



COST RECOVERY APPLICATION 23-10-001  
WILDFIRE MITIGATION AND VEGETATION  
MANAGEMENT EXPENDITURES  
PERFORMANCE AUDIT

Southern California Edison Company  
January 1, 2022, through December 31, 2022

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
September 3, 2024



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**A digital copy of this report can be found at:**

[Audit Reports by Industry \(ca.gov\)](#)

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## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

September 3, 2024

Connor Flanigan  
Managing Director  
State Regulatory Operations  
Southern California Edison Company  
2244 Walnut Grove Avenue  
Rosemead, CA 91770

Dear Connor Flanigan:

**Final Report Transmittal Letter—Audit of Southern California Edison Company's  
Application 23-10-001 for the period of January 1, 2022, through December 31, 2022**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Southern California Edison Company's (SCE) Application (A.) 23-10-001 to recover wildfire mitigation and vegetation management costs for the period of January 1, 2022, through December 31, 2022.

We issued the draft audit report on August 8, 2024. SCE's response to the draft report finding and our evaluation of the response are incorporated into this final report. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](#).

Please provide a Corrective Action Plan (CAP) addressing the finding and recommendations within 45 calendar days from issuance of this final audit report. The CAP should include specific steps and target dates to correct the finding identified. Please submit the CAP to: [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov).

We appreciate SCE's assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Kevin Nakamura, Program and Project Supervisor, at (916) 928-4736.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: See next page

Connor Flanigan  
Managing Director  
State Regulatory Operations  
Southern California Edison Company  
September 3, 2024  
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## EXECUTIVE SUMMARY

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The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the wildfire mitigation and vegetation management expenditures, requested by Southern California Edison Company (SCE) in Application (A.) 23-10-001.

Our audit objective was to determine whether SCE's capital expenditures and operations and maintenance (O&M) expenses incurred and recorded in the Wildfire Mitigation Plan Memorandum Account (WMPMA), Fire Risk Mitigation Memorandum Account (FRMMA), and Vegetation Management Balancing Account (VMBA) for the period of January 1, 2022, through December 31, 2022, were incurred for allowable activities, properly supported, incremental, and completed and recorded accurately as claimed in SCE's A.23-10-001 and in compliance with applicable criteria.

Based on the procedures performed, samples tested, and evidence gathered, we determined that:

- SCE's O&M expenses incurred and recorded in WMPMA, FRMMA, and VMBA for the period of January 1, 2022, through December 31, 2022, were incurred for allowable activities, properly supported, incremental, and completed and recorded accurately as claimed in SCE's A.23-10-001; and
- SCE's request for cost recovery<sup>1</sup> of capital expenditures for the period of January 1, 2022, through December 31, 2022, was not sufficiently supported and included an instance of overstated costs. The instance is quantified in the Summary Schedules of Audit Results and described in the Finding and Recommendations section of this audit report. The audit finding is also summarized as follows:

**Finding 1: Unsubstantiated Capital Related Revenue Requirement (RR) Associated with Construction Work in Progress (CWIP) of \$22,741,829**

SCE requested to recover capital expenditures of \$22,741,829 classified as CWIP and the associated capital related RR. However, the associated capital related RR is unsubstantiated because this amount will be determined once CWIP is transferred to Plant-in-Service as Capital Additions.

As a result, we determined that SCE's request to recover capital expenditures attributable to WMPMA for the period of January 1, 2022, through December 31, 2022, should be \$112,994,607, as outlined in the table below:

<b>WMPMA Capital Expenditures</b>	
<b>2022</b>	<b>Amount</b>
Requested	\$ 135,736,436
Finding 1 - Audit Adjustment	(22,741,829)
Updated Total	<u>\$ 112,994,607</u>

<sup>1</sup> To determine the total cost recovery request, in addition to expenditures, we obtained relevant information for the capital related revenue requirement, interest, Franchise Fee & Uncollectible Factor, and construction work-in progress.

We issued a draft report on August 8, 2024. SCE responded by letter dated August 22, 2024, agreeing with the audit results, providing additional clarification, and advocating for procedures to allow SCE the ability to recover its revenue requirement related to CWIP without the need to file a separate application. SCE's response is included in this final report as an attachment in Appendix A – Utility's Response to Draft Audit Report, and our evaluation of the response is included in Appendix B – UAB's Evaluation of Utility's Response.

# AUDIT REPORT

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## Background

### *General Rate Case (GRC)*

GRCs are proceedings used to address the costs of operating and maintaining the utility system and the allocation of those costs in customer rates among different customer classes. Applications are filed by utility companies to seek authorization or relief (e.g., authorization to increase rates or budgets, interim rate relief, etc.). Utility companies periodically submit applications to CPUC to request to collect a certain amount of revenue from its customers. CPUC approves the utility companies' RRs, which is the amount that each utility company can collect from its customers. The RR is based on the cost of operating, maintaining, and financing the infrastructure used to run the utility company, and the cost of its procured fuel and power.

On August 30, 2019, SCE filed its 2021 test year GRC for rates to become effective January 1, 2021 (A.19-08-013). CPUC's Decision (D.) 21-08-036, issued on August 20, 2021, approved a test year base RR of \$6.899 billion for SCE. D.21-08-036 also authorized a post-test year RR adjustment of \$382 million for 2022. The amounts authorized in the GRC serve as the basis for the utility companies to determine incremental cost, which can be claimed for recovery between GRC cycles.

### *Wildfire Mitigation Costs*

In 2018, following the devastating wildfires in 2016 and 2017, the California Legislature passed several bills increasing oversight of the electric utility companies' efforts to reduce utility-related wildfires. Senate Bill 901 required all California electric utility companies to prepare plans on constructing, maintaining, and operating their electrical lines and equipment to minimize the risk of catastrophic wildfires. The Office of Energy Infrastructure Safety (Energy Safety<sup>2</sup>) is responsible for evaluating electric utility companies' wildfire risk reduction efforts mainly through the Wildfire Mitigation Plan (WMP) process. Electric utility companies must annually submit WMPs assessing their level of wildfire risk and providing plans for wildfire risk reduction to Energy Safety. Energy Safety reviews these plans and ensures electric utility companies' wildfire mitigation efforts sufficiently address increasing utility wildfire risk.<sup>3</sup>

### *Vegetation Management Costs*

CPUC requires electric utility companies to trim and remove trees near high voltage power lines for public safety, fire prevention, and electric reliability, as follows:

- **Public Safety:** to prevent injury to people climbing or working in or around trees adjacent to power lines.
- **Fire Prevention:** any portion of a tree in contact with high voltage power lines can start wildfires.
- **Electric Reliability:** to reduce electric outages because one of the largest contributors to power outages in California are trees.

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<sup>2</sup> The Wildfire Safety Division transitioned from CPUC to Energy Safety at the California Natural Resources Agency on July 1, 2021.

<sup>3</sup> Energy Safety's public website provides general overview of this process and posts the annual WMPs submitted each year.



***Balancing Accounts and Memorandum Accounts***

A balancing account is a regulatory accounting method used to ensure the recovery in rates of specified expenditures authorized by CPUC. A balancing account tracks the difference between actual expenditures associated with the balancing account and authorized for recovery by CPUC, and the revenues collected within customer rates to cover those specific expenses. The primary purpose of a balancing account is to ensure that a utility company recovers its CPUC-authorized RR from ratepayers for a given program or function.

A memorandum account is an accounting method that, after approval by CPUC or upon statutory notice, may be used by a utility company to record various expenses it incurs. The utility company may later seek authorization from CPUC to recover the recorded amounts by passing them on to consumers in rates. The establishment of a memorandum account does not guarantee that the utility company will recoup the tracked amount, but a utility company is precluded from recovering amounts not booked to a memorandum account. Memorandum accounts allow CPUC to consider recovery of utility company expenses that have occurred in the past without incurring retroactive ratemaking.

***Incremental Costs & Cost Recovery***

For each applicable balancing or memorandum account, a preliminary statement outlines the purpose of the account, operation of the account, review and disposition procedures on how to recover costs recorded in the balancing and memorandum accounts, among other matters. SCE's balancing and memorandum accounts<sup>4</sup> applicable for this audit include the following:

<b>Account</b>	<b>Purpose of Account</b>	<b>Review Procedures from Preliminary Statements</b>
WMPMA	Tracks costs incurred to implement SCE's WMP that are not otherwise covered in SCE's RR or tracked in another ratemaking account.	The costs tracked in the WMPMA shall be presented to CPUC for review of reasonableness and recovery in a future GRC application, consistent with Public Utilities (PU) Code section 8386.4(b)(1). Costs tracked in the WMPMA may be recovered in rates only after a request by SCE, a showing of reasonableness, and approval by CPUC.
FRMMA	Tracks costs incurred for fire risk mitigation that are not otherwise covered in SCE's RR.	The costs tracked in the FRMMA shall be presented to CPUC for review of reasonableness and recovery in a future application, consistent with PU Code sections 8386(g) and 8386(j). Costs tracked in the FRMMA may be recovered in rates only after a request by SCE, a showing of reasonableness, and approval by CPUC.
VMBA	Records the difference between (1) authorized O&M expenses for all vegetation management activities from D.21-08-036, and (2) SCE's recorded expenses for these activities.	Actual VMBA expenses in excess of 115 percent of the annual authorized VMBA RR are subject to an additional reasonableness review via an application prior to recovery from customers.

SCE's incremental costs are based on CPUC authorized amounts in D.21-08-036 for applicable activities for each account. The authorized amounts are computed to a nominal value by applying an escalation rate and factoring only CPUC-Jurisdictional amounts and costs in excess of the nominal amounts are determined to be incremental.

<sup>4</sup> SCE's public website regarding SCE Tariff Books contains the applicable preliminary statements.

SCE uses a portfolio approach to determine incrementality for wildfire mitigation and vegetation management activities. The portfolio approach compares the total recorded costs across all the activities that SCE is permitted to record in the applicable memorandum or balancing accounts to the authorized amount for those activities, combined. In other words, when wildfire mitigation and vegetation management related costs exceed the GRC authorized amounts determined in D.21-08-036 for applicable activities for each account, SCE categorizes them and future costs as incremental costs.

***A.23-10-001: SCE's Application for Authorization to Recover 2022 Incremental Costs***

On October 3, 2023, SCE filed A.23-10-001, an application for authorization to recover 2022 incremental costs related to wildfire mitigation and vegetation management. SCE requested to recover a total RR of \$383,538,419 attributable to its WMPMA, FRMMA, and VMBA, as outlined in the table below:

**2022 Wildfire Mitigation & Vegetation Management RR Request<sup>5</sup>**

Item Description	Request			
	WMPMA	FRMMA	VMBA	Total RR
<b>O&amp;M Expenses</b> <sup>1</sup>	\$ 88,842,331	\$ 24,072,051	\$ 245,167,891	\$ 358,082,273
Capital Related RR				
Depreciation	5,241,048	-	-	5,241,048
Income Taxes	(3,598,537)	-	-	(3,598,537)
Property Taxes	209,917	-	-	209,917
Return	6,691,190	-	-	6,691,190
<b>Total Capital Related RR</b> <sup>2</sup>	<b>8,543,618</b>	<b>-</b>	<b>-</b>	<b>8,543,618</b>
<b>Interest</b>	<b>3,803,145</b>	<b>960,366</b>	<b>10,453,109</b>	<b>15,216,620</b>
<b>Less: PSPS Disallowance</b> <sup>3</sup>	<b>(2,500,000)</b>	<b>-</b>	<b>-</b>	<b>(2,500,000)</b>
<b>Franchise Fee &amp; Uncollectibles</b>	<b>1,091,600</b>	<b>276,884</b>	<b>2,827,424</b>	<b>4,195,908</b>
<b>Total Revenue Requirement</b>	<b>\$ 99,780,694</b>	<b>\$ 25,309,301</b>	<b>\$ 258,448,424</b>	<b>\$ 383,538,419</b>

<sup>1</sup> These are incremental O&M expenses determined by SCE from total recorded costs of \$700.57 million incurred in 2022.

<sup>2</sup> The capital related RR is associated with \$112.99 million of the \$135.74 million of incremental capital expenditures.

<sup>3</sup> In accordance to Resolution ALJ-440, SCE is subject to a \$6 million permanent disallowance of Public Safety Power Shutoff (PSPS) program-related costs that are eligible for tracking in WMPMA and/or FRMMA. Of the \$6 million, \$2.5 million of the disallowance is to apply to 2022 cost recovery application.

In addition, SCE requested to recover \$135,736,436 of incremental capital expenditures attributable to WMPMA, as outlined in the table below:

<sup>5</sup> A.23-10-001, Table I-1

**2022 Wildfire Mitigation Capital Expenditures Request<sup>6</sup>**

Reference to Testimony	Request		
	Recorded Capital [a]	Non- Incremental <sup>1</sup> [b]	Incremental Costs [a]-[b]
Enhanced Operational Practices	\$ 138,193,903	\$ 40,859,239	\$ 97,334,664
Enhanced Situational Awareness	3,513,901	-	3,513,901
Fire Science and Advanced Modeling	766,495	-	766,495
Grid Hardening	64,985,048	50,005,599	14,979,449
Public Safety Power Shutoff (PSPS)	19,141,927	-	19,141,927
<b>Totals</b>	<b>\$ 226,601,274</b>	<b>\$ 90,864,838</b>	<b>\$ 135,736,436</b>

<sup>1</sup> Non-Incremental Costs: Federal Energy Regulatory Commission (FERC) Jurisdictional and GRC Authorized.

**Audit Authority**

UAB conducted this audit under the general authority outlined in PU Code sections 314.5, 314.6, 581, 582, and 584. Furthermore, on February 15, 2024, CPUC issued an Assigned Commissioner's Scoping Memo and Ruling for UAB to perform an audit of the costs associated with activities outlined in SCE's A.23-10-001.

**Objective and Scope**

Our audit objective was to determine whether SCE's capital expenditures and O&M expenses incurred and recorded in the WMPMA, FRMMA, and VMBA for the period of January 1, 2022, through December 31, 2022, were incurred for allowable activities, properly supported, incremental, and completed and recorded accurately as claimed in SCE's A.23-10-001 and in compliance with applicable criteria.

**Methodology**

In planning our audit, we gained an understanding of wildfire mitigation and vegetation management activities and SCE's operations and identified relevant criteria by reviewing applicable PU Code sections, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, gathering information regarding prior audit recommendations, and interviewing SCE's personnel.

We conducted a risk assessment, including evaluating whether SCE's key internal controls relevant to our audit objective were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, performing walkthroughs, and testing transactions. Deficiencies in internal controls that were identified during our audit and determined to be significant within the context of our audit objective are included in this report.

Additionally, we assessed the reliability of the data extracted from SCE's accounting system. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objective.

<sup>6</sup> A.23-10-001, Table IV-32 – Condensed

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objective. To achieve our audit objective, we:

- Reviewed applicable CPUC decisions, advice letters, proceedings, and preliminary statements to gain an understanding of the applicable balancing and memorandum accounts.
- Reviewed SCE's accounting system, accounting policies, processes and procedures for tracking, monitoring, and recording transactions to the applicable balancing and memorandum accounts.
- Reviewed and reconciled expenditures recorded in SCE's accounting system to the balances reported in the three recovery accounts included in SCE's A.23-10-001 for accuracy and completeness.
- Assessed significance by performing an analysis of expenditure data and evaluating balancing account and memorandum account requirements.
- Reviewed the following audit reports that we determined were relevant to our audit objective and performed follow-up tests to verify whether corrective actions were properly implemented:
  - UAB's audit of SCE's Cost Recovery Application A.22-06-003 Wildfire Mitigation and Vegetation Management Expenditures for the period covering January 1, 2018, through December 31, 2021, that was issued on June 22, 2023; and
  - SCE's internal audit report titled, Energy Efficiency Third-Party Contract Audit (Y22-10112).
- Reviewed the following audit reports that we determined were relevant to our audit objective, but no additional follow-up was required since follow-up was previously conducted during UAB's audit of SCE's Cost Recovery A.22-06-003 that was issued on June 22, 2023:
  - An external prior audit prepared by Crowe LLP (Crowe) on SCE's wildfire mitigation plan expenditures for the period January 1, 2018, through December 31, 2020, that was issued on December 9, 2021; and
  - SCE's internal audit reports titled, Third Party Wildfire Mitigation Costs Review (Y19-10104), Vegetation Management Vendor Costs Review (Y20-10104), Contract Compliance Review (Y21-11503), and Wildfire Mitigation Costs Audit (Y19-13705).
- Reviewed the following audit reports and determined that the audits were relevant to our audit objective but did not disclose findings and therefore, no further review was performed:
  - Office of Energy Infrastructure Safety's audit on SCE's Substantial Vegetation Management Work dated April 13, 2022; and
  - PricewaterhouseCoopers LLP's independent audit on SCE Management's Assertion of Summary of Various 2020 Wildfire Mitigation Regulatory Tracking Accounts & 2018-2020 Grid Safety & Resiliency Program Balancing Account Operations & Maintenance and Capital Costs, that was issued on April 22, 2021.

- Reviewed the following audit reports and determined that the audits were not relevant to our audit objective and therefore, no further review was performed:
  - UAB’s Energy Savings Assistance Program performance audit report issued on February 27, 2023, Energy Efficiency Program performance audit reports issued on October 11, 2021, August 11, 2020, and August 5, 2019, and the Quarterly Energy Procurement Compliance Agreed-upon Procedures engagement reports issued on September 15, 2023, June 26, 2023, and April 12, 2023;
  - Energy Resource Recovery Account (ERRA) Review of Operations report by CPUC’s Energy Division dated April 1, 2022, and a wildfire data analysis report issued by Western Electricity Coordinating Council (WECC) on February 28, 2023;
  - Macias Consulting Group’s performance audit on SCE’s Self-Generation Incentive Program issued on October 13, 2023; and
  - SCE’s internal audit reports titled, Power Charge Indifference Adjustment Portfolio Balancing Account (Y20-13704), Energy Resource Recovery Account Balancing Account Review (Y20-13705), Customer Billing Backlog Audit (Y20-10501), Disconnection Order Instituting Rulemaking – Citation Program Compliance Audit (Y21-18002), California Arrearage Payment Program (CAPP) Compliance Audit (Y21-18007), Customer Service Re-Platform (CSRP) Post Implementation Audit (Y21-21003), CAPP Compliance Audit – Posting and Reporting of Customer Accounts (Y22-18007), Demand Side Management Energy Efficiency Primary Lighting Program Audit (Y19-10504), Demand Side Management Portfolio Administration Assessment – Phase 1 (Y21-10110), Demand Side Management Portfolio Administration Assessment – Phase 2 (Y22-10110), Charge Ready Program Audit (Y22-10114), Ethics & Compliance Support: Energy Efficiency Program (Y20-10401A and Y20-10401B), Post CSRP Customer Billing and Communications Issue Audit (Y22-18008), Contract Compliance Review (Y18-11501), Wildfire Mitigation – Third Party Consultants Performance and Billing (Y19-10105), and Contract Compliance Review (Y21-11504).
- Obtained an understanding of SCE’s key internal controls relevant to the three recovery accounts included in A.23-10-001, such as classifying and recording, monitoring, approving, and reporting expenditures, and assessed the design, implementation, and operating effectiveness of selected controls that were significant to the audit objective by:
  - interviewing key personnel and administering an internal control questionnaire;
  - reviewing SCE’s policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting of expenditure data;
  - verifying SCE’s methodology for determining incremental costs;
  - performing walkthroughs of selected expenditure transactions; and
  - tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.

- Performed testing of O&M expenses by judgmentally selecting a non-statistical sample of significant transactions for the three cost recovery accounts totaling \$22,335,203 of \$700,567,257. SCE monitors and assesses incremental O&M expenses recorded in WMPMA and VMBA on a monthly basis, whereas incremental expenses for FRMMA are determined at year-end once all expenses are recorded. We selected and tested samples from WMPMA and VMBA for GRC authorized and incremental amounts. A summary of O&M expenses tested by account, GRC activity, amount tested, amount recorded, and percentage tested is provided in the table below:

Account & GRC Activity	Total O&M Expenses Tested	Total O&M Expenses Recorded in 2022	Percent Tested
WMPMA			
Enhanced Operational Practices	\$ 1,480,956	\$ 116,918,481	1%
PSPS	12,677,528	46,038,177	28%
Other Activities		42,859,885	
<b>WMPMA Total</b>	<b>14,158,484</b>	<b>205,816,543</b>	<b>7%</b>
	*		
FRMMA			
Distribution and Transmission Routine	2,260,640	27,470,864	8%
Vegetation Management (VM)			
Other Activities		889,568	
<b>FRMMA Total</b>	<b>2,260,640</b>	<b>28,360,432</b>	<b>8%</b>
VMBA			
Distribution Routine VM	5,916,079	379,563,472	2%
Other Activities		86,826,810	
<b>VMBA Total</b>	<b>5,916,079</b>	<b>466,390,282</b>	<b>1%</b>
	**		
<b>Totals</b>	<b>\$ 22,335,203</b>	<b>\$ 700,567,257</b>	<b>3%</b>

Note: For the selected samples, errors found, if any, were not projected to the total population.

\* Of \$14,158,484 total tested, \$1,601,126 was identified and recorded as incremental cost and \$12,557,358 was identified and recorded as GRC authorized.

\*\* Of \$5,916,079 total tested, \$4,434,276 was identified and recorded as incremental cost and \$1,481,803 was identified and recorded as GRC authorized.

- Performed testing of capital expenditures, attributable to WMPMA, by judgmentally selecting a non-statistical sample of significant transactions totaling \$6,720,068 of \$226,601,274. SCE determines incremental capital expenditures at year-end once all activities and charges are recorded. A summary of capital expenditures tested by GRC activity, amount tested, amount recorded, and percentage tested is provided in the table below:

<b>GRC Activity</b>	<b>Total Capital Expenditures Tested</b>	<b>Total Capital Expenditures Recorded in 2022</b>	<b>Percent Tested</b>
Enhanced Operational Practices	\$ 3,506,616	\$ 138,193,903	3%
Grid Hardening	2,608,276	64,985,048	4%
PSPS	605,176	19,141,927	3%
Other Activities		4,280,396	
<b>Totals</b>	<b>\$ 6,720,068</b>	<b>\$ 226,601,274</b>	<b>3%</b>

Note: For the selected samples, errors found, if any, were not projected to the total population.

- For the selected samples, traced expenditures recorded in SCE's accounting records to supporting documentation and determined whether costs were accurate, attributable to its respective balancing or memorandum account, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and SCE's policies and procedures by:
  - tracing expenditures to invoices to ensure the expenditure (1) was incurred within 2022, (2) agreed to the invoice amount, and (3) was calculated accurately;
  - verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc. to confirm the expenditure was for an authorized activity;
  - confirming payments were made for the expenditures and the amounts agreed to the invoices; and
  - verifying the activities occurred for a subset of samples by reviewing, among others:
    - daily tree logs from three invoices covering a period of seven months and utilizing Google satellite images and conducting onsite inspections to confirm trees were trimmed and/or removed for 125 units covering three geographical areas;
    - utility vegetation management reliability assessment forms and maintenance logs;
    - PSPS marketing, advertising, and digital materials; and
    - a series of correspondence demonstrating completion of consulting services for staff augmentation related to wildfire inspections.
- Traced the capital related RR and interest accrued balances to its respective balancing and memorandum account.
- Reviewed Franchise Fee & Uncollectible (FF&U) Factor and recalculated FF&U amounts.

- Traced GRC authorized amounts utilized in SCE's A.23-10-001 to D.21-08-036 and applicable advice letters.
- Recalculated SCE's total RR request for O&M expenses utilizing audited data.
- Recalculated SCE's capital expenditure request utilizing audited data.

We did not audit SCE's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SCE reported, incurred, and supported its incremental costs in accordance with the applicable criteria. We considered SCE internal controls only to the extent necessary to plan the audit and achieve our audit objective.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

## Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we determined that:

- SCE's O&M expenses incurred and recorded in WMPMA, FRMMA, and VMBA for the period of January 1, 2022, through December 31, 2022, were incurred for allowable activities, properly supported, incremental, and completed and recorded accurately as claimed in SCE's A.23-10-001; and
- SCE's request for cost recovery<sup>7</sup> of capital expenditures for the period of January 1, 2022, through December 31, 2022, was not sufficiently supported and included an instance of overstated costs. The instance is quantified in the Summary Schedules of Audit Results and described in the Finding and Recommendations section of this audit report.

## Follow-up on Prior Audit Findings

Our prior Cost Recovery A.22-06-003 Wildfire Mitigation and Vegetation Management Expenditures audit report covering the period of January 1, 2018, through December 31, 2021, issued on June 22, 2023, disclosed three audit findings. SCE submitted its corrective action plan on August 3, 2023, and implemented corrective actions to address two of the three audit findings. For prior audit finding 3, CPUC's decision determined to defer consideration of SCE's request for reasonableness review and authorization for recovery of \$21.09 million for 2021 CWIP capital expenditures to a later proceeding in Ordering Paragraph (OP) 4 of D.24-03-008, issued on March 7, 2024. Based on the work performed in this current audit, SCE requested recovery of capital expenditures classified as CWIP similarly as claimed in its prior cost recovery application at the time of filing A.23-10-001 in October 2023, and as described in Finding 1 of this audit report.

In addition, we identified a prior internal audit of Energy Efficiency Third-Party Contract Audit (Y22-10112) performed by SCE's Audit Services Division (ASD), that was issued on October 14, 2022. The audit report identified deficiencies in the review and approval of projects and the lack of retaining

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<sup>7</sup> To determine the total cost recovery request, in addition to expenditures, we obtained relevant information for the capital related revenue requirement, interest, Franchise Fee & Uncollectible Factor, and construction work-in progress.



documentation to support provided services. SCE's ASD closed out this audit following SCE satisfactory implementing corrective actions.

### **Views of Responsible Officials**

We issued a draft report on August 8, 2024. SCE responded by letter dated August 22, 2024, agreeing with the audit results, providing additional clarification, and advocating for procedures to allow SCE the ability to recover its revenue requirement related to CWIP without the need to file a separate application. SCE's response is included in this final report as an attachment in Appendix A – Utility's Response to Draft Audit Report, and our evaluation of the response is included in Appendix B – UAB's Evaluation of Utility's Response.

### **Restricted Use**

This audit report is intended solely for the information and use of SCE and CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and will be available on CPUC's website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

## FINDING AND RECOMMENDATIONS

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### **Finding 1: Unsubstantiated Capital Related RR Associated with CWIP of \$22,741,829**

#### **Condition:**

SCE requested to recover unsubstantiated capital related RR amount associated with reported \$22,741,829 in capital expenditures categorized as CWIP for the period of January 1, 2022, through December 31, 2022. The amount for the associated capital related RR is unsubstantiated because the actual amount will be determined once CWIP is transferred to Plant-in-Service as Capital Additions and can be evaluated at that time. Therefore, the capital related RR associated with CWIP is not sufficiently supported at this time as outlined in the Summary Schedules of Audit Results section.

This is a repeat finding from UAB's prior audit of SCE's Cost Recovery A.22-06-003 that was issued on June 22, 2023.

#### **Criteria**

PU Code sections 581, 582, and 584 require that the utility company provide timely, complete, and accurate data to CPUC.

D.24-03-008, OP 4, instructs SCE to defer its request for reasonableness review and authorization to recover 2021 CWIP capital expenditures in a later proceeding.

#### **Cause:**

SCE does not have an effective process to prevent recovery of costs for capital projects that are still in progress and, therefore, did not substantiate the amounts of associated capital related RR.

#### **Effect:**

Requesting recovery of amounts before they can be determined leads to inaccurate representation of the costs incurred. It is critical that the costs requested for recovery are complete and sufficiently supported for proper review to ensure transparency and accuracy of costs that are recoverable from ratepayers.

#### **Recommendations:**

SCE should:

- postpone recovery of capital expenditures classified as CWIP and the associated capital related RR until it can be evaluated when (1) CWIP is transferred to Plant-in-Service as Capital Additions, and (2) the amount of capital related RR is sufficiently supported;
- request a separate proceeding to recover \$22,741,829 in capital expenditures categorized as CWIP for 2022, as similarly ordered in SCE's 2021 cost recovery A.22-06-003 and directed in D.24-03-008, OP 4, or the Commission will make the appropriate determination on the cost recovery of these expenditures; and
- implement internal procedures to prevent requesting recovery of costs for capital projects before they are completed.

## SUMMARY SCHEDULES OF AUDIT RESULTS

**Table 1: SCE's 2022 Wildfire Mitigation, Fire Risk, and Vegetation Management  
Summary of Request with Audit Adjustment**

Item Description	Request with Adjustment			
	WMPMA	FRMMA	VMBA	Total
Total Recorded O&M Expenses	\$ 205,816,542	\$ 28,360,432	\$ 466,390,282	\$ 700,567,256
GRC Authorized Funds	(106,240,185)	(2,263,744)	(207,557,688)	(316,061,617)
FERC	(10,272,572)	(2,024,637)	(13,664,703)	(25,961,912)
A&G Capitalization	(461,454)	-	-	(461,454)
<b>Audit Adjustment:</b>	-	-	-	-
[a] Total Incremental O&M Costs	88,842,331	24,072,051	245,167,891	358,082,273
Capital Related RR				
Depreciation	5,241,048	-	-	5,241,048
Income Taxes	(3,598,537)	-	-	(3,598,537)
Property Taxes	209,917	-	-	209,917
Return	6,691,190	-	-	6,691,190
[b] Total Capital Related RR	8,543,618	-	-	8,543,618
[c] Interest <sup>1</sup>	3,803,145	960,366	10,453,109	15,216,620
[d] Less: PSPS Disallowance	(2,500,000)	-	-	(2,500,000)
[e] Subtotal [a] + [b] + [c] + [d]	98,689,094	25,032,417	255,621,000	379,342,511
[f] FF&U Factor	1.1061%	1.1061%	1.1061%	1.1061%
[g] FF&U [e] * [f]	1,091,600	276,884	2,827,424	4,195,908
[h] <b>Total Revenue Requirement [e] + [g]</b>	<b>\$ 99,780,694</b>	<b>\$ 25,309,301</b>	<b>\$ 258,448,424</b>	<b>\$ 383,538,419</b>

<sup>1</sup> Interest traced to WMPMA, FRMMA, and VMBA.

**Table 2: WMPMA Capital Expenditures  
Summary of Request with Audit Adjustment**

Item Description	WMPMA			Finding
	Requested	Audited	Audit Adjustment	
Total Recorded Capital Expenditures <sup>1</sup>	\$ 226,601,274	\$ 203,859,445	\$ 22,741,829	Finding 1
GRC Authorized Funds	(89,559,071)	(89,559,071)	-	
FERC	(1,305,767)	(1,305,767)	-	
<b>Total Incremental Costs</b>	<b>\$ 135,736,436</b>	<b>\$ 112,994,607</b>	<b>\$ 22,741,829</b>	

<sup>1</sup> Derived from SCE's PowerPlan system for capital related work orders tagged as part of the wildfire mitigation program.

## APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT

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August 22, 2024

Angie Williams – Director  
Utility Audits, Risk and Compliance Division  
California Public Utilities Commission  
400 R. Street, Suite 221  
Sacramento, CA 95811

Transmitted PDF via e-mail to: [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov)

Dear Ms. Williams:

Southern California Edison Company (SCE) appreciates the opportunity to review and provide comments on the Draft Report for *Southern California Edison Company's (SCE) Application (A.) 23-10-001 to recover wildfire mitigation and vegetation management costs* (Draft Report) by the California Public Utilities Commission's (Commission or CPUC) Utility Audits Branch (UAB).

Generally speaking, SCE does not dispute the Draft Report's finding and recommendation and appreciates the thorough review performed by the UAB auditors. SCE's comments to the Draft Report, which are attached to this letter, are intended to provide additional clarification and information for the record related to the one finding and recommendation in the Draft Report, concerning SCE's recovery of its revenue requirement associated with Construction Work-In-Progress (CWIP) costs, and SCE's proposal on how it can substantiate those costs without the need to file a separate application.

SCE appreciates UAB's audit review of the amounts included in A.23-10-001. SCE would also like to express its gratitude to the UAB staff for the professional, courteous, and efficient manner in which the audit engagement was conducted.



If you have questions about SCE’s comments or would like to set up a meeting to disc the information provided, please contact Johnny Parker at [Johnny.Parker@sce.c](mailto:Johnny.Parker@sce.c) Heidi Lopez at [Heidi.Lopez@sce.com](mailto:Heidi.Lopez@sce.com), or Cynthia Childs at [Cynthia.Childs@sce.com](mailto:Cynthia.Childs@sce.com)

Thank you,

Signature: *Connor Flanigan* Date: August 22, 2024  
**Connor J. Flanigan**  
Managing Director, State Regulatory Operations

Attachments

- cc: Shue Cheng, Principal Manager, Cost Recovery, SCE  
Nayiri Pilibyan, Senior Attorney, Base Rates & Grid Support, SCE Elizabeth Leano,  
Senior Manager, External Regulatory Audits & Wildfire Compliance, SCE  
Johnny Parker, Senior Advisor, External Regulatory Audits & Wildfire Compliance,  
SCE  
Patrick Nandy, Senior Advisor, External Regulatory Audits & Wildfire Compliance,  
SCE  
Masha Vorobyova, Assistant Director, UAB, CPUC  
Kevin Nakamura, Program and Project Supervisor, UAB, CPUC Na “Lina” Li,  
Senior Management Auditor, UAB, CPUC  
Edwin Esternon, Senior Management Auditor, UAB, CPUC Angie  
Huang, Senior Management Auditor, UAB, CPUC



### SCE's Comments to the Draft Report

The following are SCE's comments to the Draft Report prepared by UAB based on its audit of SCE's Application, A.23-10-001, for Authorization to Recover 2022 Incremental Costs Related to Wildfire Mitigation and Vegetation Management. SCE does not generally dispute the UAB's finding in the Draft Report but appreciates the opportunity to provide comments to explain SCE's proposed approach for recovery of the Construction Work- In-Progress (CWIP) costs included in A.23-10-001.

SCE appreciates the opportunity to provide this clarification.

#### **Finding No. 1: Capital-Related Revenue Requirement Associated with CWIP of \$22,741,829**

**Draft Finding 1:** *SCE requested to recover capital expenditures of \$22,741,829 classified as CWIP and the associated capital related RR. However, the associated capital related RR is unsubstantiated because this amount will be determined once CWIP is transferred to Plant-in-Service as Capital Addition.*

**Draft Recommendation:** *SCE should postpone recovery of capital expenditures classified as CWIP and the associated capital related RR until it can be evaluated when*

*(1) CWIP is transferred to Plant-in-Service as Capital Additions, and (2) the amount of capital related RR is sufficiently supported.*

*SCE should request a separate proceeding to recover \$22,741,829 in capital expenditures categorized as CWIP for 2022, as similarly ordered in SCE's 2021 cost recovery A.22.06-003 and directed in D.24-03-008, OP 4; and*

#### **SCE Comments**

SCE does not generally dispute the recommendation in the Draft Report to postpone recovery of its capital expenditures classified as Construction Work-In-Progress (CWIP) until the CWIP is transferred to Plant-in-Service as Capital Additions, and the capital-related revenue requirement can be substantiated. As such, SCE does not believe any changes are necessary to the Draft Report. SCE notes for the record, however, that subsequent to the filing of this Application A.23-10-001, nearly a year ago, approximately \$12 million of its CWIP capital expenditures (more than half of the \$22.741 million included in the application) have already closed to plant (*i.e.*, transferred to Plant-in-Service as Capital Additions and recorded as a capital-related revenue requirement of the WMPMA), and can be substantiated.

As such, SCE intends to advocate for the following procedure to allow SCE the opportunity to substantiate the CWIP costs that have closed to plant since SCE filed A.23-



10-001, without the need for SCE to file a separate application: Upon the issuance of a final decision in this proceeding finding SCE's 2022 WMPMA-eligible incremental capital expenditures reasonable, SCE proposes to submit a Tier 2 advice letter within 30 days of that final decision (and annually thereafter, as necessary) to substantiate the amount of CWIP closed to plant during the pendency of this proceeding (and after the conclusion of this proceeding) and to set forth the associated capital-related revenue requirement to be included in customers' distribution rates. Upon approval of these Tier 2 advice letters, SCE will transfer the capital-related revenue requirement from the WMPMA to the distribution subaccount of the Base Revenue Requirement Balancing Account for recovery in rates until the ongoing revenue requirement is included in GRC-authorized base rates.

This approach would be consistent with the approach SCE utilized in Track 3 of SCE's 2021 GRC, in which the Commission allowed SCE to recover the CWIP costs included in that proceeding which had closed to plant during the pendency of that proceeding.<sup>1</sup>

If the Commission does not allow SCE to recover the CWIP capital expenditures that have closed to plant, SCE will have to seek recovery of these costs in a subsequent cost recovery proceeding – consistent with the UAB's Recommendation. This delay would not be ideal. The delay associated with filing another application and awaiting another final decision – for CWIP expenditures that were in CWIP status in October 2023 but are now closed (or will be closed) to plant – will result in unnecessary added interest expense that will be borne by customers, in a relatively high interest rate environment. Such a result would not be beneficial to SCE or to our customers.

<sup>1</sup> See D.22-06-032, p. 27 (finding that the "CWIP balance associated with the 644 miles completed in the first half of 2021" (i.e., after the filing of the Track 3 Application) were eligible for cost recovery because they constituted "complete and in service" costs).

## APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

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We appreciate SCE's comments submitted on August 22, 2024. In its response, SCE did not dispute UAB's finding and recommendations, but did provide clarification and information on a proposal to allow SCE the ability to recover its revenue requirement related to CWIP without the need to file a separate application. As SCE's Application, A.23-10-001, for Authorization to Recover 2022 Incremental Costs Related to Wildfire Mitigation and Vegetation Management is still an on-going proceeding, the Commission will make the appropriate determination on the approach advocated by SCE in its response. We added clarifying language to the recommendation on page 13.

The finding and remaining recommendations remain unchanged in this final audit report.