BEFORE THE CALIFORNIA STATE BOARD OF EQUALIZATION

450 N STREET

SACRAMENTO, CALIFORNIA

STATE BOARD OF EQUALIZATION

DECEMBER 12TH, 2023

CALIFORNIA STATE BOARD OF EQUALIZATION

BOARD MEETING

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TAX PROGRAM MATTERS

SOUTHERN CALIFORNIA EDISON COMPANY

(0148) SAU23-010

PROPERTY TAX APPEAL ORAL HEARING

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

APPEARANCES

For the Board of Equalization:

Honorable Antonio Vazquez
Chair

Honorable Sally J. Lieber
Vice Chair

Honorable Ted Gaines
First District

Honorable Mike Schaefer
Fourth District

Malia M. Cohen
State Controller

For the Board of Equalization Staff:

Yvette Stowers
Executive Director

Henry Nanjo
Chief Counsel
Legal Department

Mary Cichetti
Clerk
Board Proceedings and
Support Services

For the Department:

David Lujan
Attorney
Legal Department

Richard Moon
Attorney
Legal Department

Jack McCool
Chief
State-Assessed Properties Division

APPEARANCES CONTINUED

For Petitioner:

Mardiros Dakessian
Attorney
Dakessian Law, Ltd.

Charles J. Moll III
Attorney
McDermott Will & Emery LLP

Andrea Wood
Vice President
Tax
Southern California Edison

Karl Matthews
Principal Manager
Southern California Edison

David Lee
Tax Manager
Southern California Edison

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STATE BOARD OF EQUALIZATION
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DECEMBER 12TH, 2023
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MS. CICHETTI: Our first order of business will be the Tax Program Matters, Property Tax Appeals Oral Hearing.

The oral hearing procedure is as follows:

Please be ready to unmute and turn on your camera as requested.

The appeals attorney, Ms. Wilkman, assigned to this case will introduce the case, stating the issue for the Board's consideration, within your hearing and noting any agreement of the parties if applicable.

After the appeals attorney has completed the introduction, the parties will then be asked to introduce themselves and their affiliates with the taxpayer or the State-Assessed Property Division for our record.

The next -- this item is Item No. 13, Tax Program Matters, Property Tax Appeals Oral Hearing: Petition for reassessment of the 2023 unitary value; Southern California Edison Company, 0148 SAU22 -- 23 -- excuse me -- 010.

Contribution Disclosure forms are required pursuant to Government Code Section 1526. Board Proceedings has received Contribution Disclosure forms for this morning's -- this afternoon's hearing from the parties, agents and participants. No disqualifying contributions were disclosed.

All parties, agents and participants were listed on the memorandum provided to the Board Members' offices.

As this case is an adjudicatory matter, the Board's hearing of this case is subject to the provision of ex parte communications, and any violations of this being disclosed for the record.

This is a constitutional function.

After hearing the arguments of the agency and the representatives and considering the evidence, the Board may vote to adopt the staff recommendation, reject the staff recommendation, or make its own determination to resolve the issues under consideration.

The petitioner and the respondent, the Department, will each have 60 minutes to make their initial presentation. Then the petitioner will have 15 minutes on rebuttal, followed by any questions of the Members.

This matter will be introduced by the appeals attorney, Ms. Wilkman, who will provide a brief introduction of the case.

MS. WILKMAN: Thank you.

Good afternoon, Chairman Vazquez and Honorable Members of the Board.

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

In the case before you, the petitioner is Southern California Edison Company, a public utility operating in Southern, Coastal and Central California.

This year, based on the petitioner request, the appeals attorney is noting for the Board's reference that this is the fourth year in succession that Southern California Edison is appealing their unitary value, and that the three prior Board-determined values are currently under review by the California Superior Court.

At issue here for the Board's consideration today is Southern California Edison's 2023 unitary value, which will be decided by the Board today de novo, or, in other words, based solely on the 2023 petition's record.

The 2023 Board-adopted unitary value, as well as the appeal's attorney recommendation of value in this case is $36,207,700,000.

Petitioner is requesting a 2023 unitary value of $29,033,300,000, while respondent, or SAPD, is requesting that the Board affirm the 2023 unitary value.

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

After the Board decides on this petition today, the appeals attorney will prepare a decision in early 2024 to memorialize the Board's action, and for transparency to the public.

In addition to the general concerns and assertions detailed in the hearing summary, petitioner has raised five primary issues with its 2023 Board-adopted unitary value, which was based on the January 1st, 2023 lean date. As such, the parties will present their cases, including the five primary issues within this petition.

First, whether petitioner has shown that respondent has failed to reconcile the historical cost less depreciation, or HCLD, value indicator, and the capitalized earning ability, or CEA indicator of value.

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

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

Fourth, whether petitioner has shown that respondent improperly assessed the wildfire mitigation capital expenditures.

And fifth, whether petitioner has shown that respondent erred in its treatment of wildfire insurance fund-related contributions.

Chairman Vazquez and Members, please note the petitioner has the burden of proof to show that the 2023 Board-adopted unitary value is incorrect or illegal.

It is my understanding that the parties are present and ready to present their cases before the Board.

So this will conclude the appeals attorney's opening remarks, and I'll turn it over to Chairman Vazquez to proceed to hear the parties on this petition.

Thank you.

MR. VAZQUEZ: Thank you.

And do we have them in queue?

Oh, there. I see them now.

Welcome. Can you hear us?

MR. DAKESSIAN: I can hear you just fine.

Would you like me to proceed, Mr. Chairman?

MR. VAZQUEZ: I think it would be appropriate. And then I'll go ahead and have our staff.

MR. DAKESSIAN: Appreciate it.

Well, to Ms. Wilkman's point, this is the fourth year that we are appearing before your Board. And we appreciate your Board's time and patience as we go through the process here.

Ms. Wilkman is correct that the previous years are under review by the Orange County Superior Court. But we still need to go through this process, and we still want to present our issues to you, the Board of Equalization, for consideration.

And so with me today is my co-counsel, Mr. Charles J. Moll, with the law firm of McDermott Will and Emery.

And with us from Southern California Edison are Ms. Andrea Wood, the Vice President of Tax, Mr. Karl Matthews, the Principal Manager, and Mr. Dave Lee, Tax Manager.

Our issues are ongoing with respect to the wildfires. There's no surprises here. We're very familiar with these issues.

And so I think what we can do this year, because we did reserve 60 minutes of time. But I think this year we can abbreviate our presentation, give you the overview. Our briefing is quite detailed and thorough on this. And we're here to answer any questions that the Board may have, and are eager to hear staff's presentation.

But we'll present at a high level today, rather than taking the full 60. Which I think everybody will appreciate.

So getting back to the issues that we have with SAPD's valuation and the Board-adopted value, they are the following:

The first one is that the income approach to value is the preferred approach here, not net book value, which is also referred to as historical cost less depreciation.

The reason that we think the income indicator is the proper approach is because your Board's own regulation says so.

The Rule 8, which your Board has adopted, says that the income approach is the preferred approach for the appraisal of improved properties and personal properties when reliable sales data are not available and the cost approaches are unreliable, either because the reproducible property has suffered considerable physical depreciation, functional obsolescence, or economic obsolescence, or subject to legal restrictions on income that are unrelated to cost.

And that's what we have here. We do have a significant amount of older assets. We do have economic, which is -- we do have functional obsolescence. We do have economic obsolescence. And we also have external obsolescence here in the form of wildfire expenses, the wildfire crisis and the insurance situation that it has created, inverse condemnation and operational uncertainty under AB 1054.

All these things have created a situation where Edison's property assets are worth less. That's just simply a fact. They are worth less than they were before this crisis began.

Depreciation only captures physical deterioration, right? Historical cost less depreciation.

It does not capture functional obsolescence or external obsolescence, and that's why it's unreliable. And that's why, as we'll get into a little bit later, we still have the same disparities. In fact, they are even larger this year than they were in year's past between historical cost indicator and the income indicator.

But what this all comes down to, Members of the Board, is the bottom line in all of this is that the market cares about income. And under the California

Constitution, all these principles are to serve this core concept of measuring fair market value, full cash value under the California Constitution.

So these principles in the abstract are all designed so that we get to what a willing buyer and willing seller would pay for, would sell for on the open market, free of exigencies.

And so in this case, as in all cases, that's what's got to drive the Board's determination. And under these facts, the income approach is the best approach, because this is an income-producing property or set of assets, shall we say.

So a willing buyer is not going to pay more for property or for properties in an income-producing context more than what -- more than the income that would actually generate. And that's what we have here.

We have the historical cost indicator, which is nine-and-a-half billion dollars larger than the income indicator. But no prudent buyer is going to pay nine-and-a-half billion dollars more. We're going to pay the value based on what income the assets generate. So that's the fundamental concept that we're presenting to you today.

Now to transition into the issue of value indicators, when you do have a disparity like this, as we've said in the past, the job of the staff is to reconcile the value indicators. The job of the staff is not to simply come up with value indicators that bear no resemblance to one another, and then finish the valuation process, and put it on the taxpayer to explain the difference. That's not how this works.

Your Board's own handbook puts the onus on staff to perform a reconciliation.

Which means what? It means to compare the two value indicators and account for the difference. That's all. They need to account for the difference.

And what we've heard in the past is it may be regulatory lag, it may be this, it may be that. Well, that's their job. And when you have a situation where that hasn't been performed, then that calls the appraisal into question, and makes really, importantly, the historical cost indicator extremely unreliable.

Why is it nine-and-a-half-billion dollars more? If staff can't explain that, then it needs to go with the income approach. So that's with respect to the valuation indicators.

With respect to the capital expenditures, that's another issue that Ms. Wilkman mentioned, and we are bringing this to the Board's attention this year as well.

This is yet another reason why the historical cost indicator is problematic, is because we have assets that are being included in the form of capital expenditures that we, Edison, cannot earn a return on. If they cannot earn a return on those assets, then they need to be removed from the historical cost indicator.

Perhaps that's one reason why the income indicators are so far apart. Because after all, if you look at the relevant guidance, if you look at the WSATA manual, the historical cost indicator is there to -- to measure the earning power of the utility. And if there are assets there that you can't earn on, they need to be taken out. Simple and plain.

We had discussion last year about "return of" versus "return on." And all I can tell you is that no prudent investor would pay for assets that do not generate income. That's it.

And it's not about whether we're exempting the assets or not; it's, are we supposed to include these in a value indicator that is designed to measure the earning power of the utility?

Of course not. We don't include it on the income side, right? Because it doesn't generate any income. And when you have assets that don't generate a return, then they need to similarly be excluded from the historical cost indicator. So that's just a very sort of basic point.

And we believe that these adjustments that have not been made by staff, they're necessary. And if you don't, then you're basically including obsolescence in the historical cost indicator.

In terms of the wildfire insurance fund, again, another familiar issue to your Board. We are back here talking about the same initial contribution, and why have we not been allowed to account for this initial contribution, despite the fact that this is a form of prepaid insurance, despite the fact that your Board's own handbook says prepaid insurance should be annualized and spread out over a number of years, so that you don't have distorted effects and value from one year to the other.

Staff seems to agree, or has -- doesn't seem to dispute at least that these are insurance payments. But I think their quarrel has been in years past -- and curious to see if that's changed at all -- but their quarrel in years past has been, well, not this type of insurance payment, or this type of insurance payment. We don't know that that's going to recur again.

This contribution into the wildfire fund, the initial contribution, is there going to be another identical contribution to the wildfire fund just the same as this one? And we say that's far too narrow a view of the treatment of this.

What you have to look at is, is this insurance, yes or no? And if it's a form of government insurance, that's what it is.

And if that's not available, or if that kind of payment isn't made in the future, then it's going to be replaced by something else. Because the wildfire crisis isn't going away.

We've seen what's happened in the insurance market in California. These major insurance carriers are pulling out, because it's no longer profitable to do business in California from an insurance perspective. They're in the business of generating profit.

And so, you know, you -- you see this happening, because there's an expectation that this crisis is going to continue into the foreseeable future.

So there you have it, right? If we don't get this form of insurance, if it's not government insurance, it's going to be something else.

So insurance is an ongoing expense of a company. Especially a company like Edison that has so much at stake, and has been hit so hard by the wildfire liabilities and claims liabilities, as we've discussed in the past.

So it's one form of insurance versus another. It's an ongoing expense that should be included.

In terms of the claims liabilities, we're asking for a reduction for the claims liabilities for the 2017 and '18 Thomas and Woolsey fires.

And the staff objects and says that these are past expenses, and, therefore, contrary to Rule 8, which seeks to capture future income stream.

And I think the disconnect here is that, although the events took place in 2017 and '18, Edison is still paying out these claims going into the future.

And I think that any prudent investor would not only take those expenses into account, but would also expect future claims and future liabilities.

Why? Because of the regulatory environment which requires Edison to pay for claims and incur liability on a strict liability basis. They don't even need to be at fault.

And so any reasonably prudent business person is going to say, "Okay, well, I have a situation where the fire could just have been caused by my equipment, even though the equipment was properly maintained. And so I need to anticipate liabilities going into the future."

So not only do you have the claims liabilities that are being paid that have been accrued and now are being paid on an ongoing basis by this for the 2017, '18 fires, but I think that anybody would want to anticipate additional fires and additional claims going forward, even if the company is not at fault.

So I think that's a very reasonable approach to this. And so for staff to say that these are nonrecurring is, in my opinion, simply not correct.

So I think the next issue we'd like to discuss has to do with the nonassessable intangible rights and assets that staff has included.

Intangibles include any license, permit or other right granted by the government. And we view the $1.6 billion of wildfire mitigation capital expenditures, not only should that be excluded from historical cost indicator because they're not allowed to earn on it, but it's also an intangible asset that must be removed from the CEA indicator of assessed value.

These are non-depreciable expenditures. They were prerequisite to Edison receiving a favorable prudency standard in future CPC proceedings for recovery of wildfire losses. That's an intangible right.

And so if staff is not willing to remove it, because it doesn't -- it believes that it's properly accounted for the HCLD indicator, then it needs to at least look at the reality of this as an intangible asset, and remove it from the valuation entirely.

So the SAPD will talk about the risk premium, but the risk premium is not really adequate to address these specific issues that we've had. And the risk premium is happening in a CPUC context.

And I know that in the past the Board has wanted to respect sort of the decisions of the CPUC, and the approaches that the CPUC has taken to this, but the Board should not be willing to outsource its duty to value these assets, its constitutional duty to value these assets, by looking up risk premium that was given to Edison by the CPUC in a different context.

That's a totally different context. The regulatory ratemaking context is not looking to measure fair market value.

If you look at the WSATA manual, it explains that regulatory proceedings take place for -- with a variety of economic and political factors at play in those proceedings that don't really relate to value at all.

So the Board should be careful of -- I mean, consider the fact that there's this risk premium out there, but it shouldn't tether its valuation to the risk premium any more than the CPUC would look to the Board to set its rates and to make its decisions.

So we have a couple of issues that I'll just raise just for the purposes of exhaustion of administrative remedies. We do believe that the State-Assessed Properties Division has violated Article XIII Section 1 of the California Constitution, and Section 722 of the Revenue and Taxation Code by assessing Edison's unitary property in excess of its fair market value.

And, again, that should be the guiding principle of the Board, fair market value. What would a willing buyer do? What would you do if you were a prudent investor, and you were looking at these assets?

Would you pretend as though these wildfires are never going to recur again? That you're never going to have to pay claims again? That you're never going to have insurance expenses again?

Of course not. But that's, you know, that's the core concept that I think the Board should focus on.

We also believe that the Board has assessed Edison's property in a nonuniform, unequal manner. We are informed that certain other taxpayers have gotten the initial contribution included in valuation, and Edison has not.

And we also believe that the State-Assessed Properties Division valuation, which the Board has adopted, is arbitrary, and we believe that is a violation of Edison's constitutional rights.

The weighting, the 75/25 weighting is probably the best example of this. It hasn't changed since 2006, even though we've had a whole host of circumstances change. Even though the wildfire crisis has reached new proportions. But staff has still clung to the 75/25 split between historical cost of income as though nothing has happened between now and -- between 2006 and the present time.

It's time to revisit these issues, Members of the Board.

And with that, I will save the rest of my time for rebuttal. And I thank you for your time today.

MR. VAZQUEZ: Thank you. We'll make note of that.

And with that, let me turn it over to staff.

And I believe -- is it Mr. Moon is taking the lead, or who is taking the lead on this?

MR. LUJAN: Good afternoon, Chairman Vazquez and Honorable Members of the Board.

Thank you.

My name is David Lujan. With me is also

Richard Moon with Legal, representing SAPD today. And we also have Jack McCool from SAPD as well.

Before we get into specific issues raised in this year's petition, we'd like to provide a little bit of background.

As was mentioned by petitioner, this is the fourth year that we're raising the same issues, petitioner is raising the same issues. And because petitioner has presented essentially no new arguments or information to support their reduction requests this year, we are recommending the Board deny this year's petition as it has in the previous three years.

Second, petitioner added approximately $4 billion worth of new property, yet they are asking for a $5.2 billion reduction from last year's Board-adopted value.

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

Staff has looked at this issue each year, and while climate change and an increase in wildfire risk continues to be real concerns, the trend since the catastrophic events of 2017 and 2018 has been a significant decrease in those risks as determined by the credit markets, the PUC, and petitioner itself.

In April of 2023, Fitch ratings, one of the three major credit-rating agencies, upgraded petitioner's long-term issuer credit rating.

As reasons for the upgrade, they cited the following:

Cumulative structures destroyed by SCE-linked wildfires declined more than 90 percent during 2019 to 2022. This is despite high wildfire risk conditions and elevated wildfire activity in 2020 and 2021.

Post 2018, SCE-linked wildfires have been significantly smaller, and exposure in terms of third-party liabilities, much more manageable from a credit perspective.

Fitch ratings also stated as the reasoning that SCE's ongoing efforts to enhance wildfire resilience, along with state and local efforts, credit -- credit supportive elements of wildfire legislation enacted in California, including the AB 1054 Wildfire Fund and improving projected credit metrics, all justified the ratings increase.

The California Public Utilities Commission, in a 2019 decision, opined that AB 1054 had substantially mitigated wildfire liability, as well as liquidity concerns.

The PUC had the occasion to revisit this conclusion, and in 2023 essentially affirmed that determination.

It did, however, in light of all the risks facing petitioner's business, lowered petitioner's return on equity by .25 percent. Which implies, of course, that it views petitioner's risk to have decreased since 2019.

Perhaps most importantly, petitioner, itself, also recognizes this decline in wildfire risk, announcing in a March 2023 press release that through the execution of its wildfire mitigation plan, it has reduced the probability of catastrophic wildfires associated with its equipment by about 75 to 80 percent since 2018.

This is also perhaps why, even though in 2019, petitioner asked the PUC for a 6 percent, and then a .85 percent equity rate increase to account for wildfire risk.

As far as we are aware, they did not make such a request in its 2023 test year cost of capital. And if they did, we understand it was rejected by the PUC.

Lastly, we note that catastrophic wildfires in California, in general, have decreased in the last two years. And according to the Wildfire fund annual report, petitioner has not, indeed no utility has, used the AB 1054-created Wildfire fund.

Again, we want to be clear that we are not saying that climate change is not real, or that wildfire risks do not remain, or even that things couldn't take a turn for the worse. What we are pointing out is that petitioner's foundational basis for requesting significant reductions for the past four years has not borne out. In fact, things have gotten better, not worse.

By petitioner's own calculations and public statements, the probability of catastrophic wildfires associated with its equipment is reduced by 75 to 80 percent.

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

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

Here, pursuant to the property tax rules, HCLD is the most reliable value method, because the HCLD indicator begins with the actual assets on which PUC allows petitioner to earn a return. Thus, staff weighed it more heavily than the income indicator.

Rule 8 supports this. It says the income method is preferred only when the cost approach is unreliable. Here, the historical cost approach is the most reliable.

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

But there's nothing that makes it necessarily true that any difference between HCLD and CEA is always obsolescence. Assessors' Handbook 502 recognizes this. It says a difference might indicate HCLD is too high, but it is, of course, entirely possible that CEA is too low.

And this is especially true given SCEs dramatic reduction in wildfire risk due to its own wildfire mitigation efforts.

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

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

We also note that while petitioner stated that they're not necessarily taking issue with the .85 percent equity risk premium, it is important to bring it up. Because this is one way by which staff made a large adjustment for wildfire risk, rather than his petitioner request by weighting the indicators differently. And it's important to note it's an adjustment that the CPUC did not allow.

Concerning the $1.6 billion accrual for 2017, 2018 wildfire liability, petitioner requests an approximately 850 million reduction to its Board-adopted value for its lawsuit liabilities accrued on its books.

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

Rather, this liability rule stems from lawsuits -- excuse me -- lawsuit settlements from 2017 and 2018 wildfires and mudslides, some of which may have been started by petitioner's equipment and damaged property owned by others.

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

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

If the PUC does not approve because SCE did not meet its prudency standard, it would be inappropriate to make a reduction in property tax value for property operated imprudently.

The essential situation here is that petitioner used its property and damaged -- petitioner used its property and damaged -- and they caused damage to other person's property, and now they need to pay $1.635 billion worth of damages.

That 1.635 billion is there for a liability. It may reduce the price a perspective purchaser might be willing to pay for the entire business, but it does not affect the price a perspective purchaser would pay for the taxable property. Because it does not affect the property's ability to be used to generate income.

Petitioner is essentially asking the Board to make a $3.6 billion reduction to its taxable property for property -- for damage done to someone else's property.

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

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

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

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

The statutes are clear, they prohibit petitioner from earning a return on that investment, which is reflected in the equity portion of the rate base, but they are not prohibited from earning a return of the investment. Which is reflected in its recovery amounts spent.

And staff made an adjustment for that. Staff removed the equity portion of the rate base that AB 1054 does not allow.

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

Petitioner itself identifies the initial $2.4 billion contribution as a non-core item in its annual report. Non-core items include income or loss from discontinued operations, and income or loss from significant discrete items that management does not consider representative of ongoing earnings, such as income and expense related to changes in law.

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

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

They say that certain expenditures are annualized when using a direct capitalization model. The specific example given is of insurance prepaid for three years, because there is an assumption that after three years, another three years of insurance will need to be paid. That is not the case with the initial contributions.

In the alternative, petitioner argues that the $2.4 billion initial contribution to the wildfire fund, as well as its $ 1.6 billion capital expenditure, creates some type of intangible asset that must be deducted from its valuation.

However, petitioner does not provide evidence, or legal, or appraisal authority to explain why those expenditures create some kind of recognizable intangible asset.

But perhaps more importantly, even assuming petitioner is correct that these expenditures create some kind of intangible asset, in order for that intangible asset to be deductible, it would have to be taxed in the first place.

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

With respect to petitioner's suggestion that they have been treated inequitably, we would just point out that SAPD's valuation is consistent with fair market value.

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

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

They also requested specific adjustments for their initial contribution to the wildfire fund, and their 2017, 2018 lawsuit liabilities on the premise that such contributions and lawsuit liabilities would be recurring. However, no additional initial contributions have been required for the wildfire fund. They have been able to obtain wildfire insurance, for which additional costs were allowed as expenses, and the fund has not yet been used.

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

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

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

What we are saying is that based on the trend of the improving wildfire risk situation, as recognized by the PUC, the credit markets, and petitioner itself, we have made all appropriate adjustments.

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

Thank you.

MR. VAZQUEZ: Thank you for your presentation.

And, Members, I was going to ask if we could hold questions until after we hear the rebuttal from Southern California Edison.

And I see Marty Dakessian on the line as well.

MR. DAKESSIAN: Thanks again, Mr. -- thank you, sir. I appreciate it.

You know, just to -- before I get into sort of the main thrust of staff's comments here, addition of assets does not always correlate to increases in value.

We had a situation in 2015 where we had a decrease in assets, and staff still increased the value of Edison's overall property. And that's because of the regulatory lag concept that you've heard about.

You're not -- they're not always recognizing assets, you know, in sort of -- in sequence, you know, along with the regulatory framework in the rate case, there is a delay in terms of when the Edison is allowed to earn on those assets.

So just as a preliminary point, those two concepts don't always go hand in and hand. And it's worked against Edison in the past.

But I think what I hear staff saying is, and they kind of hedge a little bit, but what I hear them saying is wildfire risk has gone down.

And I can appreciate the efforts on the part of Edison, and I think we all can, to comply with the government requirements and restrictions that make it necessary for them to improve the situation, install covered conduit, do all the things that will mitigate the risk.

But I've got to tell you, I think staff is living in an alternate universe, I must say, if all you need to do is look at what is happening with the insurance market in California. That's all you need to do.

There has been a temporary dip in wildfires. This is all a matter of public record. It is true. You go to Cal Fire, and you can see that this fluctuates. And we seem to be in a bit of a down cycle right now right at this moment.

But if the risk were as significantly decreased as staff seems to think, then why have we seen the departures of AIG, Chubb, Allstate, State Farm, Farmers is substantially limiting new policies, USAA is substantially limiting new policies. The top -- seven of the top twelve home insurers in the state have either paused or placed harsh restrictions on policyholders, and in some cases have raised premiums substantially.

And this is just -- this is a recent -- you know, if you want to look it up, go to ABC news to their recent article that was posted on their website, November 16th, 2023.

If everything were as hunky-dory as staff seems to think, then why are we having this exodus of insurance carriers in the state of California?

They're in the business of making money, and they've made a decision, at least at this moment, that it is not profitable to remain in the state of California because of the wildfire risk. Simple and plain. I think that's pretty irrefutable.

And if you want to go to the science, there is a -- you can look at -- look this up. It's a matter of public record. There have been studies done. One was documented by the LA Times in September of 2023 that climate change has ratcheted up the risk of explosive wildfire growth in California by 25 percent, and will continue to drive extreme fire behavior for decades to come, even if planet warming emissions are reduced. This is the LA Times, and this is relatively recent.

So I think we can appreciate Edison's efforts on the one hand, and their attempts to mitigate the risk on the other hand. But then at the same time be very aware of the reality of wildfire risk on a go-forward basis. So I think that's an important point worth making.

What you didn't hear from staff, you know, in fact, before I go on to the next point, I would like to also ask Ms. Andrea Wood if she had some information she'd like to share with the Board regarding cost of insurance.

Ms. Wood, are you there?

MS. WOOD: Yes. Thank you. I'm here.

Yeah. I would just like to point out -- I was taking some notes while the staff was presenting their positions.

Right after 2017, 2018 wildfire -- catastrophic wildfires that, you know, we've accrued over $9 billion for --

MS. COHEN: I'm sorry. Excuse me. Excuse me.

Mr. Chair.

Ms. Woods, forgive me.

This is Malia Cohen, State Controller.

Mr. Dakessian, you introduced Ms. Woods, but I don't know who she is. How is she relevant to this conversation?

MR. DAKESSIAN: Oh, I introduced her -- my apologies, Madam Controller. I introduced her at the beginning as the Vice President of Tax for Southern California Edison.

MS. COHEN: Oh, okay. Thank you very much.

Ms. Woods, you can continue. Thank you.

MS. WOOD: Okay. Thank you.

Yeah. So after the catastrophic wildfires, which have, you know, caused an accrual of almost $9 billion, over 6 billion I think has been paid out to date. So that's payments of cash going out the door for a five-year period. Which all has to be financed, right? It's cash that's leaving the company. And so, you know, create cost associated with generating that kind of cash.

But just speaking to the cost of the insurance, you know, as part of being able to participate in AB, you know, 1054, the State Wildfire Insurance Fund, we have to have coverage that would be subject to claims first, before you can rely on the AB 1054 fund of a billion dollars.

And the cost of a billion dollar policy in 2019 right after the catastrophic fires was about $300 million a year. So you think about it, $300 million for one year's coverage, and the coverage you get is a billion dollars.

That'd be like having a million dollar home, and you have a $300,000 insurance policy every -- cost every year. So it's pretty significant.

And so to go to the staff's point about how the cost -- the risks are decreasing is really incorrect, because the cost of that same billion-dollar coverage today is over $450 million. So the insurance companies certainly think the risk is still there. In fact, they think it may be higher. And that insurance coverage is harder to get.

So we're actually having to look into alternatives, because we can't find carriers to write the policies of having to, like, investigate the possibility of maybe some self insurance too to throw in that mix.

So that -- that was one point that I wanted to make. And also, as far as the claims go, I heard the state say that they didn't think the claims were associated with the property.

And really, again, the payment of the claims, that's cash going out the door that's directly linked to the property, because it's the property that causes the risk, right? It's our poles and wires and transformers in substations that, you know, that's what sparks the fires.

You know, whether it's -- you know, not -- our position is, is that it's not due to our negligence, but it's just the, you know, the way the wind blows. It's very, very dry. There's -- we do try to clear all the vegetation off. But there are still times when, you know, the -- the fires just start. And with California's position on inverse condemnation, we're held liable for it, and we have to pay those claims.

So to say that the claims are not related to the property, I think is also incorrect.

Marty, was there anything else you wanted me to add?

MR. DAKESSIAN: No. Thank you. Thank you, Andrea.

You know, and to Ms. Wood's point, you know, we're not talking about assets in an unregulated environment. We are talking about assets in a regulated environment.

And so the notion that the Public Utilities Commission is going to allow anybody to waltz in there and purchase Edison's assets without also taking on the liabilities is just detached from reality.

This is not -- and I think a couple of years ago, Mr. Moon gave an example about somebody driving in a car, and they get in a car wreck, and, well, the property is separate from the liability. Yeah, in that case, that's true. But not in this regulatory environment. So that's something that staff has not taken into account.

And the other thing I would say is no reconciliation. I didn't hear anything from staff about reconciliation. Perhaps, you know, you can ask them that question, Members of the Board. Make them show it to you. Where did they do it? It's their responsibility to do it, and they didn't do it.

How is it their responsibility? It says so in the Assessors' Handbook. And they simply computed these value indicators, recognized the nine-and-a-half billion dollar difference, and then just stopped, and said, "Well, maybe it could be regulatory lag, maybe it could be something else."

And now they come before the Board and cannot explain the nine-and-a-half billion dollar value discrepancy in their own appraisal. That's not up to us to prove. That's their appraisal. Your Board has put the onus on them in the handbook. Make them show you.

Where is the reconciliation? It isn't there. And if it isn't there, that means that the historical cost indicator is suspect. And if it's suspect, we need to -- that's all the more reason to use the income approach.

So aside from that, I think our points are pretty well documented. I don't know if the Board has specific questions. But I think we can leave it there for now, pending any additional questions from the Board.

MR. VAZQUEZ: Thank you for your presentation, actually, both sides here.

This case has actually come before us for several years now. And we consider each case on a de novo basis, which basically means that we review each case independently from the previous cases.

And I'm just -- I guess I'm asking staff this question, or I guess on this end, has the petitioner provided any new information that we haven't heard in the previous years here?

MR. MOON: Richard Moon for the Legal Department.

We -- I'm not aware of any significant new information that they've provided that would make us rethink the adjustments that we've already made.

MR. VAZQUEZ: Members, any questions or comments?

Member Gaines.

MR. GAINES: Yeah.

I would like to -- Mr. Dakessian asked the question about reconciliation on the difference in valuation. Is that --

MS. COHEN: Can you turn your mic on? I can't hear -- I can't hear you.

MR. GAINES: Oh.

MS. COHEN: I can't hear you down here.

MR. GAINES: Oh, I'm sorry.

MS. COHEN: Oh, it's better. Thank --

MR. GAINES: Yeah. So Mr. Dakessian asked the question about reconcile -- reconciling the valuation difference of nine-and-a-half billion.

So I -- I'd just like to hear your response to that.

MR. MOON: Yes. Thank you for that question, Mr. Gaines.

Richard Moon with the Legal Department again.

So it's important to remember not just what reconciliation is, but what it isn't.

So reconciliation is not as petitioner seems to suggest, that you take two different value indicators, and then just go with the lower one, and then you've made them equal.

What reconciliation is, and this is what the -- what our guidance in the Assessors' Handbook says, it's to resolve the differences between the value indicators. And that's done by considering a number of different factors to determine which indicator has greater significance, and which should be given more weight, right?

And then it goes on to say that the greatest weight should be given to that approach or combination of approaches that measure -- that best measures the types of benefits the subject property yields.

And so in this case, because petitioner is rate-regulated, we believe that HCLD is clearly the most reliable approach. And that's because in rate regulation, the regulator, CPUC in this case, begins with the value of the assets. And they take those value of the assets, and then they determine how much income those assets can earn.

So if -- if -- and I don't think we would -- we would argue with sort of the general premise that invest -- that potential purchasers would look to the income. But if there was a potential purchaser wanting to purchase these assets, they would look at CPUC's rate base and the income that that could produce, over looking at our CEA income indicator. Because we're doing it for California property tax purposes, where there's a number of adjustments that PUC wouldn't necessarily make.

So their rate base value is much higher than our CEA. And so if there was a potential purchaser, they would be looking at whatever that income would yield based on the cost of those assets, more than looking at our CEA indicator.

So we believe the HCLD is the most reliable indicator. There is also an established income stream here. And so we do believe there is a place for our income method, for our CEA value. And that's why we give that a 25 percent weight.

MR. GAINES: Okay. All right.

If I could also follow up in reference to this credit rating upgrade of, I think you indicated -- how many basis points was that up, or what was the upgrading to?

MR. MOON: I believe the upgrading was from -- correct me if I'm wrong -- BBB to BBB plus.

MR. GAINES: Okay.

MR. MOON: Or it may have been BBB minus to BBB.

MR. LUJAN: Yes, minus to BBB.

MR. GAINES: Okay. So I'm still trying to understand how you juxtapose that to the insurance market. Because I -- I don't see the insurance market improving in California. I don't see the wildfire exposure improving.

Many of the comments that were made are accurate in my mind that the market is still largely shut down in the state of California.

Take a look at the California FAIR Plan for which many property owners are being forced into that market right now. They have no choice. Rates are much higher than they are normally for those folks. They have a billion dollars in reserve.

But they'll tell you, the president of the FAIR Plan said publicly that if we have another wildfire, and she took Lake Arrowhead area as an example. She said we've written so many -- so many property policies, and the wildfire exposure is so great that the potential loss in that area could be a $7 billion loss, which would basically bankrupt the FAIR Plan. For which the rest of the insurance industry would have to kick in money to sustain it, to keep it afloat.

So I just don't buy the argument that risk is decreasing, when in fact the insurance market is not reflecting that in reality.

MR. MOON: Sure. Yeah.

So the first thing I would say is it's not just us that's saying that the risk is decreasing. Petitioner itself says that in their 10-Ks, notwithstanding what they're saying today. They've said it in press releases that the risk of catastrophic wildfires caused by their equipment went down 75 to 80 percent. So it's --

MR. GAINES: But that's based on the -- that's a nuance in my opinion, because it's based on some of the changes that they're making, right?

MR. MOON: Absolutely, yes.

MR. GAINES: So they're -- they're hardening. They're undergrounding a lot of cable. Those are all good things, and they're all helpful I think in the long run. But I've also been told that they're so incremental. That it's going to take decades to actually harden the system.

So that is laid out in an environment where we have huge, huge wildfire exposure that still exists, and an insurance market that's in turmoil.

MR. MOON: Right.

MR. GAINES: So I -- I don't understand why you're indicating that risk is decreasing, when I think in the overall market, it's not.

MR. MOON: So, again, we're not saying that there's no risk, and we're not contesting that insurance costs have gone up. What we're saying is that based on what we've seen and the number of wildfires, it appears that an AB 1054-like legislative package or system is not in the foreseeable future.

And so the insurance costs that SCE incurred in addition, I think they said they went up about 150 million since 2018 or 2019, all of those insurance costs that they're -- the additional insurance costs that they're incurring, we -- we are allow -- those are allowed as expenses.

I mean, so they have been able to find insurance, and the increased costs for that insurance has been allowed. We're only talking about this AB 1054 one-time legislative piece of it.

MR. GAINES: Okay. All right.

But wouldn't -- wouldn't that decrease the value of the company just in terms of it being -- I mean, if you're taking a look at buying a utility in the state of California with huge wildfire exposure, wouldn't that be reflected in -- in the purchase price or the stock valuation of the company in terms of what its value is versus what it's been historically? And doesn't that show a decline in value?

MR. MOON: Yeah. I -- I would think that it would.

But, again, the difference here is that we are not valuing the entire company. In other words, we're not getting to a firm value, and getting to a stock price. What we're doing is taxing the -- the tangible property. So the taxable property is what we're trying to value here.

MR. GAINES: Okay. Okay.

MR. MOON: And we believe that HCLD is the -- is the best indicator of the value of that tangible property, not of their entire business.

So I think in all likelihood, you're correct. That these kinds of wildfires and damage would decrease the total overall value of the business. And -- but that's not what we're looking at.

And -- and I think I would also add, I heard the petitioner mention that if they were to sell these assets or sell some of this property, they could not sell them apart from the liabilities.

And, again, that may be true, but that does not change the value of the asset. So in other words, if I'm going to buy a million dollar piece of property from you, and I'm about to pay you a million dollars, but you say, "Oh, whoops. There's a $300,000 liability on this." Well, the amount that I'm going to pay you, of course, is less. I'm not going to pay you a million, I'm going to pay you 700,000 now. But I still have to pay the 300,000 liability. So I'm still paying a million dollars for the asset. It didn't change the value of the asset. It only changes what you get out of what I pay.

MR. GAINES: Okay. All right. Thank you.

I would like to hear rebuttal, if I could.

MR. VAZQUEZ: Sure. Go ahead.

MR. DAKESSIAN: Yeah. On the last --

Thank you. Thank you, Members.

On the last point, that would be obsolescence. If we are required to pay a $300,000 liability, in Mr. Moon's example, to -- in conjunction with the purchase of a $1 million asset, that's obsolescence. Absolutely obsolescence. That's our entire point.

So I'm glad at least we have some agreement that these assets can't be sold separate from the liabilities. They encumber the assets. That's exactly what it is.

Anyway, I -- I think what we're hearing now is that backtracking a little bit. The reality is that despite the -- the laudable measures that Edison is taking to mitigate wildfire risk, this is still a massive, massive risk going forward.

Again, staff is talking about, you know, I don't know what. We're talking about the economic reality of the situation.

Would a prudent investor, in light of seeing the entire insurance market -- or not the entire insurance market. That -- it's an overstatement. But a massive chunk of the fire insurance market in California leaving the state, would a prudent investor close his or her eyes to that, and simply say, "Oh, I'm gonna look at historical costs"?

No, of course not. Nobody in their right mind would do that.

You know, the historical cost indicator, yes, I agree, it is something that staff should consider. But consider doesn't mean use or rely upon. Consider means examine, and then see the difference using the income approach.

No one is going to pay more for Edison's assets than the income that those assets generate. I -- I don't know what's so complicated about this.

You know, this notion that we're just going to sort of robotically -- any -- any willing buyer is going to just robotically cling to the historical cost indicator when you have such a disparity is nonsensical. That would never happen. And everybody knows that would never happen.

So anyhow, I'm trying to think here. What were the other points that were made?

The benefits that the subject property yields, I think I heard staff say that that's what a reasonably prudent buyer would examine.

Again, the benefits that the subject property and the subject assets would yield in this case is the income. That's why these assets would be sold or purchased for the income that they generate.

Anyhow, I -- I think that's all I have, unless there is a specific question from the Members.

I guess I'll just conclude with this, like all this discussion about the wildfire crisis and the risk going forward is really, really important. And I really -- I -- I really would like the Board to just understand this idea.

Because staff is saying that these are going to be non-recurring expenses. "Oh, you're not going to need to make another, you know, major insurance premium payment," "Oh, you're not going to have claims liabilities again in the future."

And the reason that they're saying that is because, you heard them, they believe that this risk has been -- has decreased to a point where they can support those statements.

But that's not what's happening. We all know that this wildfire crisis is here to stay. I cited two just recent articles that I just pulled up, you know, in preparation for this hearing. Just -- it's all over the internet. I mean, anybody who puts any effort into this can see that this is a major ongoing risk.

Edison has to confront this in its day-to-day business. You see what the insurance expenses are. You've heard from Ms. Wood. They're -- they're spiraling upwards. They're not decreasing. And the claims liabilities are an ongoing reality for this public utility and its ratepayers.

So I just -- just -- I just don't understand how staff can sit here with a straight face and say that these risks have decreased to the point where we really -- we really don't need to be concerned about this anymore.

So, anyway, I will leave it at that unless there are specific questions from the Board.

MS. COHEN: I have some questions.

MR. VAZQUEZ: Controller Cohen, yes.

MS. COHEN: Thank you very much.

Mr. Dakessian, nice to see you on the screen today.

So you've made similar arguments regarding a general increase in business risks due to wildfires. And the Board, quite honestly, has rejected them for the last three years.

And I'm wondering, is there anything new that you have asserted to support the reduction of unitary value? Because I -- it sounds like I'm hearing the same argument.

MR. DAKESSIAN: It is the same argument, Madam Controller.

We are required by law to go through this process and exhaust our administrative remedies.

But I would say that I think that what we have shown staff is more than sufficient. And I understand that the Board has rejected these arguments. It's a de novo hearing. We ask that you reconsider.

MS. COHEN: And then I understand that Edison also has ongoing litigation. I don't know if you're privy to this, or if you're working on this. But there's legislation going on -- or litigation going on at the Orange County Superior Court, which might be a better forum to address this matter.

You know, I understand you're statutorily required to go through this process with us. But we seem to be at an impasse three years in a row.

Mr. Gaines, we went -- my team and I went back and looked at -- reviewed your words on -- similar to what you're saying today.

It's an interesting place that we're in. I think my words last year was quagmire. And I'd still use that to describe where we are.

So let me see, Edison filed in May of 2022, when will you have resolution?

Ms. Woods, I'm looking at you to answer that question.

MR. DAKESSIAN: Can you repeat -- can you repeat the question, Madam Controller?

MS. COHEN: Sure.

Edison has ongoing litigation in Orange County Superior Court, which was filed in May of 2022. I wanted to know, is that still being heard, or has the file not been called yet? Like, what's the status?

MR. DAKESSIAN: Yeah, I can answer that question.

The proceedings are still pending in the superior court. And we have added years as we have gone along. So the first year was 2020, and then 2021 has been folded in, 2022, and so forth. It's still pending.

MS. COHEN: So I think --

MR. NANJO: Madam Controller, if I -- if I could just caution the Board. We are parties to that litigation, and that litigation is actually, even though it's related, obviously, it is separate from the matter here at hand.

So I just caution the Board to get too involved in that, because it is active litigation.

MS. COHEN: Thank you. I'm not getting involved, I'm just asking what the deal is, where things were. Just an update. And I got my answer.

Thank you.

MR. NANJO: Okay. Thank you.

MS. COHEN: Mr. Dakessian, you mentioned a little something earlier, and I want to make sure I heard you correctly.

My question is the HLCD is widely regarded as one of the most reliable indicators of value for closely regulated utilities. And, again, this is based on verified evidence or any relevant, legal and appraisal principles.

In view of this, how do you believe that the respondent should not have used the HLCD valuation?

MR. DAKESSIAN: Madam Controller, it's a -- it's a good question.

I will -- if I can find the excerpt from the Board's own Assessors' Handbook that talks about why, in a situation such as this one, the historical cost indicator might not be reliable.

So this is what this is inputting, Assessors' Handbook 502 page 146, which states, and I quote, "Even where Rule 3(d) provides that the appraiser shall consider HCLD as an appropriate indicator of value for rate base regulated companies, the appraiser should also consider other indicators."

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

And so that, to us, Board's own words, justified departure from HCLD, or at the very least using income as the primary indicator.

Then you have Rule 8, which is your Board's own regulation, which I've mentioned before. Which states that the income approach is the preferred approach when -- for the appraisal of improved real properties and personal properties when reliable sales data are not available and the cost approaches are unreliable, because the reproducible property has suffered considerable physical depreciation, functional obsolescence, or economic obsolescence, or subject to legal restrictions on income that are unrelated to the costs, such as what we have here.

So that's the Board's own regulation as the force and effect of law were guided by that. We are guided by the Board's own handbook.

And I think Ms. Wood has something to add here as well.

If that's okay with you, Madam Controller, to shed further light on your question.

MS. COHEN: Sure. And after we hear from Ms. Wood, we'll hear from staff their thoughts.

MS. WOOD: Okay. I thought it might be helpful to just kind of go through just a really super basic example.

So the way ratemaking works is you do take your rate base, and that's -- that is equivalent to HCLD. The rate base would tell you what your rate of return, and that incorporates risk, and that gives you your profit, right? Theoretically.

But the next step is you tally up all of your cost, all of your expenses, take the profit, and say, okay, how much of revenue do I need to make, how much rates can I collect from ratepayers in order to achieve that profit?

And so that's how the ratemaking works. And if that's all we were doing, HCLD would be a very good indicator of what kind of profit the company could make and would determine the value.

But in this situation, what's happening is there's all these costs. There's the AB 1054 cap ex, the 1.6 billion. There's the cost to participate in the fund to be able to gain the insurance coverage, the upfront fee of the 2.4 billion.

And then these claims that are having to be paid over almost 6 billion have been paid over the past five years. All those are costs that don't go into that ratemaking model. They're not part of cost of service. And so they're not being taken into account.

The -- the cash is having to come from somewhere. And what it is, it's eating into the profit that we would otherwise earn through an HCLD-type model.

So that's why you're seeing the CEA so much lower in value than the HCLD. And the HCLD is not a proper indicator of what we can earn, because we have all these other expenses that are outside of ratemaking, not recoverable that we're incurring and have to finance and have to pay.

So I hope that helps.

MS. COHEN: Thank you.

One more question for you.

If you were to sell this land tomorrow, would you sell it at a discounted rate?

MS. WOOD: A buyer would certainly pay a discounted rate. A buyer would take into account the fact that there could be significant risk in the future about fires and cost, and just the environment of the fact that the utilities in California, they would certainly pay a discount.

MS. COHEN: I understand that's what a buyer, but you as a seller, what would you -- how would you market this?

MS. WOOD: Well, we wouldn't propose a discount, I don't believe. But I think we might accept one. Just because it's a reality.

MS. COHEN: Okay. I know it's all hypothetical, and I know lawyers are uncomfortable in the hypothetical world. So I will step out, and I will look to my staff now.

And I want to hear -- first I want to hear from you what your thoughts are around -- about the HLCD valuation, and if you have any rebuttal to what they were saying.

MR. MOON: Absolutely.

So I would point to the same language actually that Mr. Dakessian cited to you, which is that when there's a difference between HCLD and the income indicator, that it may indicate that regulation is lax and etc. So it might, it doesn't have to.

And then the second thing I would point to is in Rule 8, it says the income approach is preferred when the cost approaches are unreliable, because of the factors that Mr. Dakessian had listed.

So it's not just that those factors exist, it's when those factors make the CEA unreliable.

And, again, in this case, we believe that HCLD is more reliable than the income indicator. I don't think I would argue with anything that Ms. Wood had said, but I don't think it makes a difference to the property tax valuation.

MS. COHEN: Mm-hm.

MR. MOON: Because, again, many of the things, the specific things that are at issue here, there are specific reasons why they would not be included in the property tax -- in our appraisal, in our valuation, notwithstanding the correctness of her description of -- of the revenue requirement that PUC computes.

MS. COHEN: Thank you.

And my final question is, is can you talk to me a little bit about why you disallowed the wildfire insurance fund deduction?

MR. MOON: Certainly.

So the wildfire -- the initial contribution is the only part of that that we did not allow.

MS. COHEN: Mm-hm.

MR. MOON: And the reason why we did not allow it is because it is a past expense that they are not going to have to pay again. As far as we know, sitting here -- well, not here today, but sitting at January 1, 2023, the best information that we had was that they're not going to have to make another 2.4 billion, or not even -- it doesn't have to be 2.4 billion, but another contribution like that again, as far as we know.

MS. COHEN: Okay. Understood.

Thank you, Mr. Chair. I have no other questions.

MR. GAINES: I do if I could.

MR. VAZQUEZ: Member Gaines.

MR. GAINES: Yeah. Thank you.

Because I just wanted to -- maybe I could ask the question of each of you, the petitioner and the state.

But the argument is really over HCLD versus income approach, and it's really the -- it's really a weighting issue, isn't it?

I mean, if we're looking at a 75 percent historical versus 25 percent income, my understanding, and I'd like to hear from the petitioner, but it seems out of balance based on your arguments.

Is that correct, Mr. Dakessian?

MR. DAKESSIAN: Yes. Yes. We believe that it's out of balance. And had a proper reconciliation been conducted, which brought the values closer together, then the weighting really doesn't become an issue, because you have them closer together.

It's only when you have this great disparity that staff's 75/25 2006 approach to weighting exacerbates the problem.

So we agree that that -- that is problematic, and staff can address this by reversing the weighting and making the income the primary indicator.

Because, again, you know, to hear staff sit there and say they don't disagree with anything that Ms. Wood said, Ms. Wood is dealing in economic reality, and with the concept of fair market value. That was what Controller Cohen asked about, fair market value.

All these concepts are there to serve that constitutional principle of full cash value or fair market value. They're not ends in and of themselves.

And so we do believe HCLD is unreliable. Especially when it hasn't been explained here. Why the disparity? And if we had some sort of reconciliation that brought the HCLD closer to the cash flows, which any reasonably prudent investor would rely upon in making decisions on purchasing assets, then we wouldn't have the problem.

So to answer your question, we agree with your statement, Board Member Gaines.

MR. GAINES: Thank you.

Mr. Moon.

MR. MOON: Yeah. So, I mean, I think I would just say that we chose that 75 percent, 25 percent weighting because we believe the HCLD is the most reliable based on the factors that we had -- that we had enumerated and talked about.

And, again, we weighted the CEA, because we do understand that there is -- that there is lag. That there are some of the issues that the petitioner has been talking about. And we believe that that is appropriate. But we are -- we are very comfortable with weighting the HCLD 75 percent.

MR. GAINES: Okay. Great. Thank you.

I don't have any further questions.

I appreciate it.

MR. VAZQUEZ: Thank you.

I think we've pretty much exhausted it, unless staff has any more information they want to share with us.

MR. MOON: We don't have anything further unless you have questions.

MR. VAZQUEZ: Well, with that, Members, the item is before us.

Do we take that before or after a motion?

MS. CICHETTI: You have to have a motion on the floor, then we'll go out to public comment.

MR. VAZQUEZ: Then we'll have public comment.

So Vice Chair Lieber.

MS. LIEBER: I'd be prepared to -- excuse me.

I'd be prepared to make a motion to deny Southern California Edison's petition for reassessment of unitary values.

MR. VAZQUEZ: I'll second that.

And with that, should we go out?

We don't have any written comments on this, do we?

MS. CICHETTI: I have no written comments on this item, and I have no one in the audience who would like to make a public comment on this item.

So let's go to the AT&T moderator.

AT&T moderator, is there anyone on the line who would like to make a public comment regarding this item?

AT&T MODERATOR: Ladies and gentlemen, if you wish to make a public comment on this item, you may press one, then zero at this time.

And there's currently no one queuing up at this time.

MS. CICHETTI: Thank you, Moderator.

All right. I have a motion made by Vice Chair Lieber, seconded by Chair Vazquez to deny the petition for Southern California Edison Company.

Take roll.

MR. VAZQUEZ: Yes.

MS. CICHETTI: Chair Vazquez.

MR. VAZQUEZ: Aye.

MS. CICHETTI: Vice Chair Lieber.

MS. LIEBER: Aye.

MS. CICHETTI: Member Gaines.

MR. GAINES: No.

MS. CICHETTI: Member Schaefer.

MR. SCHAEFER: Aye.

MS. CICHETTI: Controller Cohen.

MS. COHEN: Aye.

MR. VAZQUEZ: So the majority -- so it does pass.

And with that, thank you all for your

presentations and your information.

MR. MOON: Thank you very much.

MR. DAKESSIAN: Thank you. Appreciate it. Thanks for your attention today.

MR. VAZQUEZ: Thank you.

(Whereupon the oral hearing concluded.)

REPORTER'S CERTIFICATE

State of California)
) ss
County of Sacramento)

I, Jillian Sumner, Hearing Reporter for the California State Board of Equalization, certify that on December 12, 2023, I recorded verbatim, in shorthand, to the best of my ability, the proceedings in the above-entitled hearing; that I transcribed the shorthand writing into typewriting; and that the preceding pages 1 through 64 constitute a complete and accurate transcription of the shorthand writing.

Dated: December 21, 2023

Jillian Sumner

JILLIAN SUMNER, CSR #13619

Hearing Reporter