

April 3, 2018

California Public Utilities Commission
Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Re: Joint Protest of TURN and ORA to SCE Advice Letter 3768-E
(Request for Z Factor Recovery for Wildfire-Related Liability Insurance)

Dear Energy Division:

On March 14, 2018, Southern California Edison Company (SCE) served Advice Letter (A.L.) 3768-E seeking authorization to recover in rates approximately \$107 million for additional wildfire liability coverage of \$300 million for 2018. SCE seeks recovery of this cost pursuant to the “Z-Factor” provision of the utility’s tariffs.

The Utility Reform Network (TURN) and the Office of Ratepayer Advocates (ORA) jointly protest SCE’s advice letter. In this advice letter, SCE is making an extraordinary departure from the usual Commission process. SCE’s request presents important issues which should be addressed through an application. Among other things, the purchased insurance serves to protect shareholders and ratepayers because it would cover liability claims arising out of acts of utility negligence or imprudence. Therefore, the costs should be allocated between SCE’s customers and shareholders, and not entirely to ratepayers. Where the advice letter process is not structured to accommodate development of the type of record necessary to meaningfully address the issues, a formal application represents a more efficient, transparent, and appropriate approach. The Commission, SCE and ratepayers would be better served by considering SCE’s request in a formal application process.

An advice letter is an inappropriate procedural vehicle for seeking recovery of an additional \$107 million under the circumstances here, whether or not the underlying costs are eligible for Z-Factor treatment. Therefore SCE should be directed to present its request in an application, rather than in an advice letter.

SCE’s Request

SCE’s advice letter describes how, after the Thomas Fire caused widespread damage in Ventura and Santa Barbara counties in early December 2017, the utility understood that if the fire’s causation was attributed to electric utility equipment such that SCE was found liable, the damages could exhaust its current wildfire insurance coverage, such that it might have little or no coverage for wildfire events in 2018. SCE also had concerns that wildfire liability insurance coverage might be available on only a very limited basis, and the available options might be prohibitively expensive. Therefore, the utility obtained a

TURN and ORA Protest to SCE AL 3768-E
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policy at a total cost of \$124.5 million that would provide \$300 million of liability coverage for a twelve-month period. The CPUC-jurisdictional portion of this cost is \$117.156 million.¹ SCE proposes to recover this cost in its CPUC-jurisdictional revenue requirement through its “Z-Factor” mechanism, subject to the \$10 million “deductible” provided for in its tariffs.² The total amount SCE seeks to recover through this advice letter is therefore \$107.156 million.

On December 29, 2017, SCE submitted a “notification letter” to alert the Commission and interested parties to the fact that the utility intended to seek rate recovery via the Z Factor for its \$100 million-plus expenditure. On January 28, 2018, TURN responded by letter to explain why the group believed an advice letter is an inappropriate procedural vehicle for such a request, and to urge SCE to instead submit an application.³ In its advice letter, SCE demonstrated its intention to proceed via advice letter, and included a response to some of the points raised in TURN’s letter.

The Commission Should Require An Application Rather Than An Advice Letter, Given The Magnitude Of The Amount At Issue And The Thorny Issues Regarding Reasonableness for Rate Recovery.

TURN and ORA submit that the Commission should deny SCE’s advice letter and direct the utility to instead present its request for rate recovery in a formal application. There are a number of reasons why an advice letter is an inappropriate and inadequate procedural vehicle here.

First, the amount of the underlying expense warrants close examination that is not possible to achieve through the advice letter process. SCE requests rate recovery of \$107.156 million through this advice letter as the purportedly “reasonable” cost of an additional increment of wildfire liability insurance. The Commission should consider that in SCE’s pending general rate case (GRC) application for the 2018 test year, SCE forecasted approximately \$92.4 million of total liability insurance costs (including wildfire liability insurance costs) for 2018. The amount sought here would more than double the total SCE had forecasted for 2018. Furthermore, SCE recently filed a Catastrophic Event Memorandum Account (CEMA) application seeking rate recovery of \$46.7 million of expenses from its drought mitigation efforts in the 2015-2016 period, plus the costs associated with the \$17.6 million of capital expenditures recorded in 2016 for its response to specific wildfires.⁴ Just as with these other wildfire-related amounts

¹ SCE AL 3768-E, p. 11, Table 1.

² SCE AL 3768-E, p. 1, fn. 1.

³ TURN’s letter of January 28, 2018 is attached hereto as Appendix 1 (Appendix to Protest, pp. 1-2).

⁴ A.18-03-004.

SCE seeks to recover in rates, the review of the incremental liability insurance at issue here should occur in an application setting, rather than through an advice letter.⁵

Second, there are a number of reasonableness issues, both regarding the cost itself and the appropriate allocation of that cost between ratepayers and shareholders. Such issues require more thorough vetting and exploration than can be achieved through the advice letter process. For example:

- The Commission needs to determine whether it is reasonable to spend \$120 million to achieve incremental coverage of \$300 million for a one-year period. Such determination should include, at a minimum, a review of the alternatives SCE considered but did not select.⁶
- The wildfire liability insurance SCE has purchased provides the same coverage for claims whether or not the wildfire event was caused in part or in whole by negligence or imprudence on the part of SCE.⁷ To the extent the insurance protects SCE's shareholders from bearing costs of claims arising from negligence or imprudence, shareholders should bear the costs, not ratepayers.⁸
- The Commission should consider whether the cost SCE incurred for this incremental wildfire liability insurance was higher than it otherwise would have been because it covers not only claims associated with typical utility system operations, but also those arising from utility negligence or imprudence. If SCE could have obtained similar coverage at a lower price had it excluded claims arising from utility negligence or imprudence, ratepayers should not bear the premium associated with covering negligence or imprudence.

These are examples of the types of issues the Commission needs to address in determining whether rate recovery of any amount is warranted here and, if so, the amount

⁵ In the section of its advice letter responding to TURN's letter of January 28, 2018, SCE argues that

⁶ SCE describes a transaction that took place from mid-December 2017 through the end of the year, with a single insurance carrier identified as a potential source of coverage, with several alternatives considered in addition to the coverage ultimately purchased. SCE AL-3768, Appendix A (Declaration of John Butler), pp. 3-4. Nowhere in the advice letter does SCE provide any detail regarding the alternatives considered but not selected in even this abbreviated process.

⁷ SCE Response to TURN DR Question 2 on SCE AL 3768-E (attached hereto as Appendix 2 (Appendix, p. 3)).

⁸ The Commission has regularly assigned to the utility 50% of the costs of directors and officers (D&O) liability insurance, which serves to protect from catastrophic losses of a different type. *See, for example*, D.13-05-010 (Sempra Utilities' test year 2012 GRC), p. 851; D.14-08-032 (PG&E's test year 2014 GRC), p. 552.

that would be reasonable in light of all of the circumstances. The advice letter process does not provide sufficient time or opportunity to explore those circumstances, identify the full range of issues, and develop proposals for the Commission's consideration.

An Application is the Appropriate Vehicle for the Commission to Determine Whether or Not The Requested Z Factor Treatment Is Appropriate For Rate Recovery Of This \$100 Million-Plus Expense.

SCE has had a "Z-Factor" in its tariffs since the mid-1990s (when it embarked on a relatively brief foray into performance-based ratemaking (PBR)). However, the utility has not sought to use the mechanism as a vehicle for rate recovery of incremental costs since at least 2000.⁹ The Commission should deem it inappropriate to justify the Z-Factor request here as if it were consistent with longstanding practice. This is particularly so where SCE's proposed maiden voyage for the mechanism would entail a \$107 million increase to the authorized revenue requirement, a figure that would more than double the total liability insurance cost (wildfire and otherwise) the utility forecasted for 2018.

There is a threshold issue whether SCE has adequately demonstrated the reasonableness of the costs proposed for Z-Factor treatment. After reiterating that SCE and its insurance broker had determined that only one insurer was willing to provide this coverage, SCE states:

SCE determined it was in the Company's and customers' best interests to procure this additional coverage, and SCE and Marsh negotiated to obtain the best available price for this coverage.¹⁰

But SCE alludes to "coverage alternatives" with different coverage terms, amounts, and other features that were considered before the utility ultimately determined to obtain the coverage it selected.¹¹ The utility may be convinced that it selected the most reasonable option under the circumstances. However, SCE has failed to adequately demonstrate the reasonableness of the selected option or the associated costs through its Advice Letter filing.

⁹ SCE Response to TURN DR Question 1 on SCE AL 3768-E (attached hereto as Appendix 3 (Appendix to Protest, pp. 4-8). In 2009 SCE submitted a "notification letter" indicating that it may seek Z-Factor recovery of wildfire liability insurance premiums and wildfire claims expenses. (Appendix, pp. 6-8) However, SCE now contends that the amounts recorded did not exceed the \$10 million deductible applicable to Z-Factor events. (Response 1(c) – Appendix, p. 4). The 2009 letter is the only Z-Factor activity SCE reports since 2000. SCE's Z-Factor was originally adopted as part of the utility's non-generation PBR mechanism in D.96-09-092 (68 CPUC 2d 275).

¹⁰ *Id.*, p. 8.

¹¹ *Id.*, p. 6 and Appendix A (Declaration of John Butler), pp. 3-4.

The Commission Should Require An Application Rather Than An Advice Letter.

In 2009, when SDG&E faced circumstances regarding liability insurance premium increases of approximately \$29 million and sought Z-Factor recovery thereof, the utility filed an application seeking such recovery (A.09-08-019). Testimony was served and evidentiary hearings conducted on the disputed facts underlying the utility's request. In the end, the Commission considered a Proposed Decision that would have denied Z-Factor treatment and an Alternate Decision that authorized such treatment. The Commission adopted the Alternate Decision in D.10-12-053. Given the Commission's reliance on the application process for its review of requested Z-Factor treatment for a \$29 million increase in wildfire liability insurance premium costs, it should reject SCE's attempt to obtain through an advice letter Z-Factor treatment for a \$107 million increase in such costs.

SCE's Responses to Concerns Raised In TURN's January 28, 2018 Letter Lack Substance or Merit.

On January 28, 2018, TURN submitted a letter in response to SCE's notification letter, which laid out in summary form several reasons why an application would be a more appropriate choice for presenting the utility's cost recovery request. In its Advice Letter, SCE devoted a section to responding to the reasons TURN had cited in its earlier letter. None of those responses provide any reason to permit SCE to obtain its requested relief through an advice letter.

SCE notes that the fact that the amount of costs for which rate recovery is sought is "significant" is not, in and of itself, a reason for requiring an application rather than an advice letter, citing the reliance on advice letters to approve RPS contracts involving similarly significant costs.¹² For RPS contracts, the advice letters are the last step in a process that has included, among other things, prior Commission approval of an RPS procurement plan, review of the solicitation protocols and results by an independent evaluator, and sharing of the solicitation results along with all supporting materials with the "procurement review group" (PRG). Only after that process is complete are the contracts submitted via advice letter for the Commission's consideration and potential approval. Moreover, this process occurs pursuant to the RPS statutory provisions that identify very specific criteria governing the Commission's review and approval of proposed contracts. Here the underlying transaction was not even conceived until mid-December 2017, according to the timeline SCE puts forth, and the utility would have the advice letter serve as the entirety of the review of the underlying transaction. The two processes are not comparable.

¹² SCE AL 3768-E, p. 8.

SCE also contends TURN's stated concerns do not "justify a departure from the established Z-Factor process laid out in the approved tariffs," and that "it is not unreasonable to expect that unforeseen, catastrophic events will involve over \$100 million in financial impacts to the utility" such that there might be "substantial uncertainty into SCE's Z-Factor process."¹³ If SCE had any prior experience with an actual Z-Factor cost recovery request, or had pointed to even a single example of such a request in excess of \$100 million, there might be some basis for these arguments. But as noted earlier, this advice letter is SCE's first request for rate recovery via its Z-Factor mechanism.

SCE next claimed that TURN's suggestion that the costs of the incremental insurance coverage should be allocated between SCE's ratepayers and shareholders consistent with any coverage that would extend to events resulting from negligence or imprudence on the utility's part represented TURN "essentially interjecting itself into commercial transactions between SCE and its insurer and attempting to allocate who pays for claims due to inverse condemnation or negligence."¹⁴ TURN is not interjecting itself into anything at this point, nor could it, as the commercial transactions between SCE and its insurer appear to be completed. The point is that claims due to SCE negligence or imprudence are to be paid by SCE's shareholders, and SCE's ratepayers should not be required to bear the costs of insuring SCE's shareholders against such claims. Since the policy here covers claims regardless of whether the wildfire event was due to negligence or imprudence on the part of SCE, the Commission should at least consider allocating an appropriate portion of the costs of that coverage to shareholders.

SCE purports to be unaware of any circumstance in which the Commission has allocated insurance costs to shareholders based on the potential for future claims to involve matters for which the utility or its shareholders (rather than ratepayers) might be liable.¹⁵ As noted earlier, one such example is directors and officers (D&O) liability insurance, the costs of which have been allocated equally between ratepayers and shareholders over the course of a number of GRCs for the major energy utilities for just this reason.¹⁶ In SCE's currently pending GRC for the 2018 test year, the utility proposed including in rates only 50% of its forecast for D&O expense.¹⁷

SCE then contends that TURN overlooked the \$10 million allocated to shareholders in the form of the deductible required under the Z-Factor mechanism. The Commission

¹³ *Id.*

¹⁴ *Id.*, at 9.

¹⁵ *Id.*

¹⁶ See footnote 8 above.

¹⁷ A.16-09-001, Ex. SCE-08, Vol. 5, pp. 10-11.

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must squarely reject this logic, as it attempts to conflate two very distinct concepts. The deductible under the Z-Factor is tied to SCE being provided an opportunity to seek additional cost recovery in excess of that provided for in the authorized revenue requirement, subject to specified circumstances and conditions. One of those conditions is that the utility's shareholders bear the first \$10 million per year of such costs. That is wholly different than the question of how much SCE's shareholders should bear of the \$107 million cost of wildfire liability insurance that serves to cover damages attributable to utility negligence and imprudence.

Finally, SCE claims that the SDG&E Z-Factor application under which that utility gained rate recovery of an additional increment of wildfire liability insurance expenses resulted in a decision that provides strong policy support for SCE's request here. TURN and ORA submit that if the Commission reaches similar conclusions here as those reached in that case after discovery, testimony, hearings and briefs, it may well adopt a similar decision. But there is no indication in D.10-12-053 that the parties there raised the issue of whether the supplemental wildfire insurance would cover claims associated with events tied in whole or in part to utility negligence or imprudence, or that the Commission understood its decision to have SDG&E's ratepayers bear costs of insuring the utility's shareholders.

Conclusion

The Commission should deny the relief requested in this advice letter and instead direct SCE to make its request in an application.

Thank you for your attention to this matter.

Respectfully submitted,

_____/s/_____
Robert Finkelstein
The Utility Reform Network
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San Francisco, CA 94103
(415) 929-8876, x. 307
bfinkelstein@turn.org

On behalf of TURN and ORA

cc: Edward Randolph, Director, Energy Division
Gary Stern, Managing Director, State Regulatory Operations, SCE
Laura Genao, Managing Director, State Regulatory Operations, SCE
Service List for SCE 2018 GRC – A.16-09-001

APPENDICES 1-3 TO TURN-ORA PROTEST OF
SCE A.L. 3768-E



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January 29, 2018

Timothy Sullivan, Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear Mr. Sullivan:

On December 29, 2017, Southern California Edison Company (SCE) submitted a letter providing “Z-Factor” notification for additional wildfire liability insurance it had obtained that day at a cost of approximately \$120 million. The incremental insurance purchase will provide \$300 million of coverage for the period from December 31, 2017 through December 30, 2018. SCE’s letter indicates that the utility plans to seek regulatory approval of this transaction and rate recovery of \$120 million through an advice letter, as called for in the utility’s Z-Factor tariff.

The Utility Reform Network (TURN) believes that an advice letter is an inadequate regulatory mechanism for the presentation and review needed to determine whether some or all of the \$120 million expenditure is reasonable, prudent, and otherwise eligible for rate recovery. While we understand that SCE’s Z-Factor tariff permits reliance on an advice letter, the notification letter highlights several points and concerns that lead us to believe that an application is the more appropriate vehicle for presenting and reviewing such a request. Rather than wait to raise these concerns until SCE presents its advice letter, TURN raises them now with the hope that doing so might encourage SCE to forego the advice letter and instead present a formal application to establish the reasonableness of this unexpected \$120 million expenditure.

An application, rather than an advice letter, is warranted here for at least the following reasons:

- The amount at issue is substantial on its face. SCE seeks rate recovery of \$120 million, an amount far greater than the amounts typically being reviewed for the first (and only) time in an advice letter.
- The cost/benefit of the transaction here will need close review. The \$120 million premium appears to get SCE an increase of \$300 million of coverage for a single year. As a benchmark, in SCE’s test year 2018 forecast in its pending GRC, the utility seeks approximately \$93 million for all liability insurance (including wildfire liability).
- Cost responsibility between ratepayers and shareholders will likely be an issue here. If the insurance covers not only inverse condemnation claims for which the utility is not in any way culpable, but also claims that allege SCE negligence in the operation of its facilities, at least a portion of the costs may need to be assigned to the utility.

- In 2009, when SDG&E faced similar circumstances regarding liability insurance premium increases and sought Z-Factor recovery thereof, the utility filed an application seeking such recovery (A.09-08-019). The request was hotly-contested, and produced a Proposed Decision that would have denied Z-Factor treatment and an Alternate Decision that authorized such treatment. The Commission adopted the Alternate Decision in D.10-12-063.

Again, TURN does not dispute that SCE's tariffs provide for submitting a Z-Factor rate recovery request through an advice letter. TURN also acknowledges that SCE's Notification Letter indicates the utility's intention to include "declarations or testimony demonstrating the reasonableness of SCE's actions securing the additional coverage in 2017" as part of its advice letter here. (SCE Notification Letter, p. 3) But in our view, the need for declarations or testimony further supports the point that this matter is not well-suited to an advice letter.

In conclusion, SCE's request outlined in the Notification Letter involves issues that warrant close examination and review, and may well prove to be contentious. A Tier 3 advice letter is not well-suited to developing the necessary record for exploring and resolving the sorts of issues that will be implicated by SCE's specific request here. Rather than initiate a Tier 3 advice letter process that is sure to be at least initially focused on whether such a process is appropriate or adequate under the circumstances, SCE should be encouraged to instead file an application in support of its request.

Thank you for your consideration of this matter. If you have any questions or wish to discuss this further, please do not hesitate to contact me.

Yours truly,

Robert Finkelstein
General Counsel

cc: Russell Worden, SCE
Shinjini Menon, SCE
Service List for A.13-11-003
Ed Randolph, Director, Energy Division
Dorothy Duda, Energy Division
James Loewen, Energy Division
Elizabeth Echols, Director, ORA
Mark Pocta, ORA

Southern California Edison
NDDR Non-Docketed Data Request

DATA REQUEST SET TURN-SCE-AL 3768-E Z-Factor-001

To: TURN

Prepared by: John Butler

Title: Director of Risk Management

Dated: 03/16/2018

Question 02:

2. Under the policy obtained by SCE that is the subject of this advice letter, are there any circumstances under which the policy would provide reduced coverage because the wildfire event that resulted in claims was due in whole or in part to negligence or imprudence on the part of SCE? If the answer is anything other than an unqualified negative, please identify and briefly describe the circumstances under which the policy would not provide coverage because the event that resulted in claims was due in whole or in part to negligence or imprudence on the part of SCE.

Response to Question 02:

No, there is no reduced coverage for claims from a wildfire event due in whole or in part to negligence or imprudence on the part of SCE.

Southern California Edison
NDDR Non-Docketed Data Request

DATA REQUEST SET TURN-SCE-AL 3768-E Z-Factor-001

To: TURN

Prepared by: Linda Letizia

Title: CPUC Cost Recovery Manager

Dated: 03/16/2018

Question 01a-d:

1. Other than in the instant advice letter, has SCE identified a “Potential Z-Factor” pursuant to SCE Tariff Preliminary Statement, Section AAA, Section 5.C. during the period 2000-2017, inclusive? If so, please provide the following information about each such Potential Z-Factor identification:
 - a. Identify and briefly describe the underlying event or circumstances that led SCE to identify a Potential Z-Factor.
 - b. The Letter of Notification SCE provided to the Executive Director of the Public Utilities Commission.
 - c. The Advice Filing by which SCE requested recovery of the revenue requirement associated with the Potential Z Factor.
 - d. The citation to any Commission decision or resolution (including page number) that addresses each identification of a Potential Z Factor or request for recovery of the associated revenue requirement.

If SCE contends that it would be unduly burdensome to provide such information for the full period requested, please provide the requested information for as many years as SCE can provide without the request seeming unduly burdensome to the utility.

Response to Question 01a-d:

1a. Other than the instant advice letter, on September 22, 2009, SCE filed one notification of a Z-Factor event for costs due to increased insurance premiums and wildfire-related claims in excess of insurance coverage. Please see the attached Letter of Notification which identifies and describes the underlying events that led SCE to identify this potential Z-Factor event.

1b. Please see the attached Letter of Notification provided to the Executive Director of the Energy Division on September 22, 2009, identified in SCE's response to Question No. 1a above.

1c. SCE did not request recovery of the revenue requirement associated with this potential Z-Factor event. These amounts did not exceed the \$10 million deductible applicable to Z-Factor

events.

1d. Not applicable.

September 22, 2009

Mr. Paul Clanon
Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Notification of Z-Factor event for costs due to increased insurance premiums and wildfire-related claims in excess of insurance coverage

Dear Mr. Clanon:

In accordance with Section AAA, Part 5, of its Preliminary Statement, Southern California Edison (SCE) hereby notifies the California Public Utilities Commission (Commission) of its intent to record unforeseen wildfire insurance premiums and wildfire claims expenses in a Z-Factor Memorandum Account (ZFMA). SCE's authority to record expenses in such an account was established in Decision (D.)09-03-025, Section 14.1, page 306 (mimeo).

In order to be eligible for the Z-Factor ratemaking treatment, these expenses must meet the following criteria set forth in D.94-06-011 and D.96-09-092:

1. Events causing the cost must be exogenous to the utility;
2. Event must occur after implementation of the [GRC] PBR;
3. The utility cannot control the costs;
4. The costs are not a normal part of doing business;
5. An event affects the utility disproportionately;
6. The [PBR] update rule must not implicitly include the costs;
7. The cost must have a major impact on the utility;
8. The cost impact must be measurable;
9. The utility must incur the cost reasonably;

SCE believes the increased premium costs for liability insurance, and for potential claims beyond available insurance meet these nine criteria as discussed below.

In addition, SCE has concurrently filed Advice Letter 2385-E seeking authorization to establish a Wildfire Expense Memorandum Account (WEMA) pending disposition of the

Joint Utilities' insurance application, A.09-08-020. The WEMA will record essentially the same expenses as the ZFMA. SCE will not seek double recovery. At the appropriate time, SCE will seek recovery of any recorded costs in either, but not both, the WEMA or the ZFMA.

In recent years, a series of severe wildfires struck California, causing widespread damage to structures and substantial fire suppression costs. Each of the major California electric utilities have experienced, or can expect to experience claims in the future, which are many times greater than they have experienced in the past. These wildfires, coupled with California law which allows an "inverse condemnation" theory to be utilized against the utility has sharply driven up the magnitude of the claims. Even if a utility is in full compliance with the Commission's safety regulations and there is no proof of negligence, when utility equipment or facilities start a fire, the utility faces the prospect of inverse condemnation claims for all the ensuing damages.

Insurance carriers have communicated to SCE, and the other California utilities, that they will either refuse to renew fire coverage or charge substantially increased premiums for reduced coverage. This coverage reduction is part of a national strategy by insurers to shift more wildfire liability risk to their clients, but is particularly acute in California because of the availability of the inverse condemnation theory for claimants.

SCE renewed its insurance on September 1, 2009, and has paid significantly higher premiums for much less coverage by insurers. SCE expects to have a large uninsured liability exposure in the coming years for wildfire-related claims. These cost increases were unforeseen by SCE when it submitted its general rate case application, A. 07-11-011. SCE has begun to incur these costs when insurance coverage was renewed on September 1, 2009, with greater premiums and claims expense in subsequent years.

With regard to the nine criteria cited above:

1. SCE's ability to secure adequate liability insurance coverage, and its premium costs, is determined by insurance companies and market forces;
2. Information regarding the significant change in excess liability insurance and the decreased coverage was not known by SCE until 2009, after the company's general rate case was submitted;
3. There are no viable alternative sources for liability insurance coverage, and the expense for such coverage and payment of claims beyond available coverage, is beyond the control of SCE's management;
4. The current costs of maintaining adequate excess liability coverage significantly exceed those normally incurred by SCE for its operations and reflected in SCE's general rate cases;
5. The nature of SCE's business causes a disproportionate share of the increased cost to be borne by SCE;
6. These increased costs could not have been quantified at the time of SCE's 2009 General Rate Case update phase;

7. An excess liability insurance premium, plus the cost of uninsured claims, will have a major impact on SCE's financial health in the absence of rate relief;
8. The excess liability insurance premium cost, and uninsured liability costs are measurable;
9. The expense for purchase of excess liability coverage has been found to be reasonable by the Commission in SCE's general rate cases.

SCE was authorized \$8.55 million in its most recent general rate case to recover the cost of general liability premiums and claims expense. According to SCE's tariff, any Z-Factor expenses are subject to a one-time deductible of \$10 million. SCE's intent is to record the expenses, in excess of the deductible, for future recovery in rates. In accordance with its tariffs, a request for future recovery of the expenses recorded in the ZFMA will be made by Advice Letter or Application, with a full evidentiary demonstration of reasonable costs incurred.

SCE, and other California utilities, have begun collaborative research to develop a statewide, permanent solution that will permit the companies to secure adequate insurance coverage, plus identifying operational changes in system hardware design and deployment which may reduce the incidence of wildfires and minimize costs. SCE's objective, and that of the other affected utilities, is to seek ways to reduce costs and the devastating impacts of wildfires on Californians.

If you have any questions, please feel free to contact me at (626) 302-3630.

Southern California Edison Company

/s/ AKBAR JAZAYERI

Akbar Jazayeri

cc: Julie Fitch, Director, CPUC Energy Division
Dana Appling, DRA