BEFORE THE CALIFORNIA STATE BOARD OF EQUALIZATION

651 BANNON STREET

SACRAMENTO, CALIFORNIA

STATE BOARD OF EQUALIZATION

NOVEMBER 19TH, 2025

CALIFORNIA STATE BOARD OF EQUALIZATION

BOARD MEETING

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ITEM 6

TAX PROGRAM MATTERS

SOUTHERN CALIFORNIA EDISON COMPANY

(0148)

PROPERTY TAX APPEAL ORAL HEARING

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

APPEARANCES

For the Board of Equalization:	Honorable Ted Gaines Chairman
	Honorable Sally J. Lieber Vice Chair
	Honorable Antonio Vazquez Third District
	Honorable Mike Schaefer Fourth District
	Malia M. Cohen State Controller
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STATE BOARD OF EQUALIZATION

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ITEM 6

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MR. GAINES: Our next order of business will be the Tax Program Matters, Public Property Appeal Oral Hearing.

Our clerk will make the administrative announcements for the oral hearing.

Ms. Cichetti, please proceed.

MS. CICHETTI: All righty.

The remote oral hearing procedures are as follows:

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

After the administrative announcements, the Chair will introduce the oral hearing, then the appeals attorney will introduce your case.

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

Contribution Disclosure Forms are required under Government Code Section 15626.

The Chief of Board Proceedings Division has received completed Contribution Disclosure Forms for all parties, agents and participants for this property tax appeal oral hearing.

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

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

No violations were disclosed.

This is a constitutional function.

This hearing is conducted under Section 40 of the Revenue and Taxation Code.

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

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

The petitioner and the respondent will each have 60 minutes to make their initial presentation.

Then, the petitioner will have 10 minutes for rebuttal, followed by questions from the Board Members.

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

Thank you.

MR. GAINES: Great. Thank you.

We're now going to address Item No. 6, Property Tax Appeals Oral Hearing, Petition for Reassessment of the 2025 Unitary Value.

And this is with regards to Southern California Edison Company.

And the appeals attorney, Ms. Wilkman, will introduce this matter.

MS. CICHETTI: I apologize, Chairman Gaines.

It's Mr. Louis Ambrose is the appeals attorney.

MR. GAINES: Okay. Thank you.

I apologize for that. I was looking down.

Okay. So the appeals attorney, Louis Ambrose, will introduce this matter.

Thank you.

MR. AMBROSE: Good morning, Chair Gaines and Honorable Members of the Board.

My name is Louis Ambrose, appeals attorney for the 2025 appeal of the unitary property assessment of Southern California Edison, a public utility -- public electric utility operating in Southern, Coastal and Central California.

The Board-adopted -- 2025 Board-adopted value is 41 billion, 664 million, 500 thousand.

Petitioner, Southern California Edison, is requesting a 2025 unitary value of 35 billion, 821 million, 100 thousand.

The State-Assessed Properties Division recommends that the Board rather affirm the 2025 unitary value.

Because the amount of tax in controversy exceeds 500,000, this appeal is subject to Revenue and Taxation Code Section 40, which requires that after the Board hears and decides the petition, the appeals attorney will draft a written decision to memorialize the Board's action.

Petitioner lists its seven issues in the petition, but as explained in the hearing summary, certain of those issues are addressed in the -- either the general concerns, or the five stated issues in the hearing summary, which are as follows:

Whether petitioner has shown that respondent, State-Assessed Properties Division, has failed to reconcile the historical cost less depreciation value indicator, or the capitalized earning -- or -- and capitalized earning ability indicator of value.

Secondly, whether petitioner has shown that State-Assessed Properties Division erred by placing 75 percent reliance on the historical cost indicator, and 25 percent reliance on the capitalized earning ability indicator.

Third, is whether petitioner has shown that State-Assessed Properties Division must adjust the Board-adopted value for petitioner's liabilities for damage caused by the 2017 and 2018 wildfires and mudslides.

Fourth, whether petition has shown that respondent, State-Assessed Properties Division, improperly assessed the wildfire mitigation capital expenditures.

And, fifth, whether petitioner has shown that State-Assessed Properties Division has erred in its treatment of Wildfire Insurance Fund-related contributions.

Chair Gaines and Members, please note the petitioner has the burden of proof to show that the 2025 unitary value was incorrect or illegal, and has to show that with factual specificity as to any or all the issues.

In other words, the 2025 Board-adopted unitary value is lawful and correct, unless specifically shown otherwise by the petitioner.

And just one other matter.

The petitioner has requested -- or did request and submitted the complaints that have been filed for the superior court, the refund action for tax years 2020, 2021, 2022 and 2023, as exhibits for the current appeal.

Staff rejected those complaints as unsolicited evidence in this appeal, which is required by the Board's regulations.

And, rather, the -- as we've stated in the hearing summary, we've -- appeals would request that the Board take notice of the existence of lawsuits between itself and petitioner. But not -- not give judicial notice or take notice of those specific complaints.

MR. GAINES: Great. All right.

Well, thank you, Mr. Ambrose.

I'm wondering if you can just clarify for the public why this appears every year procedurally.

Why does this case appear before the BOE each year?

Because we've heard it several times. But I just want --

MR. AMBROSE: Why Southern --

MR. GAINES: -- to be clear.

MR. AMBROSE: -- California Edison is appealing this assessment? Or --

MR. GAINES: Yes.

And is there a requirement for them to appeal each year?

MR. AMBROSE: Oh. Yes, sir. Yes. Indeed, yes.

In order to -- okay. Well, a taxpayer has to appeal every year, because each year stands on its own.

MR. GAINES: Okay.

MR. AMBROSE: And in order to go forward, in the event that the Board denies the appeal, or they don't have the relief that they seek, they have to exhaust what is called -- this is called an administrative remedy, in order to then file an action in court to take the appeal further.

MR. GAINES: Excellent. That's great.

Thank you for that clarification.

MR. AMBROSE: Okay. You're welcome.

MR. GAINES: And I just want to welcome the petitioner to the Board of Equalization.

Please unmute your microphones. And -- do you have a microphone?

Are you coming to the --

MS. CICHETTI: They're coming through the Teams.

Yeah. Give the techs a minute to get everything up, if you don't mind.

MR. GAINES: Okay. So unmute your microphones.

MS. CICHETTI: There we go.

MR. GAINES: And introduce yourselves. And state your affiliation with the taxpayer record.

MR. DAKESSIAN: Good morning, Mr. Chairman, Madam Controller, and Members of the Board.

My name is Marty Dakessian with Dakessian Law.

I'm joined by my colleague Joshua Lin, our co-counsel, Mr. Charles Moll with the law firm of McDermott Will and Schulte.

We represent Southern California Edison and its millions of ratepayers.

Also with us today from Southern California Edison Company are Mr. Karl Matthews, principal manager, and Mr. David Lee, tax manager.

We thank you for having us here today.

And I just want to say, on a human note, we're -- I can say on behalf of myself, my colleagues, and our client, we're all really grateful that you and Mrs. Gaines are well. We were quite shocked to hear about the accident.

And, you know, we just wish everybody in the BOE family well as we head into the holiday season, notwithstanding our differences with staff and with the Board in past years.

We're grateful that you've given us an audience, and we wish you all well.

MR. GAINES: Thank you very much.

MR. DAKESSIAN: So I don't know if you would like us to begin, Mr. Chairman.

MR. GAINES: Yes, please.

MR. DAKESSIAN: But I know everyone is familiar with the issues.

Okay. I think what we'd like to do this year, because we've been here before, and I think everybody understands what these issues are, we'll just summarize the points that we'd like your Board to consider, and then reserve the rest of our time for rebuttal for answering any questions you may have.

If it's okay with you, Mr. Chairman, we'd like to proceed that way.

MR. GAINES: Yeah, that's fine.

You have 60 minutes to present your case.

And I think this was mentioned earlier, but, additionally, after the conclusion of the Department's presentation, you will be given time for a rebuttal, followed by questions by Board Members.

Please note that the clerk will provide you with a 5-minute warning as you near the end of your presentation time.

Thank you.

You can proceed.

MR. DAKESSIAN: Well, thank you.

So the essential consideration in determining fair market value is that of the willing buyer or the reasonably prudent buyer.

In other words, what would a reasonably prudent buyer pay for Edison's property, pay for Edison's assets?

And as we go through the presentation, I would like to respectfully request that you put yourselves, as you're considering the issues, in the shoes of a reasonably prudent buyer. And keep coming back to this concept when you listen to the presentation of the respective parties.

What would you, as a willing buyer, pay for this property?

What would you, as a willing buyer -- how would you consider the earning power of these assets?

What would you think about these expenses associated with this property, these assets, such as insurance costs?

How would you view, as a willing buyer, the risk of catastrophic wildfires and their impact on Edison's property, and the liability for damages caused by that property?

What would you think, as a reasonably prudent buyer, of the wildfire environment in California, as it sits today, and as we've discussed in previous years?

What would you think of climate change, and the possibility of these wildfires recurring?

Do you think the Thomas fires are a one-time event?

Do you think that the wildfire events that we've seen in recent years, and in this year, are going to go away, and are unlikely to be repeated?

Would you factor that in as you're considering value, the overall value of these assets?

That's really the North Star in determining what value is.

What would it go for?

What would it exchange for on the open market between a willing buyer and a willing seller without exigencies?

What would you pay for assets you can't earn a return on?

Would you factor in the potential for future lawsuits?

You understand, sort of, the line of reasoning here, the insurance cost and so forth. These are all things that a reasonably prudent buyer would consider.

And so with that in mind, we have a few specific issues, based on the general framework that we'd like to consider.

So we've spoken before -- the first issue we've spoken before in the past has to do with capital expenditures that Edison is not allowed to earn a return on.

What do I mean when I say that?

So in a regulated utility context, we use a value indicator called historical cost less depreciation or HCLD.

And the reason that we use that is because the assets at issue are regulated by the CPUC. Edison's a regulated company.

So the CPUC regulates Edison's assets, regulates its ability to earn income on those assets. And that's what we refer to when we talk about a rate base regulated utility.

The rate base is the universe of property that the CPUC says that Edison is allowed to earn a return on.

What happens when you have assets that Edison is -- has to purchase, has to make expenditures for, but is not allowed to earn a return on?

And so that's what we're talking about here when we talk about the 1054, the AB 1054 capital expenditures.

These were wildfire mitigation expenditures that, by law, Edison had to incur; but, by law, they could not earn a return on.

And we would like to have those assets removed fully from the historical cost indicator.

Because the purpose of the historical cost indicator, as we've talked about in previous years, is to measure the earning power of these assets.

These are -- this is not like a single-family residence where you would look to comparable sales. What did your neighbor's home sell for, so on and so forth, in valuing these assets.

What reasonably prudent buyers are concerned with here is what kind of income can these assets generate.

And that's why the two methods that we're looking at here are the historical cost indicator, which is a bit of a misnomer. It sounds like, oh, it's what you paid for it.

No. It's what you're allowed to earn on in a regulated environment.

And then the income indicator. What you're allowed -- what the cash flows show.

So we're looking at two approaches that are trying to measure the same thing. And here we have a historical cost indicator that includes items, quite simply, that they cannot, by law, earn a return on. And we want those assets fully out of the historical cost indicator, because they cease to have their purpose.

The purpose of historical cost is to measure the earning power of the utility. And there's an asset that Edison is not allowed to earn a return. It should be taken out, quite simply. That's the first issue.

Second issue has to do with the wildfire insurance fund initial contribution.

So in its income approach, staff did not properly account for Edison's initial upfront payment to the wildfire insurance fund required, again, by Assembly Bill 1054.

Staff should have allowed Edison to annualize its initial $2.4 billion contribution, just as the Assessors' Handbook directs.

Staff says it doesn't need to do that, because the expense was incurred, the contribution was incurred before the lien date in 2020. And that this is, therefore, something that should not be considered.

But, again, your own Assessors' Handbook says that in the case of prepaid insurance, which this unquestionably is, you're allowed to annualize that. You're allowed to spread that ratably over a period of years.

Staff didn't do that. They excluded it entirely.

So that's wrong. That shouldn't have happened.

Staff also has said that, well, we haven't established that the initial contribution is itself a recurring expense.

We respectfully disagree.

The insurance contribution is an insurance payment. Edison makes insurance payments every year. It should be considered as a recurring expense, first of all, in that regard.

The fact that there isn't an identical insurance initial contribution is really of no moment. The fact is that Edison needed to make this payment to have access to the wildfire insurance fund. And that's exactly what it is. It's an insurance payment.

And I don't think we need to over think this, and say that an identical payment just like that one needs to have been made. But I think that's what staff appears to be arguing.

But, in any event, I can assure you that the willing buyer would certainly take a prepayment like this into account.

Because if you were to compare two companies, one that has made a payment before the lien date, and the other that has not made this payment at all, a willing buyer would pay more for the company that has made the contribution. Because that buyer could benefit from greater future cash flows, due to the coverage of wildfire losses that represents an intangible asset, that intangible value should be excluded from taxation.

So it's an intangible asset, because the value of the associated cash flows and increased income are impacted, those values should be excluded from the income indicator.

So it's either they properly annualized the insurance expense, or it's an intangible that needs to be removed. In either case, at bare minimum, these expenses should be reflected in the income approach.

The third issue pertains to wildfire claims liabilities. They should be removed from both the historical cost and the CEA indicator.

So Edison is entitled to a reduction for the ongoing 2017, 2018 wildfire claims liabilities. Staff's position, once again, is that these are past expenses, and, therefore, they're contrary to Rule 8, which seeks to capture a future income stream.

But this is incorrect.

Although the events giving rise to these expenses are in the past, the expenses themselves are future expenses that Edison will pay for after insurance recoveries, and is continuing to pay for.

So the fact that the event is in the past doesn't mean that the cash expense is in the past, first of all.

Staff also says that these claims liabilities are, again, nonrecurring expenses. And I don't think there's anything that says that expenses need to be recurring to be taken into account.

Something a willing buyer would absolutely consider, if there's the possibility of catastrophic wildfires. But I do think that the scientific community, there's a consensus that wildfires, despite the best mitigation efforts that Edison itself has undertaken, they will continue to be recurring, they will continue to be of greater magnitude.

And so this is not something that a reasonably prudent business person or a reasonably prudent buyer could disregard, the cost of incurring future claims that are caused by Edison's equipment, regardless of fault.

This is not a negligence situation. It's a strict liability situation.

If a car rams into one of Edison's poles that is supporting a power line, and that power line crashes and falls upon a house, and the house burns down, under strict liability, Edison, in that scenario, would be liable.

So a reasonably prudent buyer, looking at something like that, I think, would definitely take that into account.

If the reasonably prudent buyer were to know that regardless of fault, if there's a causal link, then there will be a problem there, there will be a potential claim.

So staff says that Edison's actions have mitigated the risk of future wildfires. And that is true. But that doesn't tell the full picture.

Edison -- it is true that Edison has taken measures to reduce wildfire risks, and that these measures have improved the situation. No doubt about that.

But it is also true, according to the science, that the risk of wildfires still remains significant. And these concepts are not inconsistent with one another.

They've done their part. But the risk still remains.

So staff's position is really not tenable in light of this background.

And, also, just, it doesn't really pass the eye test.

You know, sadly, we had the devastating wildfires in Los Angeles just this past January.

A large sector of the fire insurance industry has left California.

The Legislature recognized that it needed to augment the wildfire insurance fund through Senate Bill 254.

So I know staff is going to point to bond ratings and so forth. What I will note is that there's been a slight uptick in the bond outlook, or the outlook by the bond markets.

I would point out that Edison has not recovered its bond rating to the levels and the rating that it had previous to the Thomas and Woolsey fires in 2017 and 2018.

So, in short, staff's position that the expenses are nonrecurring runs counter to established science, to business considerations, to what we're seeing in the regulatory environment right now.

And, also, it's, I think, you know, a little bit contrary to common sense. I don't mean to be harsh. But when we see everything that's happening, it's hard to make an argument that a reasonably prudent buyer wouldn't consider, would turn a blind eye to what's been happening in connection with the wildfire crisis in the marketplace, and the insurance expenses, and so forth.

So just to summarize, so a willing buyer would absolutely consider claims liabilities that Edison is paying in connection with the Thomas and Woolsey fires in at least three different respects:

One, although they're past events, the payments are current payments that impact cash flows.

Two, there's a strong possibility a buyer would have to take on these liabilities when purchasing those assets.

And, three, a prudent buyer would have to consider the possibility they would be on the hook for future claims from future wildfires.

So that's the insurance piece.

I'm sorry -- that's the claims liability piece.

The fourth issue we'd like to bring to the Board's attention has to do with the reconciliation.

And we recognize that the value indicators can yield different results. But where you have significantly different results between historical cost indicator in this case and the income indicator, then you have to reconcile the difference. You have to justify how you arrive at the final opinion of value. And we don't think that's really happened here, respectfully.

We think that staff has advanced in theory as to why that might be the case. And it has said, well, maybe it's this factor, or maybe it's that factor. But the reality of the situation is staff has been using the same weighting. The same 75/25 weighting in arriving at its final opinion of value that it has for the last 15 years.

None of that has changed, even though the wildfire crisis has reached a fever pitch here in California.

When you have this sort of regulatory environment, and the expenses that are imposed on an investor-owned utility, expenses that cannot be recovered, then if you're not going to account for those expenses by removing them from the historical cost indicator, or account for them in the income approach, then you should at least explore a weighting adjustment, or at least give a better explanation of what is actually going on.

How do you arrive at the final opinion of value, instead of just going with the 75/25 weighting, because you, you know, want to be consistent, and you've done it for years?

In some situations that sort of consistency is laudable. I think, in this situation, I think it's not really the way that we should be doing this.

When -- things changed definitively, if you look at, you know, from an economic perspective, for Edison in 2017 and 2018, and for the entire state in terms of the occurrence of wildfires.

There should be, you know, some explanation beyond what staff has provided as to why these indicators are so far apart, and also some explanation really more to the point regarding reconciliation, how did you arrive at the final opinion of value given that the value indicators are so far apart.

And I think the numbers are 43.7 billion historical cost, and 35.6 billion income.

That's like a 23 percent difference. That's $8 billion.

So either way, it's certainly a large -- a large disparity.

And when arriving at the final opinion of value, we need to understand how they got there, instead of just, "We weighted at 75/25, because that's what we've been doing."

So the last issue I want to talk about, it kind of dovetails into what I was saying, was the whole weighting situation.

You know, how are we measuring value?

What value indicators are we using, and what weight are we giving to the value indicators?

And, again, prudent buyers care about what?

They care about the earning power of the utility. They care about what kind of return am I going to get on my investment.

And I think we should all agree that for this type of property, a willing buyer would only pay a value based on the earning power of the utility.

What returns can it generate?

So -- and to be fair, again, it's a rate-regulated utility. So it is absolutely fair to look at the historical cost approach.

But when there is a disconnect, as we have here, between the historical cost approach and the income approach, put yourselves in the shoes of a willing buyer.

You've got historical cost, which includes assets that you can't earn a return on, and you're being asked to pay a price that reflects these non-returning assets.

Would you do that?

Or would you look more to the cash flows of the property?

That's what a reasonably prudent investor would do. It would look to cash flows. Whether you're appraising regulated or unregulated properties.

The only relevance of historical cost here, of course, is that because we have a rate-regulated utility, historical cost, again, measures earning power in that rate-regulated environment.

So if you agree with the theory, and you agree that a willing buyer would -- would be taken aback by an $8 billion difference, then you really have to make an adjustment, at the very least, to the weighting.

You would either use the income approach entirely, or you place the predominant weight on the income approach.

And that's -- you know, that's just from a high level, reasonably prudent investment theory.

But we actually have a regulation that has the same force and effect of law, Rule 8, that says that you should be using the income approach here. If not entirely, certainly predominantly.

Rule 8 says that the income approach is the preferred approach 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, is a substantial over-or underimprovement, is misplaced, or subject to legal restrictions on income that are unrelated to cost.

And that's what we have here. That's what we have here.

Again, you know, I don't know that staff would disagree with us on the concept, right?

They said during the 2023 hearing, HCLD is clearly the most reliable approach.

Why?

Because in rate regulation, the regulator begins with the value of the asset, then they take those assets, and they determine how much income those assets can earn.

This is a direct quote from staff.

So, you know, they say, I don't think we would argue with the sort of general premise that potential purchases 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 income indicator.

And that's true; but, in this situation, you have a gross disparity between the historical cost and the income.

Here, you have a historical cost indicator that includes assets you're not allowed to earn a return on. Like the AB 1054 capped expenses, primarily.

So it's not just, you know, the historical cost is what a reasonably prudent investor would look to, in and of itself.

No prudent investor would look at that, because -- to the extent that it's indicative of the earnings of the utility.

So, you know, that's sort of the theory behind that.

So a few important corollary principles here, and then I will wrap up the presentation, our opening presentation, which is that the purpose of the HCLD method has not been met.

The purpose of it is to measure earning power of the utility.

When you have underperforming assets -- I know I'm being a little bit repetitive, but when you have underperforming assets, then the historical cost indicator ceases to have utility.

This limit on earning power we call external obsolescence. They're factors outside the property, like the regulatory environment, that are causing an inclusion of assets in the historical cost indicator that they can't earn a return on.

Third, the historical -- the obsolescence must be cured by removing the non-producing asset -- non-income producing asset from the HCLD indicator.

And, fourth, if there's too much obsolescence, if there are too -- there's too much in the way of assets or value included in the historical cost indicator that don't generate income, then HCLD is not the most reliable indicator of fair market value.

Because no prudent buyer would pay for assets that don't generate income.

So Assessors' Handbook 502, that's your Board's own handbook, makes it clear that cash flow takes precedent over HCLD.

It says the prudent investor estimates the size, shape, duration and risk of a property's income stream before purchasing it.

So you -- also your handbook also says, I'd like to remind the Board that, even where Rule D provides that the appraiser shall consider HCLD as an appropriate indicator of value for rate-based regulated utilities, the appraiser should also consider other indicators.

For example, 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.

That's what's happening here.

The obsolescence here is significant. It's in the billions of dollars. And it renders the historical cost approach 22.7 percent higher than the income approach.

It's -- it's less reliable. The income approach is what a willing buyer would consider in an open market transaction, because cash flows are what matter to buyers for these types of properties.

So how can we correct this?

Well, we've -- we've put forth a number of solutions.

One, staff can make the specific adjustments we requested.

Now we're before your Board. Your Board can make those adjustments.

You can make an overall obsolescence adjustment.

You can use the income approach. Or you can at least change the weighting to arrive at a reasonable valuation.

So, without that, we're looking at a value that does not reflect what a willing buyer would pay for this property in an open market transaction.

So thank you for your time.

This concludes our opening presentation.

And I will save the balance of our time for rebuttal and questions.

MR. GAINES: All right. Thank you.

So no other speakers from the appellant?

MR. DAKESSIAN: Not at this time, Mr. Chairman.

MR. GAINES: Not at this time. Okay.

MR. DAKESSIAN: Perhaps on -- perhaps on rebuttal or during the questions phase.

MR. GAINES: Okay. Wonderful. That's great.

And so we'll now have an opportunity to hear from the Board of Equalization.

And you'll have up to 60 minutes also to make your presentation.

Thank you.

MR. LUJAN: Good morning, Chairman Gaines and Honorable Members of the Board.

My name is David Lujan.

And with me also is Sonya Yim. We're both with the Legal Department.

And also representing SAPD with us today is Jack McCool.

I would like to begin by providing some

general background information that affects this year's petition.

First, because this is the sixth year petitioner has presented the same issues with essentially no new argument or information to support its reduction request, staff recommends the Board deny this year's petition, as it has the five previous years.

Second, for the current tax year at issue, petitioner added approximately $4.4 billion in new property, yet is asking for a $3.1 billion reduction from last year's Board-adopted value.

Third, as in previous years, petitioner cites increasing risk of catastrophic wildfires, following large wildfire events from 2017 to 2018, as the foundational basis for its value reduction request.

For the current tax year, staff has, again, looked at this issue. And while climate change and the increase in general wildfire risk continue to be real concerns, the specific risks faced by petitioner have been meaningfully mitigated since 2017, 2018.

The credit markets, the CPUC, and petitioner, itself, have acknowledged as much.

In 2023, Fitch Ratings, one of the three major credit rating agencies, upgraded petitioner's long-term issuer credit rating, citing petitioner's ongoing efforts to enhance wildfire resilience, along with state and local efforts, credit supportive elements of wildfire legislation, such as AB 1054, as reasons for the rating increase.

Then in December of 2024, just before the 2025 lien date, Fitch affirmed its rating, citing the petitioner's wildfire risk management, potential recovery of wildfire-related liabilities, and increased revenue requirement requests as reasons for the affirmation. And this rating is investment grade.

The CPUC in 2019 opined that AB 1054 has substantially mitigated wildfire liability as well as liquidity concerns.

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

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.

Petitioner revised this estimate to 85 to 88 percent in a story it published in April of 2024.

To be clear, we are not saying, nor have we ever said, that climate change is not real, or that wildfire risks do not exist, or even that things couldn't change in the future.

What we are pointing out is that as of the lien date, the cumulative effects of wildfire mitigation efforts by petitioner, the Legislature, and the PUC, since 2017, 2018, have meaningfully mitigated wildfire risk.

By petitioner's own calculations and public statements, the probability of catastrophic wildfires associated with its equipment is reduced by 85 to 88 percent.

Finally, we would note that we made the same wildfire-related adjustments as in previous years. The largest of which was to add an equity risk premium to their cap rate, which resulted in about a $1.8 billion reduction to their overall value.

Overall, the wildfire-related adjustments combined to reduce petitioner's unitary value by approximately $2.9 billion.

Regarding 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 or CEA indicator of value, considering the data available and relative appropriateness of the approaches.

Here, pursuant to property tax rules, HCLD is the most reliable value method, because the HCLD indicator of value begins with the actual assets, on which PUC allows petitioner to earn a return.

It reflects the amount actually invested to put the property into service.

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

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

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

It -- it might indicate that HCLD is too high; but, of course, it's entirely possible that CEA is too low.

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

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 maintains that all appropriate obsolescence adjustments for wildfire risk have been made. And the bottom line is that petitioner has shown no specific evidence that the difference is due to obsolescence.

SAPD has weighted HCLD 75 percent, because it is proven to be more reliable. While the only reason petitioner was given to change is because the number is higher than CEA.

Concerning the wildfire liabilities, petitioner requests an approximately $903 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 accrual stems from lawsuit settlements from 2017, 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 someone would pay for the entire company, 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 the petitioner has applied to the PUC for recovery of these liabilities.

Certain recoveries have been approved; therefore, they will recover in rates, and a property tax deduction is not proper.

If the PUC does not approve -- to the extent the PUC does not approve recovery, it would be inappropriate to make a reduction in property tax value for property operated imprudently.

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

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

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

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

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

Regarding the wildfire mitigation capital, in accordance with AB 1054, petitioners spent about $1.6 billion on wildfire mitigation capital expenditures for 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 their rate base.

Petitioner is not prohibited from earning a return of its investment, which is reflected in its recovery of amounts spent, and staff made an adjustment for that.

Staff removed the equity portion of the rate base that AB 1054 does not allow.

This is undisputed.

In its 10-K filing, petitioner discloses that this expenditure cannot be included in the equity portion of its rate base, but also that petitioner seeks -- expects to seek orders from the PUC to finance the remaining AB 1054 capital expenditure.

In other words, they're saying they're prohibited from earning a return on these investments, but they will seek a return of this investment through CPUC financing orders.

That financing order also makes clear that the financing mechanism is for the purpose of recovering petitioner's costs.

It is also important to take a step back and see the big picture of what petitioner is asking the Board to do.

Petitioner states that this property has zero value, because it is prohibited from earning an equity return on its cost, and that no investor would purchase it.

This ignores the fact that the property contributes to earnings and has value, and may be sold as part of the system.

Simply put, it spent $1.6 billion on property, and is asking the Board to assess it at zero, because they are not allowed to earn an equity return on that investment. Ignoring the fact that they are getting their money back, and that the property is contributing to earnings.

Concerning the wildfire fund initial contribution, petitioner's initial contribution of 2.4 billion to the wildfire fund, as required by AB 1054, is not considered an operating expense under basic appraisal theory, because it is not an expected periodic cash expense.

Instead, is it an -- it 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, and defines non-core items as 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 expenses related to changes in law.

Although petitioner acknowledges this is a non-cash extraordinary amortized accounting expense, petitioner points to language in the Assessors' Handbook regarding prepaid insurance.

However, the Assessors' Handbook refers to anticipated, periodic prepaid amounts that represent future cash flows.

They say that certain expenditures are annualized when using a direct capitalization model.

In contrast, this single extraordinary AB 1054 initial contribution is not anticipated to periodically recur.

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.

In 2020, petitioner requested general reductions, because catastrophic wildfire risks were an existential threat to their business.

Five years later, AB 1054 and their own actions appear to have mitigated much of that risk.

They also requested specific adjustments for their initial contribution to the wildfire fund, and their 2017, 2018 lawsuit liabilities on the premise that these contributions and lawsuit liabilities would be recurring on a regular basis.

However, as of the lien date, no initial contribution has been required for the wildfire fund. They've been able to obtain wildfire insurance.

And as far as the lawsuit liabilities, petitioner states in its own 10-K, petitioner 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 will not be material.

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

What we are saying is that the specific risks facing petitioner's property have been meaningfully mitigated. But that doesn't mean they've been eliminated.

Based on this trend, as recognized by the PUC, the credit markets, and petitioner itself, we've made all appropriate adjustments.

And for these -- for these reasons, we recommend denying the petition on all issues.

Thank you.

MR. GAINES: Great.

Thank you very much.

We can now move to the rebuttal period.

And, Mr. Dakessian, you have 10 minutes for rebuttal.

MR. DAKESSIAN: Okay. Thank you, Mr. Chairman.

So I'm going to ask my colleagues to chime in as appropriate to augment my comments.

I just ask you, we heard all these points from staff right now. Do their arguments pass the eye test?

If you're a reasonably prudent buyer, do you believe that there's the wild -- the risk of wildfires in Edison service territory are insignificant or mitigated to the point that no reasonably prudent buyer would consider them?

I don't think so. I don't think so.

I think you should look at their comments through that lens.

I'll also add, you know, they make a lot of arguments. We make a lot of arguments. I reject, categorically, any -- any assertion that we are picking the income approach because that's lower.

And I certainly wouldn't assert that they're picking the cost approach, the historical cost approach, because it's higher.

Let's stick to the issues instead of just taking cheap shots. I don't appreciate that.

We have legitimate arguments here. Specific adjustments that we're requesting. And I would ask that everyone's comments focus on that, instead of just what, you know, you perceive, what staff perceives the motivations of the party might be.

So as far as the credit markets are concerned, let's talk about that.

So the first point that I would raise is that, despite what staff says, S&P, in its September report, downgraded -- of just this year -- downgraded -- this is according to investing.com -- downgraded Edison International, and its subsidiary SCE, to BBB minus from BBB, with a negative outlook, citing concerns about a shrinking wildfire fund.

The downgrade reflects S&P's expectations that California's wildfire fund will be smaller than previously anticipated.

While SB 254 authorizes a wildfire continuation account that increases the fund's limit by about 18 billion, S&P estimates the net present value provides only an incremental $10.5 billion.

That's recent. Okay?

But more importantly, Edison has never recovered, through the -- to the pre-'27, 2018 rating, which was an A minus rating, I believe, from Fitch. It has never recovered to that.

So the fact that it's hovering between BBB and now BBB minus, according to S&P, I think that belies the point that staff is making that somehow the worst of this is behind us.

Recent events in January.

Does this pass the eye test?

It most certainly does not.

So as far as the asset additions point, Edison adds assets every year. It doesn't always correlate to a dollar-for-dollar value increase in some years. Edison increased assets, had a net decrease in assets, and its value still went up.

So I don't think that's the key to whether the value should be increased or not year over year. We're asking for these specific adjustments. And those should be taken into account.

In terms of, once again, the claims liabilities not being something that a reasonably prudent buyer would consider in the future as an ongoing expense or a recurring -- something of a recurring nature, well, again, you know, I don't think that's accurate. I don't think that's how a reasonably prudent buyer would view these things.

So the comment about we are attributing zero value to the assets that we're asking be removed from the historical cost indicator, that's not accurate.

The historical cost indicator is, again, there to measure the earning power of the utility.

It's not that the asset doesn't have value in the abstract. It's that the asset should not be included in a value indicator that seeks to measure the earning power of the utility.

Why?

Because it's not earning anything.

So we're not looking for an exemption, or saying that it has zero value in the abstract. We're saying if you're going to use the historical cost method, as opposed to, for instance, a replacement cost method or reproduction cost method, if that's the method you're going to use, you need to do it correctly. And you need to not include items that don't generate a return.

Because no reasonably prudent investor would pay for that, would -- would want -- would give value -- would give value to that in the context of the historical cost indicator.

Mr. Moll, do you have anything to add based on what you've heard?

MR. MOLL: Well, there's lots to say and so little time, unfortunately.

I -- I would say there were several factual misstatements, to my understanding.

One that I recall is the -- is the comment that when Edison makes these CapEx expenditures, which are required by law, and it's not allowed to put them in rate base, that is true.

But I heard the comment said, "But they still get a return on it," which is absolutely false.

They get nothing on it. They don't get a return on it. They don't -- they can't -- can't take depreciation. They can't get any recovery in, whatsoever, on that.

And that's just -- that's just expenditures they have to make in order to participate in the wildfire fund, plain and simple.

You know, the -- the only other point I'll make, and I know time is short, and you've all heard this before. I hear a lot of speculations, in essence, a taxpayers's burden of proof. But when you -- when you have -- you know, when you have two valuation methodologies, and you have to -- and they show different values, you've got to pick a value from those two. You have to explain why you're relying upon one more heavily than the other, if that's the case.

And you can't do that based on, well, it could be this, or it could be that. It has to be a reason why you're doing that.

And here they say, "Well, yes, we agree that the HCLD is much higher. We're going to rely mostly on that."

And we think the difference is not what our handbook says, which is most likely it's due to external obsolescence.

And if indeed your handbook is correct, and it is external obsolescence, then under the regulation, that makes the HCLD indicator less reliable than the income approach.

That's the first thing.

The second part is, they say, "Well, it could be due to regulatory lag."

They don't even define it.

Have you even looked at that to figure out if that's really true?

We believe it's not true at all.

That's -- I mean, in the years in which Edison was able, before the wildfires, Edison made significant investments in its property. But there was no regulatory lag impact upon their ability to meet their expected return. They either -- you know, they were always just below or just above their allowed return in those years. It wasn't until the wildfires hit that things changed. Not coincidence.

So I think those couple things that he makes that we heard as factual statements are just wrong. And there's nothing behind it.

And if you're going to base your -- you know, pick one methodology to use greater weight than the other, you really need to come up with the reasons why.

You can't just deflect, and say, "Well, no one told us why we couldn't do it."

You have to explain why you did use that. Put more weight on that particular methodology.

And we haven't heard anything about that at all other than some speculation, which I haven't really investigated.

And I'll stop there.

MR. GAINES: Any other comments?

MR. DAKESSIAN: No. No.

In conclusion, you know, you've heard the theme, what would a willing buyer do?

What would a reasonably prudent buyer do?

They would certainly take into account the fact that there are assets that do not generate a return when paying a purchase price for these assets.

They would certainly take into account the fact that the wildfire initial contribution, the wildfire initial -- insurance fund initial contribution has been made.

They would certainly take into account the possibility, not only the fact that they have outstanding claims liabilities for the 2017-2018 year, but they would also take into account the possibility of future claims liabilities.

They would look to the disparity between the value indicators, and I think they would look to -- they would look to a value predicated on the income indicator, or at least predominantly predicated on the income indicator.

And with that in mind, the wildfire crisis is here to stay.

Yes, it is true, Edison has done its part to mitigate the risk of wildfires in its service territory. But it's not zero.

And when it does happen, that's the reality that a potential prudent buyer would consider.

So with that in mind, we'll close our remarks, and open it to questions of the Board, if any.

And we thank you again for your attention.

MR. GAINES: Great.

Thank you, Mr. Dakessian.

And, Members, are there any questions for the petitioner, the Department, or the appeals attorney?

Yes, Member Schaefer.

MR. SCHAEFER: Thank you.

This is -- I've been on the Board for seven years. So I've been party to the last five years of your presentations.

I think there's a lot of wisdom in both your presentation and in what our Board says, our staff.

You have to realize that there's not one person on the Board that's a practicing lawyer. The lawyer on our Board is Deputy Controller, who's not participating in this event.

Your 40 pages of presentation, I've scanned them through. But we've only had a couple of days before the meeting to do that.

I'm just wondering if the five years you've had rejections here, I imagine there's meet-and-confer sessions between the Board and your counsel. I would think that you might have found some recurring problems that maybe a legislative act might resolve, an amendment to the Revenue and Taxation Code.

I guess I might ask you, have any of these issues occurred to you to be brought to the Legislature for the definition, so that there could be a change in the legal analysis of what the problem is, instead of just looking like we got a Pavlov's dog situation, where each party is beating up on each other for five years at a time?

I don't think it's a Johnny-one-note situation. Because life is always changing. The wildfire exposure in the last 12 months has been quite different than it has been for the prior four or five years.

I would just like to say that I'm impressed with the good efforts by both parties. Southern California Edison is owned by thousands of good, hardworking people, Californians, people from other states. And they're all good people who are looking for fairness. They're not looking for greed.

And we, representing the taxpayers, are looking for the same thing, fundamental fairness.

I would just ask you, first question is have you had opportunities to meet and confer over the years, and possibly find out more common ground each year?

And, number two, are any of these issues subject to legislative consideration that might remove some of the objections?

I appreciate very much what you've done as a company. I used to be in business in Catalina Island, and dealt with Southern California Edison there.

I appreciate your coming forward every year. But I'd like to know that we're not going to see another five years of rejection. I'd like to see some common ground and some relief for you.

There's nothing criminal here. It's all civil, and it's all in good faith. And I'm really surprised that we haven't established more common ground here.

Thank you.

MR. GAINES: Thank you, Member Schaefer.

MR. DAKESSIAN: Well, appreciate --

MR. GAINES: Go ahead, please.

MR. DAKESSIAN: Chairman Gaines, would you like -- would you like me to answer the question?

MR. GAINES: Yeah. Please.

MR. DAKESSIAN: Sure. Sure.

Well, look. We always appreciate the opportunity to meet and confer with staff.

We have a relatively short runway leading up to the Board hearing.

As Mr. Ambrose pointed out at the outset of the presentation, we are here every year to exhaust our administrative remedies.

So we appreciate Mr. Schaefer's comments. Take them seriously. Take them under advisement. And we'll continue to have a conversation with staff as things move forward.

And appreciate also the comments regarding the legislation. I don't have a comment on that right now, but we will certainly take that under advisement.

MR. SCHAEFER: Thank you.

MR. GAINES: Great. Thank you.

We have a few questions here.

I just wanted to check with Controller Cohen as to whether she might have any comments or questions at this point.

MS. COHEN: Yes. Yes, I do.

Thank you very much.

I had my hand up.

Good morning, Mr. Dakessian.

Nice to see you again.

Good morning to everyone.

First, I just want to correct a statement that Member Schaefer said.

He is correct that Deputy Controller Hasib Emran is an attorney. But I personally have several attorneys that are advising me on this matter, and all BOE matters, that are on my staff.

And I also know for a fact that Member Sally Lieber has a very talented and knowledgeable lawyer on her staff as well.

So legal presence may not sit in the voting seat, but it is definitely supporting the Members that are casting the vote.

So I wanted to just go on record to assure the members of the public, so that they are aware that these decisions and discussions that we're having are informed -- informed through a legal lens.

Now, with that said, I want to speak to in regards to the non-income generating assets, SAPD.

Are any of Edison's assets necessary for service delivery, but not revenue generating?

So such as safety, environmental, or regulatory compliance assets that are reflected in the weighted indicators?

And then how does this affect valuation?

MR. LUJAN: Well, I believe we've had some informal discussions with petitioner. And I believe we've also provided some supplemental instructions to get at that very question.

And I believe we have not received that information.

MS. COHEN: Okay. So then my next question would be for the representatives for Edison.

I'm curious to know, do you conduct an independent third-party appraisal to support your lower valuation, or is this an internal analysis that you've conducted?

MR. DAKESSIAN: So in the first of the years that we had before your Board, we presented an independent appraisal from Ernst & Young that supported our petition. In fact, went -- went actually even lower than our petitioned value.

And we are not just -- there are certain things that I can't comment on. But I can assure you that this is not just based on internal analysis.

We're looking for a re -- you know, we have -- we have looked to outside resources to inform us on this issue.

MS. COHEN: Okay.

MR. DAKESSIAN: And we're quite confident that our petition value is reasonable.

And as -- Madam Controller, can I address your question about the safety investments?

MS. COHEN: Oh, yeah. Please. Yes. That would be helpful.

MR. DAKESSIAN: Yeah.

So AB 1050, under Assembly Bill 1054, Edison was required to make safety investments of $1.6 billion. Which, quote, this is -- I'm quoting the relevant language from the bill -- must be made under this act without return on equity that would otherwise have been borne by ratepayers, closed quote.

So that's what we're referring to.

As to staff's point about -- you know, it's true, we have ongoing discussions with staff. The major item in this category of assets that appear in the historical cost indicator, but are not -- in essence, not allowed to earn a return on, we've provided that year, after year, after year. And that's the $1.6 billion under AB 1054.

MS. COHEN: Okay.

Thank you for the clarification.

I want to pivot back to BOE staff.

SAPD, are operating expenses and taxes and depreciation fully accounted for in the net income calculation?

MR. LUJAN: Yes.

MS. COHEN: Okay. Thank you.

If only all lawyers could answer so succinctly.

Okay. I have one more question.

So you said yes. Is it possible that double counting could occur if some items are also reflected in the HCLD?

MR. LUJAN: Well, I think -- because we're talking about the wildfire mitigation capital expenditures, we -- we removed the return-on portion of that.

MS. COHEN: Okay.

MR. LUJAN: Would they be double counted?

No. No.

MS. COHEN: Right. Appreciate the confidence.

I want to go back to the insurance fund statement.

I think, Mr. Dakessian, you had mentioned this.

Wouldn't participation in that fund, because it caps catastrophic exposure, actually increase the stability, and, hence, the value of your -- of your enterprise?

MR. DAKESSIAN: Yes, it would.

Which is why if that expenditure had been made, the access to that fund that a prudent buyer would consider would be an asset of intangible value, which would have to be removed. Which would have to be accounted for.

So if you have a ticket to participate in the wildfire insurance fund, by virtue of the fact that you've made this contribution, then a reasonably prudent buyer would absolutely consider that.

And the value -- right -- the ability that that legal right to participate in the fund is an intangible that should be removed, that's what we've been arguing.

MS. COHEN: So I made a note earlier when I was reflecting and reviewing this for the -- for the hearing today regarding the wildfire insurance fund, you argue that contributions to the wildfire insurance fund reduce your property's value.

And so my question is, are those contributions fixed costs, or subject to recovery through the CPUC rates?

And I believe I heard you say the answer is yes, but I just wanted to confirm.

Are those contributions fixed costs, or are they subject to the recovery through the CPUC rates?

MR. DAKESSIAN: They're -- they're not subject to recovery.

MS. COHEN: They're not. Okay.
I'm glad I asked. I just heard.
I guess I have my question for SAPD.
In what way did you account for the capital expenditures that are mandated by law, but not yet earning a return?
Could you explain?
MR. McCOOL: Well, specifically, with the -- is the question just specifically for the AB 1054?
MS. COHEN: Yes, please.
MR. McCOOL: Yes.
So as -- oh, sorry.
Jack McCool, State-Assessed Properties Division.
As previously mentioned, the return-on portion of those expenses has been removed from our value indicators.
So the -- so we did make a reduction in the value to what we attribute to those specific tangible assets.
MS. COHEN: So could this treatment understate or overstate the SCE's asset value?
MR. McCOOL: We don't believe so.
I mean, the petitioner is asking for us essentially to value those particular assets as zero,

which we don't believe is appropriate.

So we did make a downward adjustment to reduce the value, because they're precluded from the return on.

But we do believe those particular assets, those tangible taxable assets do have some value. So that's why we made -- we agreed to make that adjustment for the return-on portion.

MS. COHEN: So is the SAPD confident that the .85 percent adequately reflects the risk -- the -- the risk profile for Edison, and, you know, given -- given that its territory is in high fire zones?

MR. McCOOL: Yes.

So the .85 equity risk premium that we make annual as an adjustment is based on 2019-2020 data. And we have been asking for an update to that -- to the -- to the specific number, and the support for that number.

We're increasingly uncomfortable using a number that is based on age data, in other words.

So we have asked and had conversations about an update to the risk.

You know, there might be arguments to say there's more risk. There's arguments that, based on all the mitigation efforts, there's less risk. But it's probably not the same risk as the 2020 valuation when we first used the .85 equity risk premium.

So to the extent we could accurately measure the existing risk, we would absolutely be happy to analyze anything petitioner would provide, which would attempt to quantify any risk above what the PUC has already approved in recent rate case decisions.

So, again, we typically use the capitalization rate approved by PUC. I know there's a -- they have a ratemaking process. The point of the rate is essentially the same as our capitalization rates.

So, you know, the mitigation efforts that have been made both by petitioner, Legislature, PUC, you know, the market is aware of those efforts. There is an argument to be made that the capitalization rate accurately reflects the market's awareness of that risk.

And I think it's a very good question going forward, whether or not this equity risk premium is appropriate to continue as an adjustment at all.

And if so, absolutely, we do support an update to the data to support the specific number.

MS. COHEN: So would the .85 be raised with an adequate update?

MR. McCOOL: It's -- it's not known.

It -- it would be expected that perhaps it would not be as high, because of the mitigation efforts that have been made in the last five, six years.

But, again, it's unknown. So that's why we would appreciate a fresh request for the equity risk premium with fresh current data to support such a request.

MS. COHEN: So while I have you, can you speak to Edison's point that the BOE, the HCLD, CEA, all these letters, that the value indicator hasn't been adjusted for 14 years, even though California is seeing record setting fires that may affect value?

I would say that perhaps we, as a Board, need to examine this further. But I wanted to get your --

MR. McCOOL: Sure.

MS. COHEN: -- opinion.

MR. McCOOL: Sure.

So when we talk about weighting of indicators, we look at which approach to value we feel is most reliable.

To the extent that we have events such as wildfires that occur, we don't believe that the -- that necessarily would change the reliability of a methodology.

So specific events may warrant adjustments to the -- the value indicators that we use, and the weighting we attributed to it.

But our decision to place a particular

weighting on one value indicator versus the other, has to do with the reliability of that appraisal methodology in the first instance.

What type of information is available, the quantity and quality of that information as it relates to valuation of specific taxable, tangible property.

So from an appraisal standpoint, we're -- we're looking at what method, whether it's a -- one of the various cost approach methods, different types of income approach methods, which one do we believe has the best quality and quantity of information?

There's a difficulty in certain industries. For example, if we, you know -- it's not pertaining to this entity -- but we tend to not use the income approach at all in telecom companies.

It's due to the significant amount of mergers, constant new technology. There's a lot of volatility in that industry. We don't believe the income information we receive in that particular industry is a good reflection of how much the actual assets are worth.

Similarly, with these investor-owned utilities, the amount of money they're investing in to acquire the property, we believe is the best measure of how much property is worth.

Essentially, you just -- you know, how much you're paying for it, obviously with adjustments, is a better reflection of how much that -- those particular assets are worth.

And I will note that, you know, these investor-owned utilities are making significant additions to their taxable tangible property year over year.

And I do think that we see a little bit of a difference in the indicators, just because we're in that high growth period.

And, traditionally, that does occur when there's a lot of new property being added. That does tend to increase the HCLD.

MS. COHEN: All right.

Thank you very much.

I -- you did answer the question very thoroughly.

And I have no other questions, Mr. Chair.

I turn it back over to you.

MR. GAINES: Okay. Great.

MS. COHEN: Oh, it looks like Mr. Dakessian has something to say.

MR. GAINES: Thank you, Controller.

MR. DAKESSIAN: Yeah.

Mr. Chairman, may I have the opportunity to respond to some of the points that staff made? Just to make sure we're all on the same page.

MR. GAINES: Yes.

MR. DAKESSIAN: Okay.

Thank you. Thank you.

You know, once again, it's not that we're asking for the value to be zero. We're saying that if you're using a value indicator that, whose sole purpose is to measure earning power, according to your own handbook, you shouldn't be including assets that don't earn a return-on or a return-of, what?

So they've -- they have taken out the return-on component, but they haven't taken out the return-of component.

"Return of" in a regulatory context means that you can depreciate the asset.

As my colleague Mr. Moll said, we are not depreciating these assets. We're not allowed to depreciate these assets. So it should all be taken out.

We're not saying it should be zero. In the abstract, we're saying, in this scenario, when you're using historical cost, it needs to be excluded. And that's not a revolutionary concept. So -- number one.

Number two, on the risk premium, you know, we're open to just providing staff with whatever information they'd like.

We provided the information that they've requested so far. And we do believe the risk premium should be revisited.

You can tell from their comments that they want to ratchet the risk premium down even further from what we already believe is an inadequate risk premium.

The 85 basis points is a future-looking risk premium. So it really has nothing to do with the specific adjustments we've requested regarding to the CapEx, regarding to the insurance initial contribution, regarding to the claims liabilities.

That's a future-looking consideration that we think is too low anyway. And, by the way, it doesn't address our specific concerns.

So instead of ratcheting it down, we think that it should be increased to reflect, frankly, recent events, and the continuing consistent occurrence of wildfires in Edison's service territory and throughout California.

So, you know, staff mentioned, in this regard, you know, when they were talking about the 85 basis points, and how -- you know, why they justify it, they talked about market awareness, that they believe that that's what the market would see and reflect as an adequate risk premium.

And I think it's actually the exact opposite. If you measure market awareness based on bond rating, if you measure market awareness based on the insurance market, what insurance carriers are doing in California, it's actually the exact opposite. That would call for a greater risk premium.

Insurance companies are leaving California. They're not staying here.

Bond ratings have still not recovered to the pre-2017 levels. Edison had an A minus rating from Fitch, 2017, 2018. Now it's BBB minus according to -- sorry -- BBB according to Fitch, BBB minus according to S&P. It hasn't recovered.

So the market is speaking, and it's saying that the risk premium should go in the other direction. It should be increased.

Then in terms of the weighting disparity, and the 75/25.

That was a great question, Madam Controller.

And I think the answer is that it should be revisited. It should be changed.

So if the values were much closer together, then the weighting really wouldn't matter.

If the values were exactly the same, for instance, then nobody would care. 75/25, 50/50, 25/75, it would result in the same outcome.

But when staff first started using the 75/25 analysis, the value indicators were much closer together, starting in, like, you know, 20 -- I'm looking here, and it looks like the first year they started -- well, it goes -- I have data going back to 2000, 2001. But the value indicators were much closer together.

Now since 2017, 2018, you have value indicators where, you know, historic -- the difference between historical cost and the income indicator are 34 percent, 48 percent, 40 percent, 57 percent, 39 percent. It's a little bit, you know, closer this year.

But you have these consistent disparities. And, by the way, they all coincide with the wildfire crisis reaching an acute level here in California.

So, you know, like 2011, '12, the disparity was 11 percent between the value indicators.

Not as much of a problem, right?

But now, in this year, it's 23 percent. And in previous years, like, 2019, '20, it was 39 percent; 2020 was 37 percent.

So it is time to revisit the weighting, and -- and those are the reasons.

I don't know if that -- that makes sense. But that's -- that's what I would say on that.

MR. GAINES: Great. Thank you.

I would like to get to Member Vazquez who had some questions, please.

MR. VAZQUEZ: They answered most of my questions, except for one that keeps coming up. And it's every time we've had this hearing. And it's more for the staff.

As the petitioner continues to argue that it's -- the burden of proof is on us and not the petitioner, has there been any cases that you're aware of in the past where it's been the reverse?

MR. LUJAN: Not for -- not for these proceedings, no. No.

MR. VAZQUEZ: That's what I thought.

Okay. Thank you.

MR. GAINES: All right.

MR. DAKESSIAN: Can I clarify something on that?

Because I've heard this, the question -- and it's a good question --

MR. GAINES: Sure.

MR. DAKESSIAN: -- that Mr. Vazquez asks.

Mr. Chairman, can I --

Yeah.

So -- so, yes, it's true, we bear a burden of proof. The usual burden of proof in tax cases is proof by a preponderance of the evidence.

We need to show that the items that we are requesting more likely than not are valid. More likely than not.

We don't need to be way up here. We need to show that the weight of evidence is in our favor, number one.

Number two, if staff is making an assertion, that's not a burden of proof issue. If staff is making an assertion that there's a particular reason for the disparity between value indicators, then that's not a burden of proof issue.

The person making that assertion, it's incumbent upon them to come forward with evidence. And that's just, you know, it's almost like, in our view, an affirmative defense in some ways.

If you're making the assertion that it's regulatory lag, or there's some other difference -- reason for the difference, then you need to come up with evidence backing that up.

Mr. Moll, did you have anything to add on that?

MR. MOLL: Well, I would just say that, yes, we agree that the petitioner has the burden of proof.

My point that maybe was -- maybe I wasn't clear on it is as an appraiser, whether you're for the State Board, or whether you're for the applicant, an appraiser has to reconcile differences of value between the two indicators.

And what that means is if they're going to choose one to weigh more heavily, they have to explain why are we emphasizing this one more?

And you can't base it on conjecture. You have to base it on the evidence that you have. Because you're making that decision as to weight a particular indicator more heavily.

It's not incumbent upon somebody else to say -- to try to disprove. You've got to explain. You're an appraiser. You'd explain why -- how you reached your value, and why you emphasize this particular indicator more heavily.

That -- that's the -- the sole -- that's all I was saying. Not who's got the burden of proof in this hearing. But an appraiser has to be able to explain how they got to their value, and what they base it on.

MR. GAINES: Okay. Very good.

I just wanted to make a couple points, if I could.

I also feel like there may be an opportunity for the BOE to work with Southern California Edison.

I think there's valid points on both sides of this issue.

I am concerned about, from an insurance standpoint, I'm just not seeing a whole lot of change in terms of risk with regards to wildfire in the State of California.

You know, we had the LA fires, estimated losses, you know, 175 billion to 200 billion.

You know, that's still a red light in my mind in terms of what the risk is for California.

The state -- the state fund is -- had to get additional bonding capacity and -- just to remain open. Because they were essentially bankrupt after those fires.

So I think I'm not convinced that the mitigation has been enough to turn the needle from a risk standpoint.

And I -- and just looking at what's happening on the ground in California in terms of fire risk, I think it still is a big issue.

I think the arguments between historical and income value are value -- are -- are worth looking at.

And that seems to me that that income aspect ought to be weighted a little higher than it has been.

So that's -- that's basically the conclusion of my comments.

Members, any other comments before we move forward with a motion?

Okay.

MS LIEBER: Thank you, Mr. Chair.

I'd like to move that we deny the petition coming forward from Southern California Edison, and affirm the 2025 Board-adopted unitary value.

MR. GAINES: Okay. We have a motion.

Do we have a second?

MR. VAZQUEZ: Second.

MR. GAINES: Okay. All right.

Let's see. Public comment on number -- Item No. 6.

We do not have any written comments, and no one is in the auditorium, I'm assuming.

Seeing none that would want to make a public comment, let's go to the AT&T moderator.

If you would please let us know if anyone is on the telephone line, and would like to make a public comment regarding this item.

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

Once again, if you'd like to make a comment, please press one, then zero.

And no one is queuing up at this time.

MR. GAINES: Thank you, moderator.

Any further discussion?

Seeing none.

Okay. Vice Chair Lieber has made a motion to deny the petition, with Member Vazquez providing the second.

Ms. Cichetti, please call the roll.

MS. CICHETTI: Chairman Gaines.

MR. GAINES: No.

MS. CICHETTI: Vice Chair Lieber.

MS. LIEBER: Aye.

MS. CICHETTI: Member Vazquez.

MR. VAZQUEZ: Aye.

MS. CICHETTI: Member Schaefer.

MR. SCHAEFER: Aye.

MS. CICHETTI: Controller Cohen.

MS. COHEN: Aye.

MR. GAINES: Okay. The motion passes.

Thank you, Members.

(Whereupon Item 6 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 November 19, 2025, 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 78 constitute a complete and accurate transcription of the shorthand writing.

Dated: December 8th, 2025

Jillian Sumner
____
JILLIAN SUMNER, CSR #13619
Hearing Reporter