

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



April 28, 2020

Mr. Dan Marsh
Liberty Utilities (CalPeco Electric) LLC
Manager, Rates and Regulatory Affairs
933 Eloise Avenue
South Lake Tahoe, CA 96150

Dear Mr. Marsh:

On July 3, 2019, Liberty Utilities' CalPeco Electric (Liberty CalPeco) filed Advice Letter 121-E to comply with California Public Utilities Code Section 591 (Section 591). On April 14, 2020, Liberty CalPeco provided supplemental information regarding its spending for safety, reliability, and maintenance activities in 2018 to meet the requirements of interim Risk Spending Accountability Reporting (iRSAR)¹. AL 121-E was filed as a Tier 1 Information Only AL and is considered effective on the filing date of July 3, 2019. The CPUC's Energy Division (ED) prepared the enclosed review of Liberty CalPeco's 2018 iRSAR and provides recommendations for the utility to consider for its upcoming 2019 Risk Spending Accountability Report (RSAR) to be filed in June 2020.

In Decision (D.)19-04-020, the CPUC affirmed that ED's review of RSARs serves to raise concerns and seek understanding of the data and "does not constitute a reasonableness [review] of the utility's proposed risk mitigation budgets or programs as required in Public Utilities Code Section 451."² Reasonableness review of utilities spending is accomplished in the general rate case (GRC) process.³ In addition, review and verification of the utility's risk and management activities and spending that took place during the reporting period are part of Safety Performance Metrics reporting.⁴ Therefore, ED's review of Liberty CalPeco's iRSAR in this letter is limited to the reporting on and highlighting of information and does not make any findings regarding the reasonableness of the utility's spending.

CONCLUSIONS

Energy Division reviewed Liberty CalPeco's 2018 iRSAR with April 14, 2020 supplemental information and finds that Liberty CalPeco has complied with the requirements contained in D.19-04-020.

Liberty CalPeco presented authorized and actual 2018 spending variances on safety, reliability, and/or maintenance activities. The utility explained that its 2018 authorized capital budget was

¹ The General Guidance for the Small and Multi-Jurisdictional Utilities (SMJUs) on the Risk Spending Accountability Report suggested that SMJUs file interim annual RSARS beginning on June 30, 2019 for the 2018 record year. Therefore, Liberty CalPeco's 2018 report is considered an iRSAR.

² D.19-04-020, pp. 39-40.

³ Ibid.

⁴ Ibid, p. 40.

based on its authorized 2016 Test Year budget and escalated to 2018.⁵ Liberty CalPeco reported overspending its 2018 authorized amounts in both capital expenditures and operating and maintenance (O&M) expenses for programs associated with safety, reliability, and maintenance activities.

RECOMMENDATIONS

In April 2019, the CPUC issued Decision (D.) 19-04-020 modifying the selection criteria and revising the reporting guidance for utilities. ED staff calls attention to Ordering Paragraph 13 in D.19-04-020 which requires Liberty CalPeco to file annual Risk Spending Accountability Reports in the GRC proceeding in which funding for risk mitigation spending was authorized, starting with a report covering 2019.

In addition, D.19-04-020 provides Small and Multi-Jurisdictional Utilities (SMJUs) the following direction: “We direct the SMJUs to follow the general RSAR procedures outlined in Attachment [2], providing the same level of detail on the utility’s risk mitigation and risk spending as presented in its GRC, unless otherwise directed by Commission Staff.”⁶ Attachment 2, Section I contains eight guiding principles for preparing RSARs that expand on the General Guidance six principles. As a result, Liberty CalPeco should prepare its future RSARs by following procedures outlined in D.19-04-020, Attachment 2, consistent with Commission direction.

When Liberty CalPeco filed its 2019 Test Year (TY) General Rate Case (GRC) application in December 2018, the utility expressed a commitment of moving toward a risk-based decision-making framework in its next GRC.⁷ While Liberty CalPeco is transitioning toward a comprehensive risk-based planning framework, ED expects the utility to continue submitting interim RSARs to inform the CPUC and interested parties of its risk mitigation expenditures. The 2019 RSAR should be filed and made available to the CPUC’s Safety and Enforcement Division, Safety Policy Division, and Public Advocates Office. Liberty CalPeco should also provide the 2019 RSAR to the ED Tariff Unit by emailing the report to edtariffunit@cpuc.ca.gov.

If you have any questions or comments, please contact Jenny Au, Senior Utilities Engineer, at (213) 620-6502 or jenny.au@cpuc.ca.gov

Sincerely,

 FOR

Edward Randolph
Deputy Executive Director for Energy and Climate Policy/
Director, Energy Division

Enclosure

⁵ Liberty CalPeco’s April 14, 2020, Amended AL 121-E-A, p. 2.

⁶ Decision language contains typographical error referring to Attachment 3. Attachment 2 is the correct reference.

⁷ A.18-12-001, Exhibit Liberty-01, Chapter 1: Policy - Direct Testimony of Travis Johnson, p. 11. “Liberty CalPeco is committed to developing a comprehensive risk-based decision-making model and process that will be the basis for ongoing capital and O&M planning in time for its next GRC.”

*cc: Dorothy Duda,
Branch Manager
Market Structure, Costs and Natural Gas Branch*

Service Lists for A.18-12-001

Energy Division Review of the 2018 Interim Risk Spending Accountability Report of Liberty Utilities CalPeco Electric

The California Public Utilities Commission’s (CPUC) Energy Division (ED) reviewed the 2018 interim Risk Spending Accountability Report (RSAR), which was filed on July 3, 2019 and amended on April 14, 2020. ED conducted the review to provide the CPUC and Liberty CalPeco with information that may be useful in future proceedings and serves as a precursor to the review of RSARs required by CPUC Decision (D.) 19-04-020.

BACKGROUND

In December 2014, the CPUC issued D.14-12-025, *Decision Incorporating a Risk-Based Decision-Making Framework into the Rate Case Plan and Modifying Appendix A of D.07-07-004*, and directed only the large investor-owned utilities (not SMJUs) under its jurisdiction to prepare and submit to the CPUC annual RSARs that would compare authorized and actual spending on risk mitigation projects.

On January 1, 2018, the CPUC enacted Public Utilities Code Section 591 requiring electric and gas utilities to provide an annual report to the Commission regarding the re-direction of funds authorized for capital or expense revenue to other purposes.

In an August 31, 2018, ruling in A.15-05-002 (*Safety Model Assessment Proceedings*), the assigned ALJ included a “General Guidance for the Small and Multi-Jurisdictional Utilities on the Risk Spending Accountability Report”⁸ (General Guidance). The General Guidance suggested that SMJUs should file interim annual RSARs beginning on June 30, 2019 for the 2018 record year and provided six principles that the SMJUs should adhere to when filing interim RSARs.⁹

In April 2019, the CPUC issued D.19-04-020, *Phase Two Decision Adopting Risk Spending Accountability Report Requirements and Safety Performance Metrics for Investor-Owned Utilities and Adopting a Safety Model Approach for Small and Multi-Jurisdictional Utilities*, and directed SMJUs to file annual RSARs, starting in June 2020 for the 2019 recorded year.

On July 3, 2019, Liberty CalPeco filed Advice Letter 121-E to comply with the requirements of Public Utilities Code Section 591 and a copy of the advice letter to its General Order 96-B Section 4.3 Service List. Subsequently, on April 14, 2020, Liberty CalPeco provided supplemental information on recorded and authorized dollar amounts for capital and expenses in programs/activities pertaining to safety, reliability, and maintenance to comply with the requirements of D.19-04-020.

REPORTING REQUIREMENTS

⁸ A.15-05-002 SMAP, Energy Division Guidance for the Standardized Reporting and Outline of the Risk Spending Accountability Report, ALJ Ruling dated August 31, 2018. Attachment B - General Guidance for the Small and Multi-Jurisdictional Utilities on the Risk Spending Accountability Report.

⁹ Ibid.

The General Guidance provided SMJUs with six guiding principles for preparing RSARs. A summary of the General Guidance six principles follows below:¹⁰

- 1) A comparison of actual spending to authorized spending for programs that address safety or reliability risk within the utility’s electric system under CPUC jurisdiction with an explanation of the variance.
- 2) The report should include programs with maintenance activities.
- 3) For each program, the utility should report the authorized and actual spending and calculate the difference from authorized in dollars and percent. The utility should compare the total authorized and actual spending for all expensed and capital programs to the spending on the programs included in the report.
- 4) The utility may identify programs at the Federal Energy Regulatory Commission (FERC) account level depending on the presentation in the GRC.
- 5) The programs may include CPUC-jurisdictional transmission, distribution, generation, or other and can follow the contents of the GRC application. Capital programs and expensed programs should be grouped separately. Items within a capital program should include direct capital expenditures and exclude allocations for retirements, cost of financing and other adjustments.
- 6) The utility should identify the programs subject to a balancing or memorandum account and the effect the account has on the authorized spending.

In addition, D.19-04-020, Attachment 2, Section IX requires SMJUs to file and serve RSARs on the prior GRC service list until the next GRC proceeding is opened.

STAFF ANALYSIS

In reviewing Liberty CalPeco’s 2018 risk spending information, ED’s objective is to provide an analysis of spending variance in safety, reliability and maintenance programs, and an analysis of the utility’s compliance with the General Guidance subsequent guidance provided in D.19-04-020. Table 1 below provides a summary of the utility’s spending information.

Table 1: Summary of Liberty CalPeco’s 2018 Company-wide Spending Variances

Category	Authorized Budget (\$000)	Recorded Budget (\$000)	Variance (\$000)	Variance (%)
Capital Expenditures	9,450	12,748	3,298	35%
Operation Expense	3.86	2.95	(0.9)	-24%
Maintenance Expense	0.92	2.01	1.08	117%
Total	9,455	12,753	3,298	35%

¹⁰D.19-04-020, Ordering Paragraph 13.

The data shows that Liberty CalPeco overspent its 2018 authorized budget in capital expenditures and O&M expenses by approximately 35%. The high level of over-expenditure is driven by spending in capital programs to address aging infrastructures. Liberty CalPeco explained that the utility exceeded its authorized Substation Capital budget by \$3.3 million (or 235%) to address safety and reliability issues at the Meyers Substation and the Brockway Substation. The utility also spent over the authorized amount to address failures of its overhead and underground equipment.

In addition, Liberty CalPeco overspent a majority of the sub-accounts within its authorized maintenance expense budget to maintain facilities and equipment, including structures, underground lines, meters, and distribution plants.

Liberty CalPeco reported that it has one balancing account to track spending on vegetation management between 2016 and 2018 with a balance of \$14,000 at the end of 2018.¹¹ In the 2016 GRC, Liberty CalPeco was authorized an annual vegetation management expense of \$2.53 million for 2016-2018 (\$7.59 million total) and spent \$7.576 million at the end of 2018.

In sum, Liberty CalPeco's supplemental information to AL 121-E filed on April 14, 2020, provided information on the utility's spending variances in programs related to safety, reliability, and maintenance, an explanation for those variances, and other relevant information as specified in the General Guidance for SMJUs.

¹¹ \$7.59 million authorized less \$7.576 million recorded = \$14,000 balance.