PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

April 10, 2020

Ms. Laura Genao
Managing Director, State Regulatory Affairs
Southern California Edison
1515 Walnut Grove Avenue, 3-B
Rosemead, CA 91770

Dear Ms. Genao:

The California Public Utilities Commission (CPUC) received the 2018 Interim Risk Spending Accountability Report (2018 iRSAR) of Southern California Edison Company (SCE) that was filed on July 23, 2019 as Advice Letter 4042-E. AL 4042-E is filed as a Tier 1 Information Only AL and is considered effective July 23, 2019. The CPUC's Energy Division (ED) prepared the enclosed review of this report and provides recommendations for SCE to consider for future RSARs.

In 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."[1] Reasonableness review of utilities spending is accomplished in the general rate case (GRC) process.[2] 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.[3] Therefore, ED's review of SCE'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 the utility's report and finds SCE has complied with guidance provided in its letters dated January 3, 2019.

SCE presented authorized and actual spending for its reportable programs and provided explanations for those programs meeting the selection criteria. SCE applied the selection criteria for its programs according to the *Energy Division Guidance for the Standardized Reporting and Outline of the Risk Spending Accountability Report* dated August 31, 2018 and filed in the consolidated 2015 Safety Model Assessment Proceeding, Application (A.) 15-05-002 et al. In April 2019, the CPUC issued Decision (D.) 19-04-020 that modified the selection criteria and revised the reporting guidance for utilities. SCE provided reference information and a list of emergent or canceled projects from the 2018 Test Year (TY) General Rate Case (GRC), A.16-09-001, along with regulatory account information affecting authorized spending.

[1] D.19-04-020, pp. 39-40.
[2] Ibid.
[3] Ibid, p. 40.

SCE reported overspending its authorized amounts in both capital and expense programs, which are associated with safety, reliability, and maintenance activities in 2018.

## RECOMMENDATIONS

The CPUC adopted a new reporting framework in D.19-04-020, Ordering Paragraph 10. This new format applies to SCE's 2021 TY GRC, A.19-08-013, filed on August 30, 2019. ED recommends that SCE review the new format for future RSAR preparation and submission. In the 2019 RSAR, SCE should consider including programs it identified in the 2018 TY GRC as mitigating wildfire risk. In addition, ED provided specific recommendations in the attached analysis.

The 2019 RSAR should be filed and served to parties on the service lists for Proceedings A.16-09-001, A.19-08-013, and I.18-11-006, and made available to the CPUC's Safety Policy Division, Safety Enforcement Division, and the Public Advocates Office. SCE 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,

Edward Randolph

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

*Enclosure*

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*Service Lists for A.16-09-001, A.19-08-013, and I.18-11-006*

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# Energy Division Review of the 2018 Interim Risk Spending Accountability Report of the Southern California Edison Company

The California Public Utilities Commission's (CPUC) Energy Division (ED) reviewed the 2018 Interim Risk Spending Accountability Report (2018 iRSAR) of Southern California Edison Company (SCE) that was filed with ED as Advice Letter 4042-E on July 23, 2019. ED conducted a review to provide the CPUC and parties to the SCE 2021 Test Year (TY) General Rate Case (GRC), Application (A.) 19-08-013, with information that may be useful in the proceeding. The review verifies compliance with the guidance provided by the Energy Division in its letter dated January 3, 2019 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 the investor-owned utilities under its jurisdiction to prepare and submit to the CPUC annual RSARs that would compare authorized and actual spending on risk mitigation projects. 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 provided the utilities with specific direction in complying with the reporting requirements of the new risk-based decision-making framework. SCE is scheduled to meet these requirements beginning with the 2021 TY GRC.

In a letter dated January 3, 2019, ED directed SCE to file and serve annual "interim" RSARs for 2016 through 2020 in the applicable RAMP or GRC proceeding. The reports were to meet specific requirements that were designed to prepare the utility for the new risk-based decision-making framework. On July 23, 2019, SCE filed its 2018 iRSAR with a comparison of recorded and authorized amounts and provided it to the service list of its 2018 RAMP Proceeding.

## REPORTING REQUIREMENTS

SCE was directed to include the following information in the 2018 RSAR.

1) A list of all programs authorized or in effect during each record year that were identified as impacting safety or reliability within SCE's Risk Informed Planning Process and Risk Evaluation Methodology filed as part of the 2018 TY GRC, A.16-09-001, as well as programs associated with a maintenance activity. [4,5,6]

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[4] Programs are defined as GRC Activities for expense categories and as capital expenditures that combine Work Breakdown Structure elements.
[5] See Exh. SCE-01 and associated workpapers.
[6] Recorded in Federal Energy Regulatory Commission Accounts 510-515, 528-532, 541-545, 551-554, 568-574, 576, 590-598, and 935 or associated with the preservation of utility property or equipment in good condition to prevent failure.

2) The authorized and actual spending for the record year and the difference in dollars (actual less authorized) and in percent (actual less authorized, divided by authorized). Where it is necessary to fill in the details between a CPUC decision and the authorized amount provided in the report for a program, include a derivation of the authorized amount.

3) A detailed explanation of the difference for programs that satisfy the following criteria:
   - Expense: A difference of at least $10 million, or a percentage difference of at least 20 percent subject to a minimum difference of $5 million.
   - Capital: A difference of at least $20 million, or a percentage difference of at least 20 percent subject to a minimum difference of $10 million.

4) Along with the difference, please provide:
   a. A description of each program.
   b. The location in the 2018 TY GRC testimony where the program is described.
   c. The location in the 2021 TY GRC testimony where the program is described.
   d. A list of projects that were canceled or deferred within each program.
   e. A list of projects which were not presented in the 2018 TY GRC but were taken up.
   f. If applicable, the balancing or memorandum account where the spending for each program is recorded, the record year balances, and the disposition of any request for cost recovery.

5) The total company authorized spending for each record year categorized into expensed and capital programs.

## STAFF ANALYSIS

In the 2018 iRSAR, SCE provided authorized and recorded operating and maintenance (O&M) expenses and capital expenditures for programs that impact safety, reliability, and maintenance. SCE derived the authorized 2018 amounts from the Results of Operations model used to calculate the revenue requirement authorized in Decision (D.)19-05-020.[7]

### 1) Company-wide Expenditures

Tables 1 and 2 below provide a summary of SCE's programs and associated spending information.

**Table 1: SCE 2018 O&M Expense Spending Variance**

| Category/Function | Authorized Amount ($000) | Recorded Amount ($000) | Variance ($000) | % Difference |
|---|---|---|---|---|
| Distribution | 304,580 | 359,426 | 54,846 | 18.0% |
| Generation | 164,302 | 161,377 | (2,925) | -1.8% |
| Other (IT, Customer Support, Emergency Preparedness, Business Planning, etc.) | 442,443 | 451,769 | 9,326 | 2.1% |
| Transmission | 99,240 | 83,927 | (15,313) | -15.4% |

[7] SCE 2018 iRSAR, p. 13.

| | | | | |
|---|---|---|---|---|
| **Total** | **1,010,565** | **1,056,499** | **45,934** | **4.5%** |

**Table 2: SCE 2018 Capital Spending Variance**

| Category/Function | Authorized Amount ($000) | Recorded Amount ($000) | Variance ($000) | % Difference |
|---|---|---|---|---|
| Distribution | 1,701,064 | 1,842,345 | 141,281 | 8.3% |
| Generation | 104,531 | 101,376 | (3,155) | -3.0% |
| Other (IT, Facility Management, Grid Management, etc.) | 481,832 | 573,355 | 91,523 | 19.0% |
| Transmission | 1,045,290 | 898,892 | (146,398) | -14.0% |
| **Total** | **3,332,717** | **3,415,968** | **83,251** | **2.5%** |

In both O&M and Capital, SCE overspent its authorized budget in Distribution and Other programs, while underspending in Transmission program. Overall, SCE overspent its 2018 authorized budget in excess of $129 million[8] in both O&M and Capital programs. SCE's recorded amount included activities (Table 3) that either are not part of the utility's 2018 request or do not have an authorized 2018 budget and are tracked in memorandum accounts.

**Table 3: Summary of Memo Account Expenditures**

| Budget | Category | Activity | Recorded Amount ($000) | Memo Account |
|---|---|---|---|---|
| O&M | Distribution | Dead, Dying and Diseased Tree Removal | 35,621 | Catastrophic Event Memo Account |
| O&M | Distribution | Fire Hazard Prevention | 30,824 | Fire Hazard Prevention Memo Account |
| Capital | Other | CS Re-platform | 77,422 | CS Re-platform Memo Account |
| **Total** | | | **143,867** | |

The primary purpose of risk spending accountability reporting is to provide a comparison of "GRC projected spending for approved risk mitigation projects with the actual spending on those projects."[9] Since these activities were not part of SCE's authorized 2018 budget, including the expenditures in the recorded amount would overstate SCE's spending level by almost $144 million. When we remove the expenditures, which are tracked in memo accounts, SCE actually spent $14.7 million less than its authorized 2018 budget.

ED recommends that SCE remove the recorded cost of activities that are tracked in memo and balancing accounts when comparing recorded amount against authorized amounts.

**2) Individual Projects/Activities with High Variances.**

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[8] $45.9 million in O&M + $83.2 million in Capital = $129 million

[9] D.14-12-025, p. 11.

In the Distribution Capital program, SCE spent more than its authorized budget in the Deteriorated Pole Replacement Program and Overhead Conductor Program by $36 million and $83 million, respectively. SCE increased spending to inspect/replace more deteriorated poles and replace/retrofit more miles of overhead. These programs support SCE's efforts to mitigate wildfire risks.

A major driver for SCE's over-expenditures in the "Other" category is a heightened focus on technology investments which include the CS re-platform and software maintenance and replacement. SCE also spent approximately $40 million more that the authorized amount to update its facilities.

In programs where SCE over-spent its authorized budgets, SCE should provide an explanation of how it plans to mitigate these high variances in future years.

In the Transmission Category, SCE significantly under-spent its authorized budget in activities such as Transmission Line Rating Remediation (TLRR) and Transmission Substation Plan (TSP). SCE attributed project delays in the TLRR program to permitting issues, outage restrictions, and resource constraints. In addition, delays in some TSP projects are due to regulatory set-backs and lower load growth. SCE stated that its $65 million Alberhill project experienced delays because the CPUC denied its request for a Certificate of Public Convenience and Necessity. SCE should provide an estimate in its RSAR variance explanation on the outlook for these major projects.

**3) Variance Explanations Require Additional Details**

In its O&M Budget, SCE overspent its Security Technology budget by $18.5 million and spent $24 million less in its Work Force Protection/Insider Threat budget. In both cases, SCE provided the following explanation for its spending variances:

> Variance is attributed to a risk-based re-assessment and prioritization of the security officer services across SCE's service territory for protection services at most vulnerable facilities.

The identical explanation for both budget items may lead a reader to conclude that SCE shifted funds from the Work Force Protection to address the needs in Security Technology. Even if this is correct, SCE should provide a clear link between the two activities. Therefore, ED recommends that SCE provides additional details in its variance explanations and identify the shifting of funds from one program to another as appropriate.

**4) Deferred/Cancelled Projects and New Projects Not Presented in the 2018 GRC**

While SCE presented a list of deferred/cancelled projects and a list of un-authorized projects, the utility also asserted that the lists provide "**all** projects that were not presented in the 2018 GRC but were taken up" and "**all** activities that were cancelled or deferred."[10] It should be noted that the lists contain only projects that meet the reporting thresholds required for project variance explanation.[11]

[10] SCE 2018 iRSAR, p. 2. Emphasis added.
[11] SCE's Response to ED Data Request, ED-001, Question 2.

O&M projects of less than $5 million and Capital projects below $10 million are not included on the list.

While D.19-04-020 did not specify a reporting threshold for deferred/cancelled and new projects, SCE has the option of using the reporting threshold specified for its variance explanation. However, ED recommends that SCE include a footnote in future reports to identify the reporting criteria for these types of projects.