

December 22, 2022

President Alice Reynolds
Alice.Reynolds@cpuc.ca.gov
California Public Utilities Commission
505 Van Ness Avenue, Fifth Floor
San Francisco, CA 94102

Re: SCE Response to CPUC November 28 letter Continuing Coordination on Federal Funding Opportunities in the Infrastructure Investment and Jobs Act of 2021

Dear President Reynolds,

Thank you for your November 28, 2022, letter regarding the federal funding pursuant to the Infrastructure Investment and Jobs Act of 2021 (IIJA) to be awarded by federal agencies through competitive grant processes. We enthusiastically look forward to partnering with the California Public Utilities Commission (Commission) and other state agencies as necessary to secure a portion of the federal funds made available by this one-time opportunity on behalf of our customers.

SCE appreciates the opportunity to provide feedback on regulatory guidance that would be most helpful in ensuring that the federal funding IOUs plan to seek best serve Californians. As detailed below and in an enclosed document, SCE intends to pursue a variety of grants for several important projects, which collectively will provide value to our customers and the grid, as well as further the State's environmental and related policy goals. SCE's current intent is to seek Commission approval and associated cost recovery authorization through two distinct regulatory processes, well before the first set of applications are due to the Department of Energy (DOE) on March 17, 2023.

First, SCE is currently preparing the forecasts for our forthcoming Test Year 2025 General Rate Case (GRC) application, which will be filed on May 15, 2023. A subset of SCE's intended IIJA investments will be included in the 2025 GRC, and the proposed regulatory process associated with those proposed investments is set forth below. Accordingly, SCE would appreciate the Commission's guidance on the issues below as early as possible to plan and support its upcoming GRC filing.

Second, for the subset of potential projects that do not directly support SCE's core GRC investments, we propose seeking project approval and associated cost recovery authorization through a separate Tier 3 Advice Letter process. Additional details are provided below.

2025 GRC

As mentioned above, SCE intends to include certain IJA-eligible projects within our 2025 GRC application. Specifically, we are developing grant applications for Long Duration Energy Storage (LDES) and Advanced Grid Monitoring (AGM) projects¹. Federal funds would allow SCE to accelerate the LDES project and enable additional scope for AGM to support a more comprehensive and integrated approach to how SCE operates, maintains and expands the grid. Importantly, these projects are aligned with the State's goals of creating a more robust and resilient electricity infrastructure that will be critical as customers continue to rely more on greater amounts of renewable generation, use electricity as a fuel for vehicles, and as consumers become active participants in the energy supply chain. Because SCE's GRC will be filed substantially in advance (May 2023) of the anticipated timing of the DOE grant approvals (Q3 2023), our GRC forecasts will only include SCE's customers' funding share (and respective tax impacts) associated with the projects. If SCE is subsequently successful in obtaining federal grant funding, SCE will proceed with the full scope of the projects. If SCE is unsuccessful in those efforts, SCE will scale back the proposed projects commensurate with the level of funding authorized in the GRC.

Tier 3 Advice Letter

SCE requests the Commission issue a resolution authorizing SCE to seek cost recovery for the second subset of projects outside of the GRC using a Tier 3 Advice Letter process.² We are actively developing grants for Targeted Undergrounding and Solid-State Integration projects. As discussed below, SCE's proposal for review and approval of this subset of projects is based on a process used by the Commission when previous federal legislation presented co-funding opportunities for grid infrastructure projects.

For example, in response to the American Recovery and Reinvestment Act (ARRA), the CPUC provided an expedited mechanism, in the Smart Grid Rulemaking, to apply for incremental funding to meet the required DOE cost share obligation. The DOE awarded SCE the Tehachapi Storage Project (TSP), which was groundbreaking for its size, interconnection, chemistry and use-cases that helped shape Energy Storage policy and technology adoption through today. We believe that SCE's TSP proposal to the DOE was successful in large part because the CPUC supported a Tier 3 Advice Letter approval process for incremental funding.

Because funding opportunities have already been announced³, we anticipate that approval of the proposed Tier 3 Advice Letter(s) would be determined after an IOU secures a DOE grant. Accordingly, SCE requests that the Commission issue a resolution no later than the February 23, 2023 voting meeting, which will allow IOUs to submit Tier 3 Advice Letters. The process should include conditions that align

¹ Additional projects, or project components, may be added as we continue to review the DOE's BIL – Grid Resilience and Innovation Partnerships (GRIP) Funding Opportunity Announcement (FOA) Number: DE-FOA-0002740.

² By way of example, see Resolution E-4963, Commission Resolution to establish memorandum accounts to track compensation paid to an officer of an electrical or gas corporation pursuant to Senate Bill 901.

³ The first round of funding for GRIP and the DOE's BIL – Long-Duration Energy Storage Demonstrations DE-FOA-0002867 has been announced. Concept papers and/or Letters of Intent are a required first step in the application process and submission deadlines vary by funding mechanism. Expected date for selection notifications by the DOE is Summer 2023.

with the DOE's application criteria.⁴ SCE could work with Energy Division staff to provide input on specific conditions. For the remaining fiscal year funding, with an established process and criteria, IOUs can submit Tier 3 Advice Letters ahead of securing DOE approval.

The California Energy Commission (CEC) can also play an important role with respect to IIJA. For example, the CEC contributed incremental funding to SCE's DOE-awarded Electric Access System Enhancement (EASE) project⁵ through an incentives program from the CEC's administration of the Electric Program Investment Charge (EPIC) Program. Funding enabled the installation of Distributed Energy Resources (DERs) behind the meter, which was essential to evaluate DER impact on the proposed use cases on the identified circuits of the project. This partnership and collaboration approach with CEC staff is another example of how the State can support California's participation in the IIJA.

From a project approval and cost recovery perspective for this subset of projects, SCE anticipates the Commission's approval and the DOE's IIJA-eligible federal grant approval will occur contemporaneously, with both being contingent on the other. If the Commission does not approve cost recovery for the project, it will not go forward. Conversely, if SCE's grant proposal to the relevant federal agency is not approved over the IIJA's five-year period (FY2022-FY2026), SCE would withdraw its CPUC-jurisdictional co-funding request through the Tier 3 Advice Letter process.

Treatment of Tax Liability for Federal Funding Awarded

The IIJA did not provide a taxable income exemption for grant recipients so any funding received from IIJA would be subject to Federal and State income taxes unless subsequent legislation is enacted to exempt Federal grants from taxation.

A grant received under IIJA to assist in funding necessary and requested projects is similar to payments that a utility would normally receive from customers and developers to help offset the cost of building requested electric infrastructure. These payments, known as contributions in aid of construction (CIAC), are also considered taxable income to the utility when received. However, unlike CIAC payments, which include an income tax gross-up component (i.e., ITCC) to help pay for the cost associated with the tax, there is no comparable mechanism in place associated with IIJA grants. As such, the true value of the grant must account for the taxes paid.

SCE suggests using a ratemaking approach similar to the current treatment for CIAC. That is, the grant is taxable when received and the tax basis of the underlying capital asset is increased by the amount of the taxable grant and depreciated over the life of the asset. The deferred tax asset generated would be included in rate base. This approach allows the customer to pay the cost of the tax over the life of the asset and has the effect of "normalizing" the tax cost.

⁴ DOE applications are evaluated on several criteria which align with California State goals. By way of example, see DOE Grid Deployment Office (GDO) Office of Clean Energy Demonstrations (OCED), BIL – Grid Resilience and Innovation Partnerships (GRIP) Funding Opportunity Announcement (FOA) Number: DE-FOA-0002740; Section V. Application Review Information.

⁵ EASE developed a controls architecture to manage a broad range of DERs across the grid for bulk system services through transactive, aggregation, and direct control methods.

Competitive Application Submissions to the DOE

The primary action the CPUC can take to support SCE's proposed projects is to provide a resolution with a firm commitment to provide cost recovery for the non-federal cost share portions for all SCE competitive IJJA applications that are selected for funding by the DOE. Cost sharing is a mandatory requirement to access these federal funds. An application that does not contain a firm commitment to deliver the minimum non-federal match portion of the project budget will not be competitive. Being able to represent in our proposals that the CPUC has an established procedure and commitment to authorize those funds will be essential, and we very much appreciate the Commission's efforts to address this topic to date.

Project and Program Administration

SCE will manage its total project costs in accordance with its compliance and project management methodology to ensure that project costs align with the correct revenue requirements (balancing account or otherwise). We will manage Federal project costs and reimbursements in accordance with third-party billing. Federal costs will be managed via a separate memo account and invoiced to the DOE in accordance with financial requirements set forth in the Terms and Conditions of the Award(s). This mirrors the process SCE used to manage federal reimbursements under ARRA.

The CPUC can also address match funding through programs like EPIC, Emergency Load Reduction Program (ELRP) and Demand Side Grid Support Program. An example of this coordination is the CEC's contribution to the EASE project, as mentioned above. The CEC can play a supporting role in SCE's IJJA projects. As a program administrator of EPIC, the CEC should actively provide match funding opportunities.

Please reference the enclosed document for examples of applicable CPUC, CEC and other programs that may provide match funding for the projects that SCE has identified. Additionally, please reference the enclosed document for high-level summaries of our projects, which are grounded in three key objectives:

- the expansion or acceleration of safety and reliability upgrades ready for implementation,
- assessment of novel infrastructure solutions to solve emerging grid challenges, and
- innovative demonstration projects required to Reimagine the Grid and fulfill SCE's Pathway 2045 vision for decarbonizing California's economy.

In addition to individual projects, SCE also requests that the Commission provide guidance confirming that California utilities may consider joint projects in the event that such projects would provide broad regional benefits within the state that otherwise might be less achievable through only individually sponsored projects. Such joint projects have historically been pro-competitive means of modernizing the grid, providing opportunities for more clean energy resources and supporting mitigation efforts for extreme weather events. The Commission's guidance on and support of such joint efforts under such circumstances, including information sharing, would be very beneficial to the utilities and California energy consumers and could enhance the prospects of a successful funding application.

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The CPUC can further support successful projects by minimizing any supplemental requirements, such as intellectual property rights, it appends to these projects that might be incompatible with federal requirements. Streamlining reporting so that the state and federal reporting are aligned will maximize the efficiency of our operations.

For both the GRC and non-GRC projects, timely CPUC support, project approval and cost recovery assurances are critical to ensure that the proposed projects go forward in the first instance (in the case of non-GRC projects) or are financed and implemented with the lowest costs to SCE's customers (in the case of GRC projects). SCE's projects do not already seek CPUC-authorized funding or cost recovery, nor do they have CPUC approval. SCE's chances of successfully obtaining grant funding that represents "a generational investment" that can help provide critical funding for California's electrical grid will likely be significantly reduced without the Commission's actions described in this letter.

SCE stands ready to collaborate closely with the Commission, the Governor's Office, other state agencies, local and tribal governments, our customers and community partners to support state policies and secure IJIA funding. We thank the Commission for its efforts to help advance this unique opportunity to benefit California utility customers and make critical grid infrastructure investments.

Sincerely,



Steven D. Powell

Encl. SCE's Project Specific Information

cc:

David Hochschild, Chair, California Energy Commission, (david.hochschild@energy.ca.gov)

Jennifer Martin-Gallardo, Special Advisor to Chair Hochschild, California Energy Commission
(Jennifer.martin-gallardo@energy.ca.gov)

Tyson Eckerle, Senior Advisor for Clean Infrastructure and Mobility, Governor's Office of Business and Economic Development (Tyson.eckerle@gobiz.ca.gov)

Rachel Peterson, Executive Director, CPUC (rachel.peterson@cpuc.ca.gov)

Christine Jun Hammond, General Counsel, CPUC (christine.hammond@cpuc.ca.gov)

Leuwam Tesfai, Deputy Executive Director for Energy and Climate Policy, CPUC
(leuwam.tesfai@cpuc.ca.gov)

Grant Mack, Director of Governmental Affairs, CPUC (grant.mack@cpuc.ca.gov)

Pete Skala, Director of Electric Supply, Planning, and Costs, CPUC (Pete.Skala@cpuc.ca.gov)

Simon Baker, Director of Distributed Energy Resources, Natural Gas & Retail Rates, CPUC
(Simon.Baker@cpuc.ca.gov)