Company: San Diego Gas & Electric Company (U 902 M)

Proceeding: 2024 General Rate Case – Track 3

Application No.: A.22-05-016

Exhibit: SDG&E-T3-WMPMA-03

CHAPTER 3

PREPARED DIRECT TESTIMONY OF

JAKE VAN REEN

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

(TRACK 3 – REPORT)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA



April 2025

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Attachment A – San Diego Gas & Electric Wildfire Mitigation Plan Cost Analysis

1 2 3		PREPARED DIRECT TESTIMONY OF JAKE VAN REEN ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY
4	I.	STATEMENT OF QUALIFICATIONS
5 6 7	Q.	MR. VAN REEN, PLEASE STATE YOUR NAME AND YOUR INVOLVEMENT IN THE 2025 WILDFIRE MITIGATION PLAN COST RECOVERY APPLICATION (WMP) PROCEEDING?
8	A.	My name is Jake Van Reen. I am a Certified Public Accountant ("CPA") and was the project
9		lead for the analysis of wildfire-related costs included in the San Diego Gas and Electric
10		("SDG&E" or "the Company") WMP filing performed by the accounting firm Ernst &
11		Young LLP ("EY").
12 13	Q.	Mr. VAN REEN, PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE?
14	A.	I am the owner of Van Reen Accounting LLC, and I have provided contracting services to
15		EY. I work with utilities and utility commissions throughout the US. For over 15 years, I
16		have specialized in assisting utility stakeholders with rate and regulatory matters. Prior to
17		forming Van Reen Accounting LLC, I was a Senior Manager in EY's Forensic Accounting
18		practice. Before EY, I was a Senior Associate with PricewaterhouseCoopers in their audit
19		practice.
20 21	Q.	Mr. VAN REEN, WHAT EXPERIENCE DO YOU HAVE THAT IS RELEVANT TO THIS PROCEEDING?
22	A.	I have extensive experience assisting utility stakeholders with regulatory accounting
23		matters. I have been engaged by dozens of utilities and/or regulators to assist with similar
24		matters.
25	Q.	Mr. VAN REEN, PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND?
26	A.	I received my Bachelor of Science in Accounting and Finance from the University of
27		Rhode Island, and I am a CPA.

II. PURPOSE OF TESTIMONY

O. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. SDG&E asked that I testify in this matter. Specifically, SDG&E asked that I describe EY's analysis of the wildfire-related costs included in the Company's Wildfire Mitigation Plan Memorandum Account ("WMPMA") and describe EY's conclusions related to those costs.

III. SUMMARY OF EY'S ENGAGEMENT

Q. PLEASE SUMMARIZE EY'S ENGAGEMENT WITH SDG&E.

A. SDG&E engaged EY to conduct an analysis of the wildfire mitigation costs included in the WMPMA from January 1, 2023 through November 30, 2024. The costs analyzed in the WMPMA are included as part of the Company's WMP. The purpose of the analysis was to assess costs included in the Company's cost recovery proceedings for the designated account and provide recommended exclusions based on the results of the assessment.

Q. HAS EY ISSUED ITS WILDFIRE MITIGATION PLAN COST ANALYSIS REPORT?

A. Yes. EY's Wildfire Mitigation Plan Cost Analysis report was issued on April 23, 2025.

The report is included in Attachment A.

Q. WHY IS THE EY REPORT NOT REFERRED TO AS AN "AUDIT"?

A. Audits are a specific type of engagement governed by standards promulgated by the American Institute of Certified Public Accountants ("AICPA") and the Public Company Accounting Oversight Board ("PCAOB"). In general terms, an audit entails performing procedures to assess the risks of material misstatement of a company's financial statements as a whole, not schedules or financial data within regulatory filings. The audit procedures include establishing materiality thresholds that are used to determine when adjustments are recommended and/or recorded. Audit procedures result in an accounting firm providing an

"opinion" or "audit report" stating whether the financial statements are materially correct.

The audit report is generally a few paragraphs and provides very little information about the procedures and analysis performed.

EY was engaged to analyze a specific account and financial activity of the Company, not the Company's financial statements as a whole. As such, although not an "audit" as defined, EY conducted its analysis in accordance with the consulting professional standards in the *Statement on Standards for Consulting Services* ("SSCS") established by the AICPA. In addition, EY's procedures were designed to achieve the principles of the National Association of Regulatory Utility Commissioners' ("NARUC") *Rate Case and Audit Manual* (2003). As noted in that manual, EY relied on the commonly understood concepts of "prudence" and "reasonableness" when reviewing expenses and corresponding adjustments proposed by SDG&E. The manual states that the purpose of applying these concepts is to "determine a revenue requirement and customer rates that are just, fair, reasonable, and sufficient."

I believe that EY's fact-based findings report, as well as the underlying analysis, is substantially more useful for the discussions within this proceeding. This type of reporting allows EY to provide a substantial amount of detail, which in turn allows the stakeholders in this proceeding to understand the procedures EY performed and the basis of EY's conclusions. Furthermore, EY has not set materiality thresholds. If EY concluded items are incorrect or lack sufficient evidence, they recommend adjustments regardless of the amount.

1 2	Q.		IIS TYPE OF ANALYSIS CONSISTENT WITH OTHER ENGAGEMENTS HAVE PERFORMED?
3	A.	Yes.	I have performed many analyses for utilities and regulators. For almost all
4		engage	ements I have provided reports of similar formats. The purpose of an accounting
5		analys	is for a regulated utility is to understand the rules and determine whether the utility
6		record	ed prudent and reasonable costs consistent with those rules. I have performed similar
7		analys	es for other utilities in California following the same guidelines and procedures.
8	IV.	EY'S	ANALYSIS OF WILDFIRE MITIGATION COSTS
9 10	Q.		SE SUMMARIZE EY'S TESTING OBJECTIVES FOR ANALYZING S CONTAINED IN THE WMPMA.
11	A.	As des	scribed in EY's report in Attachment A, EY objectives were to:
12		i.	Analyze whether the costs in the WMPMA were sufficiently supported, reasonable,
13			incremental, and whether the costs incurred were directly attributable to the WMP.
14		ii.	Identify observations relating to the costs and communicate those observations to
15			the Company.
16		iii.	Request additional supporting documentation from the Company and analyze the
17			facts supporting the charges.
18		iv.	Prepare supporting workpaper documentation for all the analyses, observations,
19			and conclusions.
20 21	Q.		SE SUMMARIZE EY'S TESTING APPROACH TO EVALUATE THE ABILITY OF THE COSTS IN THE WMPMA.
22	A.	EY's a	approach for assessing the costs included in the WMPMA consisted of:
23		i.	Segregating the costs within the WMPMA by cost category;
24		ii.	Performing analytics across each population and developing specific testing

procedures¹ tailored to each category of cost based on its unique nature and associated risk;

- iii. Testing approximately \$77.5 million of total costs incurred using targeted and statistical sampling, as well as data analytics. Amounts selected for detail transaction testing varied based on the costs within each category. For example, certain categories have a low volume of transactions with a high dollar value, while other categories have a high volume of transactions with a low dollar value; and
- iv. Conducting discussions with Company personnel within the Finance, Regulatory, and Line of Business departments, for the purpose of reviewing and validating costs.

The combination of analytical procedures, statistical sampling, and transaction testing was designed to assess all costs categories within the scope of the account.

Q. WHAT PROCEDURES DID EY PERFORM TO EVALUATE INCREMENTALITY OF THE COSTS IN THE WMPMA.

A. In addition to the analyses and transaction testing listed above, EY considered the incrementality of the costs included in the WMPMA in totality as compared to SDG&E's 2019 and 2024 approved General Rate Case ("GRC") decisions and other rate recovery mechanisms. The purpose of analyzing the WMPMA holistically as compared to SDG&E's 2019 and 2024 GRC decisions was to identify potential overlap or risk of double recovery. EY obtained and analyzed these GRC filings with supporting schedules to gain an understanding of the nature and timing, as well as the activities and types of costs, included within current base rates.

EY's tailored testing procedures are described in more detail in the 'Procedures Performed' section of EY's report in Attachment A.

EY also obtained the Company's 2023 Risk Spending Accountability Report ("RSAR") and analyzed it to understand actual expenses compared to imputed authorized costs. The purpose of the RSAR is to provide a summary of actual expenses compared to imputed authorized costs derived from the Company's latest GRC decision. EY considered the imputed authorized GRC costs as compared to the total actual incurred costs for 2023² to identify large or unusual movements that may be indicative of GRC items being recorded in the WMPMA. The comparison of imputed authorized O&M costs to actual O&M spend, as shown in the Table 1 below, demonstrates that the Company overspent its non-balanced GRC O&M by approximately \$29 million in total (Line 24 in Table 1) in 2023.

Table 1: 2023 RSAR Comparison of Imputed Authorized O&M Costs to Actual O&M Spend

Utility	Line #	GRC Witness Areas	2023 Actuals	2023 Imputed Authorized	\$ Variance	% Variance
	1	Electric & Fuel Procurement	9,124	10,255	(1,131)	-11%
	2	Electric Distribution	141,435	109,661	31,775	29%
	3	Electric Generation & SONGS	49,549	45,050	4,499	10%
	4	Sub-Total Electric	200,108	164,966	35,142	21%
	5	Gas Distribution	42,272	34,532	7,741	22%
	6	Gas Engineering	-	-	-	-%
	7	Gas System Integrity	343	1,828	(1,485)	-81%
Σ	8	Gas Transmission	6,055	6,038	17	0%
SDG&E Non-Balanced O&M	9	Sub-Total Gas	48,671	42,397	6,274	15%
2	10	Accounting & Finance	620	872	(252)	-29%
o n	11	Human Resources	7,655	8,379	(724)	-9%
gar He	12	Risk Management	3,926	7,903	(3,977)	-50%
- u o	13	Compensation & Benefits	618	306	312	102%
Ž	14	Corporate Center - General Administration	70,603	55,071	15,532	28%
3	15	CS - Field	26,537	28,247	(1,710)	-6%
90	16	CS - Information & Technologies	15,060	24,049	(8,988)	-37%
S 2	17	CS - Office Operations (incl AMO)	32,669	28,086	4,583	16%
	18	Cybersecurity	14,886	9,013	5,872	65%
	19	Information Technology	66,882	92,229	(25,347)	-27%
	20	Real Estate & Facilities	36,957	35,469	1,489	4%
	21	Fleet Services	488	-	488	100%
	22	Environmental	6,059	5,531	528	10%
	23	Sub-Total Other	282,960	295,155	(12,195)	-4%
	24	Sub-Total Non-Balanced O&M	531,739	502,518	29,222	6%
SDG&E Balanced O&M	25	Electric Distribution	224,139	66,234	157,906	238%
OG.	26	Gas - TIMP & DIMP	30,781	12,897	17,883	139%
Ba S	27	Sub-Total Balanced O&M	254,920	79,131	175,789	222%
	28	TOTAL SDG&E O&M	786,659	581,648	205,011	35%

Only the 2023 RSAR is public at the time of EY's report. EY's starting population contains both 2023 and 2024 costs. The 2023 costs contain both O&M and capital, and imputed authorized amounts were derived in the 2019 GRC. By comparison, the 2024 costs only contain capital costs that resulted from SDG&E's 2023 WMPMA initiatives that were originally forecast to go into service in 2023 but were not completed until 2024. As such, those 2024 costs were not forecasted in the Company's 2024 GRC. For a fuller description, see the direct testimony of Jack Guidi.

The comparison of imputed authorized capital costs to actual non-balanced capital spend, as shown in Table 2 below, demonstrates that the Company overspent its non-balanced GRC 2023 capital by approximately \$100 million (Line 13 in Table 2). While the Electric Distribution business' actual 2023 non-balanced capital spend was lower than the imputed authorized capital costs for that category by approximately \$16 million (Line 1 in Table 2), this is not an indication of underspending. Instead, given that, under Commission precedent, SDG&E has flexibility to repurpose authorized GRC funding between categories, whether SDG&E has incremental costs is properly determined by comparing the authorized total non-balanced capital amount to the actual total capital spend.

Table 2: 2023 RSAR Comparison of Imputed Authorized Capital Costs to Actual Capital Spend

Utility	Line #	GRC Witness Areas	2023 Actuals	2023 Imputed Authorized	\$ Variance	% Variance
	1	Electric Distribution	190,865	206,627	(15,762)	-8%
tal	2	Electric Generation	18,846	16,394	2,453	15%
SDG&E Non-Balanced Capital	3	Sub-Total Electric	209,711	223,020	(13,309)	-6%
ЭР	4	Gas Distribution	130,734	68,393	62,341	91%
nce	5	Gas Engineering	627	497	130	26%
ala	6	Gas Transmission	54,871	10,959	43,912	401%
n-B	7	Sub-Total Gas	186,232	79,849	106,383	133%
$^{ m N}_{ m 0}$	8	Cybersecurity	4,661	3,380	1,281	38%
&E	9	Information Technology	93,085	75,468	17,617	23%
ĐŒ	10	Facilities/Other	36,085	50,518	(14,433)	-29%
S 2	11	Human Resources	2,572	-	2,572	100%
	12	Sub-Total Other	136,403	129,366	7,036	5%
pə	13	Sub-Total Non-Balanced Capital	532,346	432,236	100,110	23%
anc I	14	Electric Distribution	621,902	230,873	391,029	169%
&E Bala Capital	15	Gas - TIMP & DIMP	104,656	28,729	75,927	264%
SDG&E Balanced Capital	16	Other - Facilities	16,477	721	15,756	2187%
250	17	Other - Information Technology	115,655	14,143	101,512	718%
IS	18	Sub-Total Balanced Capital	858,690	274,465	584,225	213%
	19	TOTAL SDG&E Capital	1,391,036	706,701	684,335	97%

EY took this analysis one step further by analyzing the Company's 2023 RSAR at the activity level. EY identified activity types within the GRCs and RSAR with risk of double recovery as part of its incrementality analysis. EY calculated the total imputed authorized costs and total actual spend for activities identified as potentially containing wildfire costs for 2023.

In total, EY's analysis demonstrated that the Company overspent its GRC for wildfire activities

by approximately \$538 million in 2023 (Line 1 in Table 3).

Table 3: 2023 RSAR Comparison of Total Imputed Authorized Costs to Actual Spend (\$'s in thousands)

Line #	Type of Spend	202	23 Actuals	23 Imputed authorized	7	Variance
1	2023 Wildfire Mitigation Spend*	\$	695,798	\$ 157,555	\$	538,243
2	All Other Spend	\$	1,481,897	\$ 1,130,794	\$	351,102
3	Total**	\$	2,177,695	\$ 1,288,349	\$	889,345

^{*} This 2023 Wildfire Mitigation Spend does not include Electric transmission costs nor overheads.

Q. PLEASE SUMMARIZE THE TOTAL WMPMA COSTS BY COST CATEGORY.

A. Below is a table summarizing the total WMPMA costs by cost category as provided by SDG&E, as well as the amounts tested by EY:

Table 4: WMPMA Costs by Cost Category

Cost Category	Amount	Amount Tested by EY
Contracts & External Labor	\$ 532,905,217	\$ 68,163,341
Internal Labor	39,770,401	2,237,989
Materials	77,737,013	2,089,026
Employee Expense	707,157	48,286
Overheads	92,196,886	3,361,093
AFUDC	29,786,155	336,380
Business Support, A&G, Adjustments and Other	48,832,804	1,300,411
Total WMPMA Costs	\$ 821,935,633	\$ 77,536,526

V. EY'S FINDINGS AND CONCLUSIONS

Q. WHAT WERE EY'S FINDINGS AND CONCLUSIONS BASED ON ITS ANALYSIS?

- A. Based on EY's analysis I have no reason to believe there is evidence of systemic errors or omissions that would raise questions related to SDG&E's conclusions that costs were:
 - Incurred for the activities set forth in the corresponding relevant California Public
 Utilities Commission approved account;

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^{**} This is Total O&M and Capital. The total agrees to sum of Line 28 in Table 1 plus Line 19 in Table 2.

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- ii. Accurately recorded;
- 2
- iii. Incremental; and
- 3
- Recorded to only one account. iv.
- 4
- As a result of EY's procedures, EY identified items totaling approximately \$2.2
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- (extrapolated to approximately \$4.4 million) of capital and O&M costs that were not
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for potential exclusion.

Table 5: EY's Observations for Potential Exclusion

properly evidenced for inclusion in the WMP. Below is a summary of EY's observations

Exclusion Type	Total
Notincremental	\$ 20,907
Not in HFTD Location	1,493,598
Not reasonable/prudent	275,196
Does not align to contract	1,085
Personal Item	14,678
Transmission	279,971
Not supported	144,015
Total Potential Exclusion	\$ 2,229,450
Extrapolated Total	\$ 4,430,675

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The findings are described in further detail in the EY report in Attachment A.

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Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11 A. Yes.

Attachment A EY Wildlife Mitigation Plan Cost Analysis



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To Valerie Bille, Senior Vice President, Chief Financial Officer and Controller and Chief Accounting Officer of San Diego Gas and Electric ("SDG&E"):

We have completed our engagement to assess electric costs that will be included in SDG&E's Wildfire Mitigation Plan Cost Recovery Application. This application hereafter will be referred to as the "WMP," "application" or "filing." Our engagement was performed in accordance with our engagement letter dated August 6, 2024, and our procedures were limited to those described in that letter.

The purpose of the analysis was to assess costs included in the Company's cost recovery proceedings for the designated account and provide recommended exclusions based on the results of our assessment.

This report includes:

- 1. Executive summary
- 2. Procedures performed

Ernst + Young LLP

3. Summary of findings

Our findings and recommendations resulting from our procedures are provided in the Summary of findings section of our report.

This report is intended solely for the information and use of the audit committee and management of San Diego Gas & Electric ("SDG&E," or the "Company"). SDG&E may disclose this assessment report, or discuss information relating to the Services, with any governmental authority, agency or regulator ("Regulator") with jurisdiction over the Company, provided that the Company provides EY with advanced written notice of such disclosure. The Company acknowledges and agrees that: (i) EY's Services were not performed, and our report was not prepared, for any Regulator, and (ii) any such disclosure to a Regulator is for informational purposes only and not for any third party's use, benefit, comfort or reliance.

April 23, 2025



Scope of the report

San Diego Gas & Electric Company (the "Company" or "SDG&E") engaged Ernst & Young LLP ("EY") to perform an assessment of electric costs recorded within the Wildfire Mitigation Plan Memorandum Account ("WMPMA") from January 1, 2023, through November 30, 2024. The costs analyzed in the WMPMA will be included as part of SDG&E's Wildfire Mitigation Plan Cost Recovery Application. This application hereafter will be referred to as the "WMP," "application" or "filling."¹

The purpose of the analysis was to assess costs included in the Company's cost recovery proceedings for the designated account and provide recommended exclusions based on the results of our assessment.

This report includes:

- 1 Executive summary
- 2 Procedures performed
- 3 Summary of findings

Limitations and assumptions of the assessment

Our work was performed based on the information provided to us by the Company and statements made by Company personnel. We did not audit, verify or otherwise validate any underlying data or statements. Additionally, our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts including fraud or defalcations that may exist. EY performed factual analyses and procedures and documented the findings and results from such analyses and procedures, including observations and related recommendations.

Our Services were performed, and this Deliverable was prepared for the sole use and benefit of SDG&E. SDG&E may disclose this assessment report, or discuss information relating to the Services, with any governmental authority, agency or regulator ("Regulator") with jurisdiction over the Company provided that the Company provides EY with advanced written notice of such disclosure. The Company acknowledges and agrees that: (i) EY's Services were not performed, and our report was not prepared, for any Regulator, and (ii) any such disclosure to a Regulator is for informational purposes only and not for any third party's use, benefit, comfort or reliance.

EY performed the assessment in accordance with the consulting professional standards in the Statement on Standards for Consulting Services ("SSCS") established by the American Institute of Certified Public Accountants. Furthermore, our approach is designed to achieve the principles of the National Association of Regulatory Utility Commissioners' ("NARUC") Rate Case and Audit Manual (2003) in an effective and efficient manner. As noted in the manual, we relied on the commonly understood concepts of "prudence" and "reasonableness" when reviewing expenses and corresponding adjustments proposed by SDG&E. The manual states the purpose of applying these concepts is to "determine a revenue requirement and customer rates that are just, fair, reasonable and sufficient."

Our procedures do not constitute an audit of the Company's financial statements, nor do we provide any form of assurance on the financial statements as a whole. Our procedures did not constitute an audit, review or compilation as those terms are defined by the American Institute of Certified Public Accountants.

^{1 &}quot;WMP" referenced herein and throughout the report refers to only the electric distribution costs analyzed as part of the WMP filing. "WMPMA" refers to the balancing account name.



Executive summary

Objective

Based on information provided by SDG&E, we prepared findings and observations regarding the inclusion of these costs in the WMP based on our testing and analysis. This report summarizes our approach to the analysis and any findings identified.

SDG&E submitted Advice Letter 3454-E in October 2019 to the Commission to open the WMPMA, effective May 30, 2019.² SDG&E continues to use the WMPMA to track the incremental costs of WMP projects/activities described in SDG&E's annual WMP filings. Our objectives were to:

- Analyze whether the costs in the above referenced account were sufficiently supported, reasonable and incremental and whether the costs incurred were directly attributable to the WMP.
- 2 Identify observations relating to the costs and communicate those observations to the Company.
- 3 Request additional supporting documentation from the Company and analyze the facts surrounding the charges.
- 4 Prepare supporting workpaper documentation for all analyses, observations and conclusions.

The table below summarizes the total costs by cost category within the WMP provided to us by SDG&E:

Table 1 - WMP population by cost category³

Cost category	Amount	Amount tested
Contracts & External Labor	532,905,217	68,163,341
Internal Labor	39,770,401	2,237,989
Materials	77,737,013	2,089,026
Employee Expense	707,157	48,286
Overheads	92,196,886	3,361,093
AFUDC	29,786,155	336,380
Business Support, A&G, Adjustments and Other	48,832,804	1,300,411
WMP Population	\$ 821,935,634	\$ 77,536,526

² Advice Letter 3454-E ("ELEC 3454-E.pdf")

 $^{^{3}}$ Values within the tables throughout this report may not sum precisely due to rounding.

Cost category	Amount	Ar	nount tested
Population adjustments/removals	(\$1,608,636)		
Adjusted WMP Population	\$ 820,326,998	\$	77,536,526

Approach

Our approach consisted of first segregating the costs within the WMP by cost category. We performed analytics across each population and developed specific testing procedures tailored to each category of cost based on its unique nature and associated risks. We conducted testing on approximately \$77.5 million of the total costs incurred. Amounts selected for detailed transaction testing varied based on the costs within each category. For example, certain categories have a low volume of transactions with a high dollar value, while other categories have a high volume of transactions with a low dollar value. In addition to our detailed transaction testing, we held multiple discussions across the organization with the Finance, Regulatory and Line of Business departments. The combination of analytical procedures, statistical sampling and transaction testing is designed to provide adequate coverage across all cost categories within the scope of the account.

As part of our testing procedures, we identified \$1.6 million of costs that were confirmed to be unrelated to WMP activities and thus adjusted out of our starting population. The costs identified included abandoned facility costs, transmission costs included in a 356 FERC account, and removed from service job costs that were included in our original population. The starting population was overinclusive and SDG&E provided data that was not intended to be requested within the WMP filing. Our population was updated to reflect that adjustment and did not include the out-of-scope costs.

In addition to the analytical procedures and transaction testing, we considered the incrementality of the costs included in the WMP compared to the relevant General Rate Cases ("GRC") and other rate recovery mechanisms. We obtained and analyzed the latest GRC filings with supporting schedules to gain an understanding of the type and nature of costs included within current base rates. Based on our analysis detailed below, we concluded that the costs included in this application are incremental to base rates, unless otherwise noted.

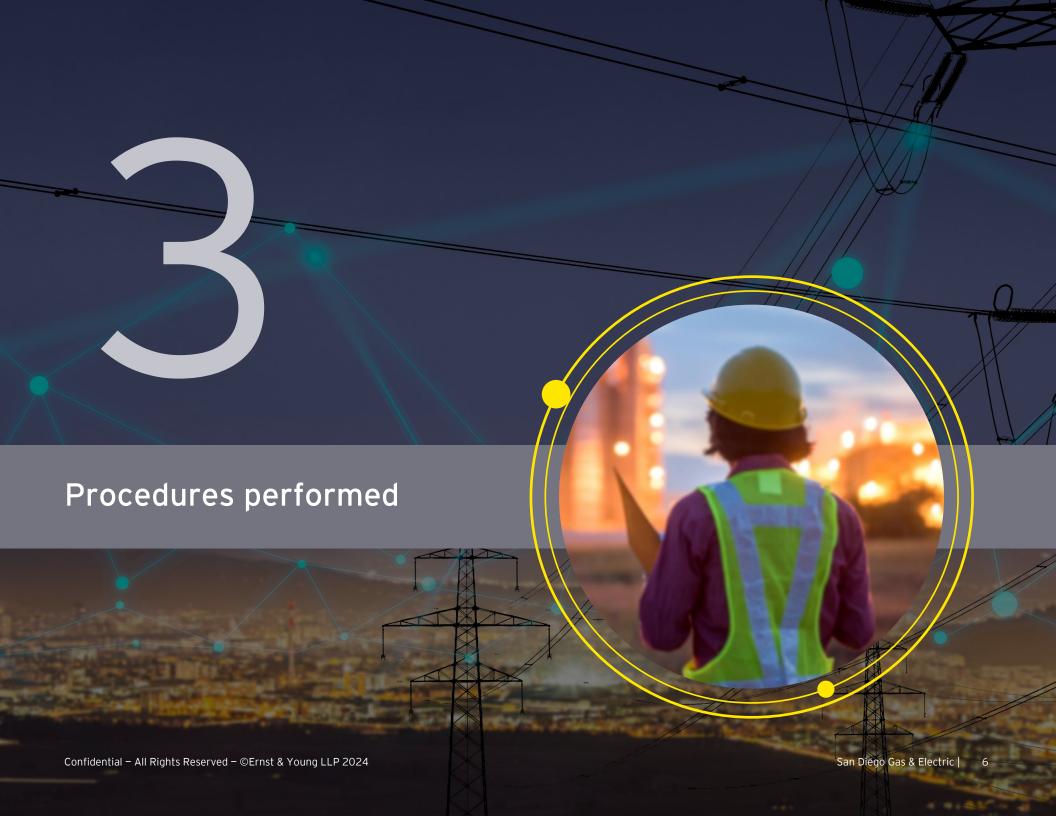
Findings and conclusions

Our analysis (both our data analytics and statistical sampling) considered whether there were errors and unrelated activity in the population, such as costs that were not incurred for activities set forth in the corresponding CPUC approved account, not accurately recorded, not reasonable or prudent, not incremental or recorded in more than one account.

Within the population, we identified \$2,229,450 extrapolated to \$4,430,675 of capital and Operational and Maintenance (O&M) costs that were not properly evidenced for inclusion in the filing. These findings are described in further detail throughout our report.⁵

⁴ 2019 General Rate Case (D.19-09-051), Post Test Year Mechanism for 2022 and 2023 (D.21-05-003), and 2024 General Rate Case (D.24-12-074)

⁵ See Tables 6 & 7.



Procedures performed

The following section describes the detailed procedures performed for each category of cost mentioned above as well as our overall testing of incrementality.

Incrementality

Approach

In addition to the analyses and transaction testing described below, we considered incrementality of the WMP actual costs in totality as compared to the WMP authorized revenue in the most recent GRC(s).⁶ Testing on an individual transaction basis does not allow for broader understanding of the account-level activity. We performed an analysis starting from the full population of transactions in the memorandum account. The purpose of analyzing the WMPMA holistically as compared to the GRC filing(s) was to identify potential overlap or risk of double recovery.

From our discussions with management, we understand that all revenues authorized in the GRC related to WMP O&M and capital activities were included in the WMPMA. The actual associated O&M and capital-related costs were also recorded in the WMPMA. SDG&E considers costs in excess of the authorized revenues as incremental and plans to seek recovery for those costs related to the WMP activities from January 1, 2023, through November 30, 2024.

We performed the following steps in our testing of incrementality

We reviewed documents and filings related to prior proceedings, discussed Company practices and policies with SDG&E personnel, and evaluated our ability to identify account-level costing that was incremental, incurred for and directly attributable to the WMP.

We first performed inquiries and walk-throughs with management to understand how SDG&E identifies and segregates incremental WMP costs from costs funded through base rates or other funding sources. Incremental costs, as described by SDG&E and other peer utilities, fall into the following categories: (1) increased work volume in normal work conducted caused by wildfire activities, which can be identified as costs incurred above and beyond the relevant amounts authorized in the company's latest GRC, and (2) costs incurred for new activities or programs implemented in response to wildfire events and not previously forecasted in the company's latest GRC or other recovery mechanisms. SDG&E's process is to first record all labor and non-labor costs for wildfire mitigation activities that would not have been incurred otherwise⁷ to the WMPMA. SDG&E then compares the CPUC-jurisdictional distribution-related costs to the relevant amounts authorized in its GRC to determine which portion of the wildfire mitigation costs are incremental. We also understand that SDG&E differentiates and tracks the costs charged to the WMPMA from normal business costs authorized in GRC by cost centers and internal orders.

Next, we obtained the latest GRC filings with supporting schedules to gain an understanding of the nature and timing as well as the activities and types of costs included within current base rates. The purpose of this analysis was to understand activities included within the GRC compared to new, evolving or related activities noted within the SAP data we received for the WMPMA.

⁶ 2019 General Rate Case (D.19-09-051), Post Test Year Mechanism for 2022 and 2023 (D.21-05-003), and 2024 General Rate Case (D.24-12-074).

Examples include labor and non-labor costs for working groups devoted exclusively to WMP activities, capital projects included in the WMP, and other labor and O&M costs included in the WMP.

We also obtained SDG&E's 2023 Risk Spending Accountability Report ("RSAR") and analyzed it to understand actual expenses compared to imputed authorized costs. The purpose of the RSAR is to provide a summary of actual expenses compared to imputed authorized costs derived from the Company's latest GRC decision. We considered the imputed authorized GRC costs as compared to the total actual incurred costs for 2023⁸ to identify large or unusual movements that may be indicative of GRC items being recorded in the WMPMA. We noted that the comparison of imputed authorized costs to actual spend demonstrates SDG&E overspent their GRC by approximately \$889 million in total and approximately \$538 million related to WMP activity in 2023.

Table 2 – 2023 RSAR spend versus imputed authorized (\$'s in thousands)

2023 RSAR	Actuals		Imputed authorized		Variance	
2023 WMP ⁹	\$	695,798	\$	157,555	\$	538,243
All other spend	\$	1,481,897	\$	1,130,794	\$	351,102
Total	\$	2,177,695	\$	1,288,349	\$	889,345

In addition to the overall analysis of incrementality, we designed testing procedures tailored to each category of cost to address the specific risks of each category. As detailed in each of the following sections, we considered whether costs within each category had sufficient evidence to demonstrate amounts are prudent, reasonable and incremental.

⁸ Only the 2023 RSAR is public at the time of this report. Our starting population contains both 2023 and 2024 costs. 2023 costs contain both O&M and capital, and imputed authorized amounts were derived in the 2019 GRC. Whereas, 2024 only contains capital costs that were not forecasted in SDG&E's 2024 GRC.

⁹ RSAR actuals do not include Electric transmission costs nor overheads, which is why there is a difference from EY's starting population of \$820 million.

Contract costs

Cost category	Amount	Percent of total population
Contract	\$ 532,905,217	64.8%

Approach

We tested approximately \$68.1 million of contract costs from a starting population of approximately \$532.9 million. To arrive at a starting population of \$532.9 million for contract costs, we used cost guidance provided by SDG&E to segregate data into cost categories using the "CE Name" and "Cost Group" fields in the SAP data and the following filters: remove transactions where vendor is blank and remove vendor numbers that begin with "E".

We performed the following analytics on contract costs

- 1. We reviewed description fields within the SAP data such as "CE Name," "Cost Group," "Order Description," "FS Description" and "Vendor Name" to identify activities that appear unusual or unrelated to wildfire mitigation activities.
- 2. We analyzed the distribution of costs between cost categories per order to identify any unusual relationships in costs (e.g., employee expenses with no labor incurred, high labor but low material charges).

Based on the results of our analytics performed across the full population totaling \$532.9 million, we judgmentally selected vendor transactions totaling approximately \$16.6 million for further testing. Transactions identified during our analysis and selected for testing included:

- 1 Cost Elements: Identified costs with "CE Names" that warranted additional follow-up because they sounded general in nature, such as "storage fees".
- Funding Source descriptions: Identified costs with "FS_Description" fields that appeared related to more general funding sources, such as investment portfolios, operations and support, creative services, business services and program management.
- Order descriptions: Identified costs with order descriptions indicating locations may have occurred outside of High Fire Threat Districts, may relate to costs already covered in the GRC (e.g., fire events, remove from service jobs and abandoned facilities) or descriptions that are unclear and potentially unrelated to the WMP such as non-CMP and miscellaneous. In addition, we identified costs related to installation errors that may not be reasonable or prudent.
- Vendor Names: Identified costs for unusual vendor names that warranted follow-up, such as marketing, accountants, workforce management, individuals, television services, custom gifts, event management, security firms, global hiring, enterprise solutions, health care, government, accounting firms, community service, nonprofits/charities and land services.

Table 3 - Contract cost subcategories

Contract Cost -	Salastad for Datailed Transportion Testing	
Selections	Selected for Detailed Transaction Testing	
Statistical Sample	\$ 56,462,023	
Targeted	2,332,675	
Total	\$ 58,794,698	

Statistical Sample: From a contract cost and external labor cost balance totaling approximately \$532.9 million, we applied a statistical sampling methodology to identify sample selections. The purpose of designing a stratified sample is to increase the efficiency and precision through a smaller sample compared to a simple random sample or testing 100% of the population. During this process, the remaining contract population of \$532.9 million is converted into the sampling population and then divided into groups called strata. The samples selected are weighted to reflect the sampling rates for each of the different strata. A statistical sampling report for the WMP is included as Appendix A to this report. Our testing approach followed the same procedures applied to the targeted selections, which included analyzing invoices, contracts, purchase orders and other potentially relevant contemporaneous information.

Targeted: From the remaining contract cost and external labor cost balance, we performed the following analytics to make targeted selections: (1) analyzed vendors with high cumulative spend, and (2) performed searches over Vendor Name, Cost Element Description, Cost Group and Order Description to identify unusual or potentially unrelated transactions. We judgmentally selected transactions based on these criteria and tested approximately \$2.3 million of targeted selections. Our testing approach included analyzing invoices, contracts, purchase orders and other potentially relevant contemporaneous information.

The following steps were performed in the testing of contract costs

We created a testing procedure to test contract costs at the transactional level. The results of the procedures performed, relevant observations, and suggested exclusions were recorded in the workpapers for each transaction.

The detailed testing steps were as follows:

- 1) Reconciliation of SAP data to supporting documentation
 - a. Analyzed the underlying documentation to determine whether an invoice from a third party was provided.
 - b. Upon receipt of an invoice, compared the invoice amount, vendor name and other relevant identifiers to the relevant fields of SAP data to test whether vendor names were consistent, and dollar amounts tied.
 - c. If an invoice or the underlying support lacked sufficient information or was illegible, it was noted that additional documents or confirmations were needed to support the transaction amount.

d. Analyzed the date range of services provided within the invoice and documented whether the services took place during the applicable scope period for the WMP.¹⁰

2) Reasonableness testing:

- a. Performed analyses to determine if a transaction was reasonably and prudently incurred for the services provided by recalculating unit prices under each cost category (e.g., labor, equipment, materials, per diem, reimbursable expenses) and comparing those unit prices to prices charged by other vendors performing similar services. Where we did not have benchmarking data from other vendors performing similar services, other publicly available information including GSA Schedules, publications and public rate filings were considered. Where outliers were identified, additional documentation was requested. Additional procedures performed and the results of those procedures were documented.
- b. Analyzed invoices, receipts and other third-party support to determine whether vendors billed for items that are prohibited by utility policies.

3) Location:

a. Analyzed the location of services performed to determine if the transaction occurred within a High Fire Threat District ("HFTD") (Tier II or Tier III), as applicable.

4) Incremental nature of the transaction:

- a. Analyzed the information provided in the invoice, contract and other support to determine whether the services performed appear to be incremental activities related to the WMP. We relied on Company policies and other guidance from SDG&E described below to help identify the nature and timing of various incremental activities in addition to what was included in prior GRC proceedings.
 - i. WMP activities: As described in AL 3454-E, the WMPMA is to record incremental costs incurred to implement an approved wildfire mitigation plan that are not otherwise recovered in SDG&E's adopted revenue requirements. Such costs may include expense and capital expenditures for activities, including but not limited to operational practices, inspection programs, system hardening, enhanced vegetation management, enhanced situational awareness, public safety power shutoffs and alternative technologies.
- b. For observations requiring further consideration, additional procedures were performed. In some instances, transactions can be either partially or fully supported. On a case-by-case basis, the dollar amount that did not fully meet the testing requirements was calculated and recommended for exclusion.

We made the following observations in our testing of contract costs

As a result of the procedures described above, \$778K of contract costs extrapolated to \$2.98 million were not sufficiently supported or did not appear to be reasonably incurred. The exclusions identified within the testing were grouped into the following themes:

¹⁰ According to Advice Letter 3454-E, the WMPMA was effective 5/30/19. Based on our current scope of work, costs analyzed were incurred from 2023-2024.

1	Not incremental	Identified an instance where a non-WMP invoice was charged to a WMP order.
2	Does not align to contract	Noted instances where rates billed were higher than rates specified in vendor contracts.
3	Not reasonable/ prudent	Identified instances where amounts billed contained charges that were not reasonable or prudent, including instances of timesheets not aligning to billed amounts, markups on pass-through reimbursable expenses, and overtime or double time charges on non-holiday workdays within normal working hours.
4	Not in HFTD location	Identified costs that were incurred in non-HFTD locations and should not be included in the WMPMA.
5	Transmission	Identified costs related to transmission work, which is not CPUC-jurisdictional according to the rules of the WMPMA and should not be included in the WMP filing.
6	Not Supported	Sufficient documentation was not provided to support three transactions at the time of this report.

Table 4 - Contract cost exclusions

Exclusion type	Total
Not incremental	\$16,902
Does not align to contract	\$1,085
Not reasonable/prudent	\$71,377
Not in HFTD location	\$264,252
Transmission	\$279,971
Not supported	\$144,015
Subtotal	\$777,602
Extrapolated total	\$2,978,827

Internal labor

Cost category	Amount	Percent of total population	
Internal labor	\$ 39,770,401	4.8%	

Approach

To arrive at a starting population of approximately \$39.8 million for internal labor charges, we used cost guidance provided by SDG&E to segregate data into cost categories using the "CE Name" and "Cost Group" fields. We performed analytics across the full internal labor population and selected targeted transactions totaling approximately \$2.2 million for testing.

We performed the following analytics on internal labor

- 1. We reviewed description fields within the SAP data such as "CE Name," "Cost Group," "Order Description," "FS Description" and "Vendor Name" to identify activities that appear unusual or unrelated to wildfire mitigation activities.
- 2. We analyzed the distribution of costs between cost categories per order to identify any unusual relationships in costs (e.g., employee expenses with no labor incurred, high labor but low material charges).
- 3. We performed a trend analysis of labor cost over time using "Posting Date" to observe changes in expenditures and identify potentially unusual spikes per day.

- 4. Using "CE Name" and "Total Quantity", we also calculated the average unit cost per hour to identify any unusual patterns in unit rates across similar job functions/descriptions.
- 5. We conducted an analysis of the distribution of straight time, overtime and double time charges per day to identify potentially unusual trends. Patterns in standard time (ST), double time (DT) and overtime (OT) charges were also analyzed to detect unusual spikes in OT or DT on specific days.

Based on the results of our analytics, we judgmentally selected internal labor transactions totaling approximately \$2.2 million for further testing. Transactions identified during our analysis and selected for testing included:

- Cost Elements: Identified costs with "CE Names" that warranted additional follow-up, such as executive salaries, severance, signing bonuses, lunch premiums and awards.
- Funding Source descriptions: Identified costs with "FS_Description" fields that appeared related to more general funding sources, such as investment portfolios, operations and support, customer and business services, and program management.
- Order descriptions: Identified costs with order descriptions indicating locations may have occurred outside of HFTDs, may relate to costs already covered in the GRC (e.g., fire events and abandoned facilities) or descriptions that are unclear and potentially unrelated to the WMP such as non-CMP, investment portfolios, installation errors and miscellaneous.

We performed the following steps in our testing of internal labor

We provided SDG&E with the transactions identified as a result of analytics performed and requested supporting detail regarding the nature of these transactions and their inclusion in the WMP. In response to our request, SDG&E provided supporting detail and explanations. Based on explanations provided by SDG&E, we evaluated whether amounts were incremental to base rates and had sufficient justification for inclusion.

We made the following observations in our testing of internal labor

As a result of the procedures described above, we identified amounts that are not properly evidenced for inclusion within the WMP totaling \$188K.

1	Not in HFTD location	Identified transactions within orders where costs were incurred in non-HFTD locations and should not be included in the WMPMA.
2	Not reasonable/ prudent	Identified transactions for cash awards.

Table 5 - Internal labor cost exclusions

Exclusion type	Total
Not in HFTD location	31,782
Not reasonable/prudent	156,027
Subtotal	\$ 187,809

Materials

Cost category	Amount	Percent of total population
Materials	\$ 77,737,013	9.5%

Approach

To arrive at a starting population of approximately \$77.7 million for materials charges, we used cost guidance provided by SDG&E to segregate data into cost categories using the "CE Name" and "Cost Group" fields. We performed analytics across the full materials population and judgmentally selected targeted transactions totaling approximately \$2.1 million for testing.

We performed the following analytics on materials

- 1. We reviewed description fields within the SAP data such as "CE Name," "Cost Group," "Order Description," "FS Description" and "Vendor Name" to identify activities that appear unusual or unrelated to wildfire mitigation activities.
- 2. We analyzed the distribution of costs between cost categories per order to identify any unusual relationships in costs (e.g., employee expenses with no labor incurred, high labor but low material charges).
- 3. Additionally, we conducted a unit cost analysis using "CE Name" to identify potentially similar materials for comparison purposes. We calculated average unit cost and standard deviations and identified outliers of unit costs that were higher than the average.

Based on the results of our analytics, we judgmentally selected materials transactions totaling approximately \$2.1 million for further testing. Transactions identified during our analysis and selected for testing included:

- 1 Cost Elements: Identified costs that warranted additional follow-up, such as apparel, office supplies/equipment, cellular accessories and promotional items.
- Funding Source descriptions: Identified costs with "FS Description" fields that appeared related to general funding sources, such as operations and support.
- Order descriptions: Identified costs with order descriptions indicating locations may have occurred outside of HFTDs, may relate to costs already covered in the GRC (e.g., fire events, removed from service jobs, and abandoned facilities) or descriptions that are unclear and potentially unrelated to the WMP such as non-CMP, parking, installation errors and miscellaneous.
- 4 Vendor Names: Identified costs for unusual vendor names that warranted follow-up, such as custom gifts/promotional item and event planning vendors.

We performed the following steps in our testing of materials

We provided SDG&E with the SAP fields identified through our analytics and requested supporting detail regarding the nature of these transactions and their inclusion in the WMP. In response to our request, SDG&E provided support in the form of receipts, invoices, internal movement forms and emails documenting the purpose of the transactions. Based on the support provided by SDG&E, we evaluated whether amounts were incremental to base rates and had sufficient justification for inclusion.

The detailed testing steps were as follows:

- 1) Reconciliation of SAP data to supporting documentation
 - a) Analyzed the underlying documentation to determine whether receipts, invoices or internal movement forms were provided.

- b) Compared the amounts, supplier name and other relevant information in the supporting documentation to the relevant fields of the SAP data to test whether details were consistent, and dollar amounts tied.
- c) If the underlying support lacked sufficient information or was illegible, it was noted that additional documents or confirmations were needed to support the transaction amount.
- d) Analyzed the date range of services provided within the invoice and documented whether the services took place during the applicable scope period for the WMP.

2) Reasonableness testing

- a) Performed analyses to assess if a transaction was reasonably and prudently incurred for the materials purchased by recalculating unit prices and comparing those unit prices to prices charged by other vendors selling similar materials. Where we did not have benchmarking data from other vendors selling similar materials, other publicly available information including publications, public rate filings, etc. were considered. Where outliers were identified, additional documentation was requested. Additional procedures performed and the results of those procedures were documented within the relevant workpapers.
- b) Analyzed invoices, receipts and other third-party support to determine whether purchased materials are prohibited by utility policies.

3) Location:

- a) Analyzed the location of materials purchased to determine if the transaction relates to activities within a High Fire Threat District (Tier II or Tier III), as applicable.
- 4) Incremental nature of the transaction
- a) Analyzed the information provided in the supporting documentation to assess whether the activity recorded in the WMPMA appears to be incremental. We relied on Company policies and other guidance from SDG&E described below to help identify the nature and timing of various incremental activities.
 - i. WMP activities: As described in AL 3454-E, the WMPMA is to record incremental costs incurred to implement an approved wildfire mitigation plan that are not otherwise recovered in SDG&E's adopted revenue requirements. Such costs may include expense and capital expenditures for activities, including but not limited to operational practices, inspection programs, system hardening, enhanced vegetation management, enhanced situational awareness, public safety power shutoffs and alternative technologies.
- b) For observations requiring further consideration, additional procedures were performed. In some instances, transactions can be either partially or fully supported. On a case-by-case basis, the dollar amount that did not fully meet the testing requirements was calculated and recommended for exclusion.

We made the following observations in our testing of materials

As a result of the procedures described above, we identified amounts that are not properly evidenced for inclusion within the WMP totaling approximately \$726K.

1	Not in HFTD location	Identified instances within orders where costs were incurred in non-HFTD locations and should not be included in the WMPMA.
2	Not reasonable/ prudent	Identified instances of art and decorative purchases .
3	Personal Item	Identified instances of custom gifts/promotional items.

Table 6 - Material cost exclusions

Exclusion type	Total excluded a	amount
Not in HFTD location	\$	697,044
Not reasonable/prudent	\$	26,391
Personal item	\$	2,963
Subtotal	\$	726,399

Employee expense

Cost category	Amount	Percent of total population	
Employee expense	\$ 707,157	0.1%	

Approach

To arrive at a starting population of \$707,157 for employee expense charges, we used the "CE Name" and "Cost Group" description fields, as well as Vendor numbers starting with "E" and other cost guidance provided by SDG&E to segregate data into cost categories. We performed analytics across the full employee expense population and judgmentally selected transactions totaling approximately \$48K for further testing.

We performed the following analytics on employee expenses

- 1. We reviewed description fields within the SAP data such as "CE Name," "Cost Group," "Order Description," "FS Description" and "Vendor Name" to identify activities that appear unusual or unrelated to wildfire mitigation activities.
- 2. We analyzed the distribution of costs between cost categories per order to identify any unusual relationships in costs (e.g., employee expenses with no labor incurred, high labor but low material charges).
- 3. Additionally, we conducted an employee expense analysis to identify instances where employee expenses, labor value or overheads value were unusually higher than their respective standard deviation.

Based on the results of our analytics, we judgmentally selected employee expenses transactions totaling approximately \$48K for further testing. Transactions identified during our analysis and selected for testing included:

- Cost Elements: Identified costs that warranted additional follow-up, such as employee benefits, health and wellness programs, employee "recognition," gift cards, retirement party and living expenses.
- Funding Source descriptions: Identified costs with "FS Description" fields that appeared related to general funding sources, such as operations and support, customer and business services, and program management.
- Order descriptions: Identified costs with order descriptions indicating transactions may relate to emergency operations already covered in the GRC, such as fire events and abandoned facilities.
- 4 Order distribution: Identified costs and unique orders where employee expenses exceeded labor costs on each order.

We performed the following steps in our testing of employee expenses

We provided SDG&E with the SAP fields identified through our analytics and requested supporting detail regarding the nature of targeted transactions and their inclusion in the WMP. In response to our request, SDG&E provided explanations of the SAP fields and provided supporting documentation, such as reimbursement policies, receipts and expense reports for the transactions. Based on the support provided by SDG&E, we evaluated whether amounts were incremental to base rates and had sufficient justification for inclusion.

For the targeted selections, we performed the following detailed testing steps:

- 1. Reconciliation of SAP data to supporting documentation
 - a. Analyzed the underlying documentation (e.g., expense reports, receipts) to determine whether employee expenses were sufficiently supported.
 - b. Compared amount, employee name and other relevant identifiers in the supporting documentation to allocation schedules and the relevant fields of SAP data to test whether the names and dollar amounts were consistent with the recorded expenses.
 - c. If underlying support was lacking sufficient information or was illegible, it was noted that additional documents or confirmations were needed to support the transaction.
 - d. Analyzed the date range of employee expenses provided within the underlying documentation and documented whether the expenses took place during the applicable scope period for the WMP.

2. Reasonableness testing

- a. Performed analyses to assess if a transaction was reasonably and prudently incurred for employee expenses by recalculating receipts and employee reimbursement amounts and assessing those amounts using publicly available information, including GSA schedules and IRS standard mileage rates. Where outliers were identified, additional documentation was requested. Additional procedures performed and the results of those procedures were documented within the relevant workpapers.
- b. Analyzed invoices, receipts and other support to assess whether employee expense reports included items prohibited by utility policies.

3. Location:

- a. Analyzed the location of employee expenses to determine if the transaction occurred within a High Fire Threat District (Tier II or Tier III), as applicable.
- 4. Incremental nature of the transaction
 - a. Analyzed the information provided in the supporting documentation to assess whether the activity recorded in the WMPMA appears to be incremental. We relied on Company policies and other guidance from SDG&E described below to help identify the nature and timing of various incremental activities in addition to what was included in prior GRC proceedings.
 - i. WMP activities: As described in AL 3454-E, the WMPMA is to record incremental costs incurred to implement an approved wildfire mitigation plan that are not otherwise recovered in SDG&E's adopted revenue requirements. Such costs may include expense and capital expenditures for

activities, including but not limited to operational practices, inspection programs, system hardening, enhanced vegetation management, enhanced situational awareness, public safety power shutoffs and alternative technologies.

b. For observations requiring further consideration, additional procedures were performed. In some instances, transactions can be either partially or fully supported. On a case-by-case basis, the dollar amount that did not fully meet the testing requirements was calculated and recommended for exclusion.

We made the following observations in our testing of employee expenses

As a result of the procedures described above, we identified amounts that are not properly evidenced for inclusion within the WMP totaling \$13K.

1	Not reasonable/ prudent	Identified transactions for Amazon gift cards, cash rewards and a retirement party.
2	Personal item	Identified transactions for charges related to baseball tickets for a large group, including employees not related to the Wildfire and Climate Science (WCS) Division, as well as financial management charges for a director.

Table 7 - Employee expense cost exclusions

Exclusion type	Total excluded amount	
Not reasonable/prudent	1,447	
Personal item	11,715	
Subtotal	\$ 13,162	

Overheads

Cost category	Amount	Percent of total population	
Overheads	\$ 92,196,886	11.2%	

Approach

To arrive at a starting population of approximately \$92.2 million for overheads charges, we used cost guidance provided by SDG&E to segregate data into cost categories using the "CE Name" and "Cost Group" fields. We performed analytics across the overheads population and judgmentally selected targeted transactions totaling approximately \$3.4 million for testing.

We performed the following analytics on overheads

- 1. We reviewed SAP data fields including "CE Name", "Cost Group", "Order Distribution", "FS Description" and "Order Description" to identify activities that appear unusual or unrelated to wildfire mitigation activities.
- 2. We analyzed the distribution of costs between cost categories per order to identify any unusual relationships in costs.
- 3. We conducted an overheads analysis to identify outliers where the overheads value exceeded the standard deviation.

4. We analyzed overheads rates over time to identify trends in months and potential outliers/variations.

Based on the results of our analytics, we judgmentally selected overheads transactions totaling approximately \$3.4 million for further testing. Transactions identified during our analysis and selected for testing included:

- Funding source descriptions: Identified costs with "FS Description" fields that appeared related to investment portfolio and general funding sources, such as operations and support, customer and business services, and program management.
- Order descriptions: Identified costs with order descriptions indicating locations may have occurred outside of HFTDs, services that may have occurred outside of scope period (in 2022), costs that may relate to activities already covered in the GRC (e.g., fire events and abandoned facilities) or descriptions that are unclear and potentially unrelated to the WMP such as non-CMP, installation errors and miscellaneous.
- 3 Order distribution: Identified unique orders where overheads are unproportionally higher than other cost categories within each order.

We performed the following steps in our testing of overheads

We provided SDG&E with the SAP fields identified through our analytics and requested supporting detail regarding the nature of targeted transactions and their inclusion in the WMP. In response to our request, SDG&E provided explanations of the SAP fields and supporting documentation, such as overheads policies, internal workpapers, allocation reports, etc. for the transactions. Based on the support provided by SDG&E, we evaluated whether amounts were incremental to base rates and had sufficient justification for inclusion.

We made the following observations in our testing of overheads

As a result of the procedures described above, we identified amounts that did not appear to be within the WMP's scope of activities totaling \$150K.

• Not in HFTD location: Identified charges from six orders where costs were incurred in non-HFTD areas.

Table 8 - Overheads cost exclusions

Exclusion type	Total excluded amount	
Not in HFTD location	150,201	
Subtotal	\$ 150,201	

Allowance for funds used during construction (AFUDC)

Cost category	Amount	Percent of total population	
AFUDC	\$ 29,786,155	3.6%	

Approach

We performed an analysis of all charges that fell within the Cost Element category "AFUDC." To arrive at a starting population of approximately \$29.8 million, we used cost guidance provided by SDG&E to segregate data into cost categories using the "CE Name" and "Cost Group" fields. We performed an analysis across the full AFUDC population and judgmentally selected transactions totaling approximately \$336K for further testing.

We performed the following analytics on AFUDC costs

- 1. We reviewed SAP data fields including "CE Name", "Cost Group", "Order Distribution", "FS Description" and "Order Description" to identify activities that appear unusual or unrelated to wildfire mitigation activities.
- 2. We analyzed the distribution of costs between cost categories per order to identify any unusual relationships in costs.
- 3. We conducted an analysis of AFUDC costs to identify outliers where the AFUDC exceeds the standard deviation.

Based on the results of our analytics, we judgmentally selected AFUDC transactions totaling approximately \$336K for further testing. Transactions identified during our analysis and selected for testing included:

Order descriptions: Identified costs with order descriptions indicating locations may have occurred outside of HFTDs, costs may relate to emergency operations already covered in the GRC (e.g., fire events and abandoned facilities) or descriptions that are unclear and potentially unrelated to the WMP such as non-CMP, investment portfolios, installation errors and miscellaneous.

We performed the following steps in our testing of AFUDC costs

We provided SDG&E with the SAP fields identified through our analytics and requested supporting detail regarding the nature of targeted transactions and their inclusion in the WMP. In response to our request, SDG&E provided explanations of the SAP fields and provided supporting documentation, such as policies, internal workpapers, etc. for the transactions. Based on the support provided by SDG&E, we evaluated whether amounts were incremental to base rates and had sufficient justification for inclusion.

In addition, we performed the following:

1. We identified the line items within the population related to AFUDC entries. We then obtained the order number for each line item and compared these orders to a listing of capital project orders to determine whether AFUDC was only being charged to capital projects. We did not identify any instances where AFUDC was applied to work orders other than capital projects.

2. We then compared the AFUDC amounts to the total activity on the applicable capital work orders to analyze if any AFUDC amounts may be outside SDG&E's typical range for these costs. We did not note any instances where the AFUDC amount, as compared to the total order expenditures, appeared large or unusual. The calculation of AFUDC follows a defined formula. As we did not identify any outliers within the analysis described above, we did not independently recalculate or confirm AFUDC balances.

We made the following observations in our testing of AFUDC costs

As a result of the procedures described above, we identified amounts that are not properly evidenced for inclusion within the WMP totaling \$297K.

Not in HFTD Location

Identified instances where costs were incurred in non-HFTD locations and should not be included in the WMPMA.

Table 9 - AFUDC exclusions

Exclusion type	Total excluded amount	
Not in HFTD location	296,804	
Subtotal	\$ 296,804	

Business Support, Administration & General (A&G), Adjustments and Other

Cost category	Amount	Percent of total population	
Business support charges	\$ 48,832,804	5.9%	

Approach

We performed an analysis on all charges that fell into the general category of "Business Support, A&G, Adjustments and Other." To arrive at a starting population of approximately \$48.8 million, we used cost guidance provided by SDG&E to segregate data into cost categories using the "CE Name" and "Cost Group" fields. This population is made of business support charges which include transactions within the "Cost Group" descriptions: "Fleet," "Property Taxes," "Rent" and "Telephone Charges". It also includes A&G, accounting adjustments and other costs.

We performed the following analytics on Other costs

- 1. We reviewed SAP data fields including "CE Name", "Cost Group", "Order Distribution", "FS Description" and "Order Description" to identify activities that appear unusual or unrelated to wildfire mitigation activities.
- 2. We analyzed the distribution of costs between cost categories per order to identify any unusual relationships in costs.
- 3. We conducted an analysis of costs to identify outliers where these other support costs exceed the standard deviation. Based on the results of our analytics, we judgmentally selected transactions totaling approximately \$1.3 million for further testing. Transactions identified during our analysis and selected for testing included:
- Cost Elements: Identified costs related to mobile reimbursement program, trash collection, training, cloud consumption, holiday events, catering and miscellaneous descriptions.
- Order descriptions: Identified costs with order descriptions indicating transactions may have occurred in a location outside of an HFTD, may relate to costs already covered in the GRC (e.g., fire events, remove from service jobs and abandoned facilities) or descriptions that are unclear and potentially unrelated to the WMP such as non-CMP, installation errors, parking and miscellaneous.
- Vendor: Identified costs from vendors associated with party rentals, events, government, television and web services.

We performed the following steps in our testing of Other costs

We created a testing procedure to test other charges at the transactional level. The results of the procedures performed, relevant observations, and suggested exclusions were recorded in the workpapers for each transaction.

The detailed testing steps were as follows:

- 1. Reconciliation of SAP data to supporting documentation
 - a. Analyzed the underlying documentation (e.g., receipts, SAP screenshots and other related support) to determine whether charges were sufficiently supported.
 - b. Compared amount, vendor name and other relevant identifiers in the supporting documentation to the relevant fields of SAP data to test whether details were consistent, and dollar amounts tied.
 - c. If underlying support was lacking sufficient information or was illegible, it was noted that additional documents or confirmations were needed to support the transaction.
 - d. Analyzed the date range of charges provided within the underlying documentation and documented whether the expenses took place during the applicable scope period for the WMP.

2. Reasonableness testing

- a. Performed analyses to assess if a transaction was reasonably and prudently incurred by assessing the purpose and reasonableness of the amount billed. Where outliers were identified, additional documentation was requested. Additional procedures performed and the results of those procedures were documented within the relevant workpapers.
- b. Analyzed invoices, receipts and other support to assess whether charges included items prohibited by utility policies.

3. Location:

- a. Analyzed the location of employee expenses to determine if the transaction occurred within a High Fire Threat District (Tier II or Tier III), as applicable.
- 4. Incremental nature of the transaction
 - a. Analyzed the information provided in the supporting documentation to assess whether the activity recorded in the WMPMA appears to be incremental. We relied on Company policies and other guidance from SDG&E described below to help identify the nature and timing of various incremental activities in addition to what was included in prior GRC proceedings.
 - i. WMP activities: As described in AL 3454-E, the WMPMA is to record incremental costs incurred to implement an approved wildfire mitigation plan that are not otherwise recovered in SDG&E's adopted revenue requirements. Such costs may include expense and capital expenditures for activities, including but not limited to operational practices, inspection programs, system hardening, enhanced vegetation management, enhanced situational awareness, public safety power shutoffs and alternative technologies.
 - b. For observations requiring further consideration, additional procedures were performed. In some instances, transactions can be either partially or fully supported. On a case-by-case basis, the dollar amount that did not fully meet the testing requirements was calculated and recommended for exclusion.

We made the following observations in our testing of Other costs

As a result of the procedures described above, we identified amounts that are not properly evidenced for inclusion within the WMP totaling approximately \$77K.

1	Not incremental	Identified a transaction for a networking and career development program for Operational Field manager.
2	Not in HFTD location	Identified charges where costs were incurred in non-HFTD areas.
3	Not reasonable/ prudent	Identified instances of catered events for divisions outside the WCRC, as well as holiday parties and holiday presents.

Table 10 – Other cost exclusions

Exclusion type	Total excluded amount	
Not incremental	\$	4,005
Not in HFTD location	\$	53,515
Not reasonable/prudent	\$	19,953
Subtotal	\$	77,473



Summary of findings

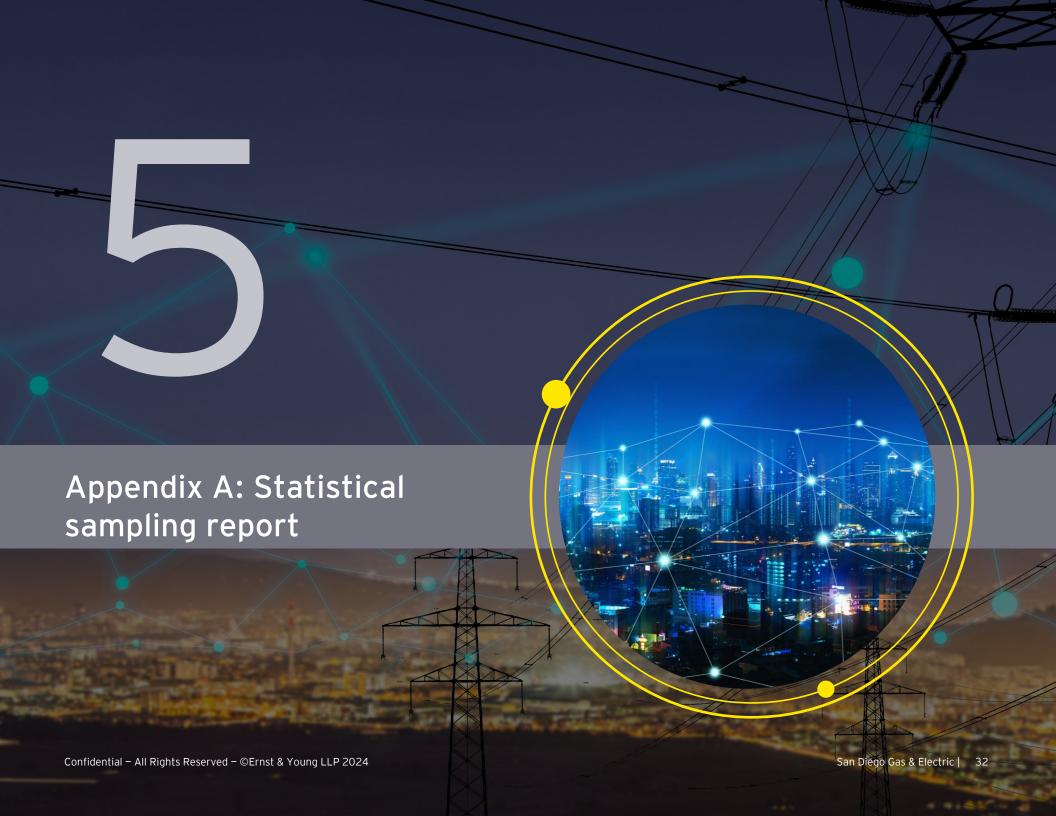
Conclusions

As a result of the procedures described above, we identified items totaling \$2.2 million (extrapolated to \$4.4 million) that were not properly evidenced for inclusion in the WMP.

Table 11 - Observations for potential exclusion¹¹

Exclusion type	Total
Not incremental	\$ 20,907
Not in HFTD location	\$ 1,493,598
Not reasonable/prudent	\$ 275,196
Does not align to contract	\$ 1,085
Personal item	\$ 14,678
Transmission	\$ 279,971
Not supported	\$ 144,015
Subtotal	\$ 2,229,450
Extrapolated total	\$ 4,430,675

 $^{^{11}}$ Table may not foot due to rounding. Confidential – All Rights Reserved – ©Ernst & Young LLP 2024





<u>Introduction</u>

The purpose of the San Diego Gas & Electric (SDG&E) 2024 wildfire mitigation plan memorandum account (WMPMA) study was to estimate the total error amount for the transactions by certain vendors in WMPMA. This report focuses exclusively on the statistical sampling and estimation methodology of the study. Decisions about the review process and the sample determinations are not part of this report.

Questions regarding the sampling and estimation methodology can be directed to Siyu Qing at (202) 327-7210 or Ryan Petska at (202) 327-7245.

Section I: Executive summary

A stratified sample of 201 transactions was selected from a sampling population of 32,607 transactions in SDG&E WMP. Based on the results of the sample, it was estimated that the total error amount was \$2,543,497 with margins of error of \$1,532,444 and \$1,834,900 at 90 and 95 percent confidence levels, respectively.

Table 1 summarizes the estimation results.

Table 1. Estimation summary

		Margin of	Margin of
		Error at 90%	Error at 95%
Estimation	Estimated	Confidence	Confidence
Category	Amount	Level	Level
Total Error Amount	\$2,543,497	\$1,532,444	\$1,834,900

Section II: Population

Population

The original population contained 56,498 transactions totaling \$350,075,452 in transaction cost (cost). After removing three rounds of debit/credit matches based on 1) Order and the absolute value of the cost, 2) CU and the absolute value of the cost and 3) WO_MCU and the absolute value of the cost, the final population consisted of 33,126 transactions totaling \$350,075,452 in cost. The final population also contained -\$38,565,344 in negative transactions (credits) which were set aside during sample design and adjusted for during estimation via a top-side credit adjustment. Thus, the resulting sampling population contained 32,607 transactions totaling \$388,640,796 in cost.

A summary of the population is provided in Table 2.

Table 2. Population summary

	Total Net		Positives (Debits)		Negatives (Credits)	
		Number of		Number of		Number of
	Total Cost	Records	Total Cost	Records	Total Cost	Records
Original Data	\$ 350,075,452	56,498	\$ 753,627,155	44,293	\$ (403,551,703)	12,205
- Debit/Credit Match 1	\$ -	5,484	\$ 208,797,769	2,742	\$ (208,797,769)	2,742
- Debit/Credit Match 2	\$ -	17,356	\$ 155,807,677	8,678	\$ (155,807,677)	8,678
- Debit/Credit Match 3	\$ -	532	\$ 380,913	266	\$ (380,913)	266
Final Population	\$ 350,075,452	33,126	\$ 388,640,796	32,607	\$ (38,565,344)	519
Sampling Population	\$ 388,640,796	32,607	\$ 388,640,796	32,607	\$ -	-

Sampling unit

The sampling unit was an individual transaction.

Sampling frame

The sampling frame consisted of 32,607 transactions totaling \$388,640,796 in cost.

Section III: Sample design

Stratification

A stratified random sample design was used for the study. Stratified sample designs are highly efficient designs that often allow confidence and precision goals to be obtained with smaller samples than would be required with simple random samples. The population data was divided into groups, or strata, and each stratum was sampled separately, with different sampling rates to increase the efficiency of the design. During estimation, the sampled values were appropriately weighted to reflect the sampling rates for the different strata. In this study, the individual transaction's cost amount was used as the basis for stratification.

A certainty or take-all stratum was defined for transactions with large costs relative to the rest of the data (greater than or equal to \$1,300,000). Transactions in this stratum (Stratum 7) were sampled at a rate of 100 percent in an effort to improve the stability of the estimate. The remaining non-certainty stratum boundaries were determined to approximately equalize the population size (Nh) multiplied by the estimated standard deviation (Sh).

The sample design is shown below in Table 3.

Table 3. Sample design summary

Stratum		Population	Population	Sample	Sample	
Number	Stratum Definition	Size	Cost	Size	Cost	
1	\$0 to \$7,349.99	25,609	\$ 48,890,150	32	\$ 66,771	
2	\$7,350 to \$25,119.99	4,914	\$ 63,801,529	32	\$ 430,377	
3	\$25,120 to \$98,499.99	1,339	\$ 62,220,857	32	\$ 1,552,735	
4	\$98,500 to \$214,999.99	433	\$ 66,170,897	32	\$ 4,971,590	
5	\$215,000 to \$436,999.99	214	\$ 66,263,766	32	\$10,307,622	
6	\$437,000 to \$1,299,999.99	89	\$ 65,452,575	32	\$23,291,907	
7	\$1,300,000 and above	9	\$ 15,841,022	9	\$15,841,022	
Total		32,607	\$ 388,640,796	201	\$56,462,023	

Section IV: Sample selections and results

Source and seed of random numbers

The function RANUNI in the statistical software, SAS, was used to generate the random numbers for sample selection. The seed used to generate the random numbers was 350075452.

Method of associating random numbers to the frame

A random number was directly assigned to each transaction in the original data using the RANUNI function in SAS and the random seed mentioned above.

Serialization of frame

Prior to generating random numbers in SAS, the population was sorted by the fields, Order, Cost Element, PO Number, Ref Document Number and the cost amount. The purpose of this sort was to place the file in a reproducible and verifiable order so the random number assignment was independent of an arbitrary frame sequence.

Method of selection

To select the sample, the sampling frame was sorted by stratum and the random numbers described above. Thus, the entire file was put into random order within a stratum. Then, the required number of transactions per stratum was selected according to this random order. For example, the first 32 transactions in this random order were selected for stratum one.

Sample results

The results of the sample review are available upon request. Table 4 provides a summary of the results by stratum.

Table 4. Sample results summary

Stratum Number	Stratum Definition	Population Size			Sample Cost	Sample Error Amount
1	\$0 to \$7,349.99	25,609	\$ 48,890,150	32	\$ 66,771	\$ 1,577
2	\$7,350 to \$25,119.99	4,914	\$ 63,801,529	32	\$ 430,377	\$ 2,459
3	\$25,120 to \$98,499.99	1,339	\$ 62,220,857	32	\$ 1,552,735	\$ 7,470
4	\$98,500 to \$214,999.99	433	\$ 66,170,897	32	\$ 4,971,590	\$ 38,823
5	\$215,000 to \$436,999.99	214	\$ 66,263,766	32	\$10,307,622	\$ 9,446
6	\$437,000 to \$1,299,999.99	89	\$ 65,452,575	32	\$23,291,907	\$ 120
7	\$1,300,000 and above	9	\$ 15,841,022	9	\$15,841,022	\$282,377
Total		32,607	\$ 388,640,796	201	\$ 56,462,023	\$342,272

Section V: Estimation

Standard statistical methods were used to produce the estimates from the stratified sample. Differences in the probabilities of selection among strata were properly accounted for by statistical weighting. The mean per unit (MPU) estimator¹² was used to compute the estimated total error amount.

The MPU estimator

The MPU estimator is the weighted sum of the sample means of error amount over all strata. In stratified sampling with L strata, this can be represented as

$$\hat{Y}_{mpu} = \sum N_h \bar{y}_h,$$

where

 N_h is the number of transactions in stratum h, \bar{y}_h is the sample mean of error amount in stratum h and h = 1 to L, the number of strata.

The standard error of the MPU estimate is given by

$$\hat{S}(\hat{Y}_{mpu}) = \sqrt{\sum N_h (N_h - n_h) S_{yh}^2 / n_h},$$

where

$$S_{yh}^2 = \sum \frac{(y_{hi} - \bar{y}_h)^2}{n_h - 1}$$
 is the sample variance of error amount in stratum h .

Confidence limits were calculated from the estimate plus or minus its margin of error, where the margin of error is computed as the standard error times the Student's t-value with a 90 or 95 percent two-sided confidence.

¹² Roberts, D. M. (1978) Statistical Auditing, American Institute of Certified Public Accounts, Inc., New York.

The degrees of freedom for the t-value were approximated using the Satterthwaite formula as follows:

$$n_e = \left(\sum g_h s_{yh}^2\right)^2 / \sum \frac{g_h^2 s_{yh}^4}{n_h - 1},$$

where

$$g_h = N_h(N_h - n_h)/n_h.$$

As a result of the Satterthwaite adjustment, the t-values used in estimation were 1.672 and 2.002 for 90 and 95 percent confidence levels, respectively.

Table 5 shows the estimated total error amount and its associated precision measures.

Table 5. Estimation results summary

			90%Two-sided Confidence Level			95%Two-sided Confidence Level		
Estimation	Estimated	Standard	Margin of	Lower	Upper	Margin of	Lower	Upper
Category	Amount	Error	Error	Bound	Bound	Error	Bound	Bound
Total Error Amount	\$2,543,497	\$916,534	\$1,532,444	\$1,011,053	\$4,075,942	\$1,834,900	\$ 708,597	\$4,378,398

Credit adjustments

The estimated total error amount was adjusted to account for the -\$38,565,344 remaining credits in the final population. The overall estimated total error amount, determined from the sample (positive amounts only), was adjusted by applying the estimated error percentage of 0.73 percent to the unmatched credits (-\$38,565,344). Therefore, the adjusted estimated total error amount was calculated as follows:

San Diego Gas & Electric

2023-2024

Wildfire mitigation plan memorandum account Sampling and estimation report

Prepared by Siyu Qing and Ryan Petska

Ernst & Young LLP 1101 New York Avenue, NW Washington, DC 20005

April 18, 2025



Appendix B: Company documentation received

We considered policies and procedures associated with the charging and/or allocation of charges related to the Balancing Account, as well as Company guidance and relevant documents related to statewide emergency proclamations, SB 901, relevant CPUC filings (including applications, decisions and advise letters), payment approval level or authorization and employee expense reimbursements.

	Document title	Description
1.	2023 SDGE_SCG_RSAR_Attachment A.xlsx	2023 RSAR Appendix A workbook
2.	SDG&E Electric Distribution_JLong_copy.xlsx	Electric Distribution workpaper for 2023 RSAR.
3.	SDGE_SCG_2023_Joint Risk Spending Accountability Report Final.pdf	Joint 2023 RSAR for SDG&E and SoCalGas
4.	WMP Imputed Auth O&M and Capital_Updated 03.31.2025.xlsx	SDG&E's 2023 imputed authorized amount for O&M and capital charges.
5.	WMP_Auth OM 2019-2023 Selsy RSAR Justin Analysis_kh.xlsx	O&M authorized revenue requirement for WMP (all years) workpaper
6.	WMP Procedures_FINAL.pdf	Report defining WMP requirements and planning for execution of WMP activities.
7.	AL 3454-E 2817-G est WMPMA.pdf	Public Utilities Commission Advice Letter 3454-E and 2817-G
8.	D 19-05-039.PDF	Decision on SDG&E's 2019 Wildfire Mitigation Plan pursuant to Senate Bill 901
9.	ELEC_ELEC-PRELIM_WMPMA.pdf	SDG&E preliminary statements establishing the electric WMPMA account.
10.	GAS_GAS-PRELIM_WMPMA.pdf	SDG&E preliminary statements establishing the gas WMPMA account.
11.	GRC D.19-09-051	SDG&E 2019 General Rate Case
12.	GRC D.21-05-003	SDG&E 2022-2023 General Rate Case
13.	GRC D.24-12-074	SDG&E 2024 General Rate Case

14.	SDG&E's 2023-2025 Wildfire Mitigation Plans and related updates	SDG&E 2023-2025 Wildfire Mitigation Plan Update (pulled from the SDG&E website)
15.	Imputed Authorized 2023 - Actual.xlsx	SDG&E's 2023 imputed authorized amount from 2019 - 2023.
16.	2023 WMP Categories.xlsx	SDG&E's listing of wildfire mitigation initiatives, programs and associated tracking IDs
17.	Jan-Dec 2024 Monthly System Rates.xlsx	SDG&E's overhead rates from 2019 - 2024
18.	2023 Common Allocations Full Packet.xlsx	2023 common allocation overheads
19.	2024 Common Allocations R1-Full Packet.xlsx	2024 common allocation overheads
20.	Audit_GIS_CIR_SUB_DISTRICT_HFTD.XLSX	SDG&E listing of circuits and substation into HFTD zones using GIS data.
21.	HFTD_TLID_SUBS_DISTRICT.xlsx	SDG&E listing of transmission lines by HFTD zone using GIS data.
22.	Line item detail (various Excel workbooks)	SAP line item data from January 2023 - November 2024

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