. Petitioner additionally notes
11 Respondent’s proper treatment of such expenses may increase income in future years due to reduced
12 future expenses, and that portion of the increased income related to the initial contribution should be
13 removed from the CEA indicator as income from an intangible asset. Finally, Petitioner claims that
14 Respondent’s treatment of the fund contributions is nonuniform in its application to all state assessees,
15 claiming that the initial contribution was allowed for another state assessee. On this basis, Petitioner
16 asserts respondent is acting arbitrarily, unfairly, or otherwise non-uniform in its treatment of Petitioner.

17 Petitioner further contends that Respondent has incorrectly interpreted *De Luz Homes, Inc. v.*
18 *County of San Diego* (“*De Luz*”) (1955) 45 Cal.2d 546, explaining that while *De Luz* precludes a
19 deduction for “depreciation of the property,” it does not preclude a deduction for operating and
20 maintenance expenses, and prepaid insurance is such an expense. Petitioner cites the AH 502 to
21 support its argument, wherein under a direct capitalization method, like the CEA, “expenses are
22 annualized even though some expenditures may not actually occur on an annual basis” and prepaid
23 property insurance is provided as an example. Additionally, Petitioner references Board Member
24 Gaines’ comments in the Board hearing of their 2020 petition which appeared to support this treatment
25 of such expenses as annualized expenses removable from the CEA calculation.

26 Petitioner argues that while Respondent is attempting to create a requirement that another
27 future AB 1054-like contribution will occur, the guidance does not create a requirement that the
28 deduction of prepaid insurance is only allowed when an identical payment is guaranteed to occur in

1 the future. Additionally, Petitioner notes that its audited financial statements, as required by GAAP,
2 show that these prepaid insurance expenses are being reflected as operating expenses over a 20-year
3 period (\$146 million per year) which is how a prudent buyer would view these expenses. Petitioner
4 further states that a prudent buyer would consider such expenses as regular and recurring in light of the
5 new reality of wildfires in California. Therefore, the adjustment of approximately \$706 million (CEA-
6 adjusted present value of the annual expensing of \$146 million over the remaining coverage period) for
7 the prepaid insurance contribution of \$2.4 billion and the annual contributions of \$95 million is
8 reasonable and must be allowed.

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

19 Respondent contends Petitioner admits that the Wildfire Insurance Fund-related initial
20 contribution is both a past, non-recurring expense and that it is now being amortized over a 20-year
21 period²⁶ and Respondent maintains the treatment of amortized costs in the CEA indicator of value is
22 explained in Rule 8 and AH 502. Further, in *De Luz*, the California Supreme Court made clear that
23 amortized costs are not deducted from the anticipated income to be capitalized.²⁷ While Respondent
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26 ²⁶ Petitioner's 2024 10-k indicates the asset was amortized over 15 years in 2022 and 2023. (SCE 10-k, p. 74.)

27 ²⁷ Respondent includes selected excerpts to support its summary of *De Luz*. (SAPD Analysis, p. 14.) In determining what
28 costs would be considered in valuing a leasehold interest under a capitalization of income method, the Court stated 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 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.) The Court concluded:

1 acknowledges the specific items which the *De Luz* Court considered were leasehold improvements,
2 Respondent maintains the Court’s logic applies to capitalized assets generally.

3 Additionally, Respondent notes that the accounting treatment of the initial contribution is
4 undisputed: an asset entitled “Wildfire Insurance Fund contributions” was created on Petitioner’s
5 balance sheet and a corresponding amortized portion is deducted on SCE’s income statement. Thus,
6 Respondent asserts that consistent with the AH 502, *De Luz*, and generally accepted appraisal practice,
7 the initial contribution’s treatment for property tax valuation purposes should also be undisputed.

8 Then, Respondent asserts Petitioner’s contention that the expense be treated akin to prepaid
9 insurance, ratably deducted over some coverage period, misses the issue, as the issue is not over
10 whether the initial contribution is or is not prepaid insurance. Respondent confirms that Petitioner’s
11 ordinary insurance expense was allowed, but instead asserts the issue is over whether the initial
12 contribution is an ordinary, recurring expense and Petitioner has shown that it is not in its 2024 Form
13 10-K.²⁸ Next, Respondent contends Petitioner’s argument that the amortized expense will be recurring
14 due to the new reality of wildfires is also misframed; instead, Respondent asserts the issue is whether
15 Petitioner will be required to make another AB 1054-like initial contribution, which is currently
16 unknown.

17 Respondent also notes that Petitioner does not know how long the AB 1054 fund will last, as in
18 2019, SCE estimated 10 years (SCE 2020 10-k, p. 65), but in 2020-2023, the estimate was increased to
19 15 years in its 2020 Form 10-k (SCE 2020 10-k, p. 122.). However, Respondent notes that in 2019, the
20 CPUC stated that “arguments positing that the fund may be exhausted before 2035 are premature.”
21 (CPUC, Decision D19-12-056, p. 37.) Accordingly, Respondent concludes any deduction allowed for
22 this initial contribution based on the possibility that some future AB 1054-like contribution will be
23 required is pure speculation. Respondent summarizes that because the \$2.4 billion initial contribution
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26 Furthermore, in determining the income to be capitalized to establish value for appraisal purposes, *no deduction*
27 *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.]

28 (*Ibid.*)

²⁸ 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.”

1 is a past non-recurring expense, and because its deduction as amortization in future years is only for
2 the purpose of computing accounting net income, the initial contribution is not deductible from the
3 future income stream to be capitalized for property tax purposes.

4 Respondent also reaffirms that while the initial contribution is not deductible, the required
5 annual contributions to the Wildfire Insurance Fund are allowable, as they are ordinary expenses
6 expected to be paid for a 10-year term. Respondent notes this resulted in an allowance for a deduction
7 for the annual contribution payments by taking the present value of the remaining annual payments of
8 \$95 million.

9 Finally, Respondent contends that the allowance or disallowance of the initial contributions
10 was based on a consistent application of the same principles to all utilities that contributed to the fund.
11 Respondent further affirms that all other arguments made by Petitioner on this issue remain
12 unpersuasive, particularly that the valuation violates Article XIII, Section 1 of the California
13 Constitution, the Due Process Clauses of the state and federal Constitutions, the Equal Protection
14 Clauses of the state and federal Constitutions, and those that attempt to liken the initial contribution to
15 a deductible intangible asset.

16 **Applicable Law and Appraisal Principles**

17 **Burden of Proof**

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

22 **Value Standard**

23 See Issues 1 and 2, Applicable Law, p. 12.

24 **Income Approach to Value**

25 See Issues 1 and 2, Applicable Law, pp. 13-14.

26 **The Income Approach: Amortization and Depreciation**

27 The income approach to value is generally described as any method that converts future
28 anticipated income into present value. (UVM, p. 35.) It is premised on the assumption that investors

1 will buy and sell property based on the income it is *expected* to yield. (*Ibid.*) The income that is
2 converted into present value is appraisal income, or “net return” as defined by Rule 8. (UVM, pp. 35-
3 37; Rule 8, subd. (c).) Net return is the difference between gross return and gross outgo. (Rule 8,
4 subd. (c).) Amortization and depreciation are explicitly excluded from gross outgo. (*Ibid.*) AH 502
5 explains why this is the case:

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

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

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

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

26 Analysis and Disposition

27 Respondent is presumed to have correctly determined the value of the property at issue, and
28 Petitioner bears the burden of proving otherwise. 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 as expenses over a 15 or 20-year period in the

1 Respondent’s CEA value indicator calculation, as such treatment is reasonable, as well as consistent
2 with its accounting treatment of such expenses. However, Respondent notes Petitioner admits the
3 initial contribution has been amortized, and that amortized or past, non-ordinary expenses are not
4 properly deducted from the CEA value indicator calculation, as a CEA approach only reflects future,
5 ordinary expenses, consistent with relevant Property Tax Rule 8 and relevant appraisal principles.

6 We find that Petitioner has not shown specific evidence or argument to prove error in
7 Respondent’s calculation for this issue, which allows a deduction for the present value of the future
8 remaining annual payments of \$95 million. Further, we find Respondent’s calculation is consistent
9 with relevant law, Property Tax Rule 8, and relevant Board guidance, as the CEA value indicator is
10 designed to capitalize future income. We also concur with Respondent that Petitioner has not shown
11 that these disputed expenses require treatment as an intangible or nontaxable right under relevant law.
12 Finally, we find that Petitioner has provided no evidence of inequitable treatment, violation of due
13 process and equal protection clauses, and otherwise unfair or inequitable application of relevant law
14 compared to other state assessees, nor have we seen any evidence thereof. Based on the foregoing, we
15 deny the petition as to this issue.

16 **DECISION**

17 Accordingly, the 2025 petition for reassessment is denied as to all issues, thereby affirming the
18 2025 Board-adopted unitary value.*

19 Ted Gaines _____, Chairman

20 Sally J. Lieber _____, Vice-Chair

21 Antonio Vazquez _____, Member

22 Mike Schaefer _____, Member

23 Malia M. Cohen _____, Controller

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28 *This decision was rendered in Sacramento, California on November 19, 2025. The summary
decision document memorializing this decision was approved on February 25, 2026, in Sacramento,
California.