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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Authority to, among other things, Increase its Authorized Revenues for Electric Service in 2015, and to reflect that increase in Rates.	Application 13-11-003 (Filed November 12, 2013)

REPLY BRIEF
OF THE OFFICE OF RATEPAYER ADVOCATES

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1. INTRODUCTION

In accordance with Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission" or "CPUC"), and the schedule set by Administrative Law Judges ("ALJs") Darling and Dudney, the Office of Ratepayer Advocates ("ORA") submits this Reply Brief to address some of the arguments made by some parties to the General Rate Case ("GRC") Application of Southern California Edison Company ("SCE" or "Edison") for Test Year ("TY") 2015.

ORA's Opening Brief already addresses many of the arguments SCE and the California Coalition of Utility Employees (CUE) made in their Rebuttal Testimony, and make again in their Opening Briefs. In this Reply, therefore, ORA focuses primarily on areas ORA did not previously address, or that prompt further discussion. Silence on any subject should not be interpreted as assent.

At the outset, however, since SCE makes several sweeping comments in its Summary of Recommendations that are factually incorrect and/ or misleading, ORA will address those here. For example, SCE states that it has reduced its test year revenue requirement by $687 million as compared to the initial request in its Application.[1] Indeed, Table 1 of SCE's Opening Brief does show that level of decrease for 2015.[2] However, examination of Table 1 shows that $653 million (95%) of that decrease is due to:

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[1] SCE Opening Brief, p. 1.

[2] SCE Opening Brief, p. 2.

- The removal of SONGS and Four Corners ($601.1 million).
- The use of recorded 2013 capital data ($37.4 million).
- RO modeling corrections ($9.5 million).
- Corrections for errata ($4.6 million).

In other words, the vast majority of the $687 million test year decrease is not due to reduced expense and capital forecasts, but rather due to dollars being split off to be analyzed in other proceedings, the use of recorded data, and the correction of errors. In actuality, SCE's forecasts are little changed from its Application.

At the conclusion of its "Summary of Recommendations," SCE states the following in regard to its "lower" test year revenue requirement:

> Despite the significant reductions reflected in the GRC, the Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) are seeking even more severe reductions.[3]

This statement is both factually incorrect and misleading. As discussed above, the "significant reductions" mentioned by SCE have almost nothing to do with reductions to expenses or capital projects; they are mainly required true-ups. If ORA and/or TURN propose reductions to any of SCE's forecast expenses or capital projects, those reductions would be in addition to SCE's true-ups for SONGS, recorded data, and correcting errors. Describing ORA's and TURN's proposals as "severe reductions" ignores the truth that is shown in SCE's Opening Brief in Table 1.

Next, SCE alleges the following regarding ORA's and TURN's proposed disallowances:

> They do so without providing any analysis concerning the impact on SCE's ability to continue to deliver safe and reliable power to our customers.[4]

This statement, too, is factually incorrect. To provide context, it should be noted that SCE served its Supplemental Testimony on Risk Management and Safety on July 3, 2014, one month before ORA served its direct testimony on August 4, 2014. SCE's Supplemental Testimony stated that "SCE did *not* create new projects or add in new control activities for this

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[3] SCE Opening Brief, p. 3.

[4] SCE Opening Brief, p. 3.

supplemental testimony."[5] Therefore, ORA's direct testimony would be addressing SCE's supplemental testimony since ORA assumes that SCE, as a regulated utility, understands and agrees that it has an obligation to provide safe and reliable service.

In any case, ORA did specifically address SCE's Supplemental Testimony in Exhibit ORA-10 and in ORA-11, and ORA-21. In fact, in Exhibit ORA-11, at pages 15-26, ORA carefully and methodically analyzes how its recommended disallowances would impact SCE's customers. ORA went to great lengths to show that its recommendations would not negatively impact SAIFI rates in any meaningful manner over the next 20 years, would save ratepayers significant amounts of money, and would still be recommending that forecast expenditures be significantly higher than in any other previous recorded year.

It should also be pointed out that SCE continues to erroneously report the amount of cable replacement that is being proposed by ORA. In Section 6.1.1.5 of its Opening Brief, SCE incorrectly states that ORA's forecast of Cable-In-Conduit (CIC) replacement will only replace 50 miles of cable per year.[6] As ORA points out in its Opening Brief, ORA is actually recommending that 100 miles of CIC be replaced each year for 2014 and 2015 (not 50 miles), a 100% increase over the level of SCE's 2013 request.[7]

ORA asks that the Commission consider ORA's actual evidence and arguments rather than SCE's mischaracterization of them.

2. Policy

SCE's Opening Brief -- Introduction

In the Policy section of its Opening Brief, SCE states that "[p]rudent infrastructure investments are necessary to provide safe and reliable service."[8]

ORA agrees with that statement. In fact, as shown in ORA's testimony, ORA is <u>not</u> attempting to hold SCE's capital expenditures for SCE's Transmission and Distribution Business Unit (TDBU) to a level that is in line with past expenditures.[9] ORA used recorded capital expenditure data for 2013, and has proposed 2014 and 2015 expenditures that are far higher than

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[5] Ex. SCE-15 at 2, emphasis added.

[6] SCE Opening Brief, p. 64.

[7] Ex. ORA-11, p. 24, Table 11-4 cited in ORA's Opening Brief, at p. 84.

[8] SCE Opening Brief, p. 4.

[9] See, Ex. ORA-11, p. 10, Graph 11-1, reprinted in ORA's Opening Brief, at p. 51.

any previous recorded year. Indeed, ORA's forecasts are much higher than the levels that would be expected by trending historical expenditures. Stated another way, ORA would not have taken issue with SCE's forecasts if they had exhibited normal growth for TDBU capital expenditures. However, ORA is objecting to the fact that SCE's proposed TDBU forecasts for the 2015 test year are over twice the level of recorded 2013 expenditures. Such a growth rate is not sustainable and is not warranted. The Commission should think long and hard before it authorizes an increase that is even a fraction of what SCE (and to a greater extent CUE) is proposing for TDBU.

In its Opening Brief, ORA devoted much time and effort discussing how SCE and CUE had mistakenly evaluated and erroneously criticized the positions taken by ORA. All of the allegations presented by SCE and CUE in their Rebuttal Testimony and in their Opening Brief regarding TDBU have been discussed and addressed in ORA's Opening Brief. ORA sees no need to repeat the detailed discussions that were previously put forth in that document. Suffice it to say that nothing in SCE's or CUE's Opening Briefs causes ORA to change any of its recommendations or forecasts. Indeed, after reading the allegations and criticisms contained in SCE's and CUE's Opening Briefs, ORA is even more convinced of the accuracy and reasonableness of the recommendations and forecasts that were presented in its testimony.

SCE's Opening Brief -- Shareholder Funding

ORA's Opening Brief already addresses the fact that "shareholder funds" for SCE are actually funds from SCE ratepayers: SCE's parent company, EIX, has no other real source of income except the utility. So, when SCE argues in its Opening Brief, that "shareholders cannot serve as an alternative source of funding for activities that support the utility providing adequate service" and that ORA and TURN's recommendations are "confiscatory,"[10] SCE appears to miss the point of ORA and TURN's recommendations. ORA's recommendations are calculated to result in "*reasonable* costs and expenses"[11], as opposed to SCE's excessive requests. If the Commission approves ORA and TURN's recommended adjustments, it is then up to SCE whether it wants to burden its shareholders with additional costs.

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[10] SCE Opening Brief at 12, footnotes omitted.

[11] D.03-02-035, p. 6.

SCE's Opening Brief -- Post Test Year Ratemaking

In its Opening Brief, SCE argues that utility industry specific indexes are better than ORA's reliance on an adjusted CPI mechanism, and that ORA's attrition mechanism will not provide sufficient revenue to meet system load growth and replace aging infrastructure.[12] ORA's attrition mechanism proposes annual increases based on CPI-Urban (CPI-U), plus 0.5%. CPI-U reflects the cost increases that SCE's ratepayers currently face, meaning that it is currently a low-inflation environment forecast in the range of 1.4% to 1.8%. ORA's addition of 0.5% reflects the Commission's recent decision in the Sempra 2012 GRC, in which the Commission adopted attrition increases of CPI-U plus 0.75%.[13] The Commission should adopt a CPI-based attrition mechanism here, too.

In any event, the Commission should keep in mind that SCE's proposed 2016 attrition increase of $301 million, and 2017 attrition increase of $315 million are each more than double SCE's Test Year 2015 revenue requirement increase request of $142 million.[14] ORA continues to recommend that the Commission should adopt ORA's recommended CPI-U plus 0.5% attrition mechanism to protect SCE's ratepayers from SCE's excessive attrition requests.

Coalition for Affordable Streetlights' Opening Brief

In its Opening Brief, the Coalition for Affordable Streetlights (CASL) presents what it calls "a modest proposal to improve the reliability and transparency of SCE's street light cost and activity data."[15] Part of that "modest proposal" is a request that the Commission "[r]equire the Commission's Office of Ratepayer Advocates to perform certain essential audits of SCE's street light cost accounting."[16]

ORA agrees that the transparency of SCE's cost and activity data needs improvement, and not just in connection with streetlights. ORA does *not* agree, however, that ORA should be required to perform the audit that CASL proposes. By statute:

> [t]here is within the commission an independent Office of Ratepayer Advocates to represent and advocate on behalf of the interest of public utility customers and subscribers … The goal of

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[12] SCE Brief at 16-17.

[13] Ex. ORA-25, p. 13, citing D.13-05-010 at 1010.

[14] Ex. SCE-26, Vol. 1, p. 4.

[15] CASL Opening Brief, p. 8.

[16] CASL Opening Brief, p. 8.

> the office shall be to obtain the lowest possible rate for service consistent with reliable and safe service levels.[17]

As an independent branch of the Commission, ORA has the authority to allocate its resources as ORA thinks will best achieve its mission. In its Brief, CASL says that "[u]sing ORA to conduct independent audits is a common practice, even in instances when ORA has not been the entity that originally requested the audit."[18] As support for this, CASL points to Resolution T-16597 as "ordering ORA to conduct an audit of the affiliated transactions and jurisdictional separation practices of Kerman Telephone Company."[19]

Whether that Resolution has any relevance to the point CASL is trying to make is doubtful. In 2001, when the Commission's Telecommunications Division (TD) proposed having ORA do an audit of the Kerman Telephone Company, ORA emphasized:

> …. that it does not have the resources to perform the audit and subsequently has requested that the Draft Resolution be modified to provide for funding of the audit by Kerman. If funding is unavailable, ORA has requested that the ordering paragraph be removed.

In deciding the issue, the Commission found that:

> …an audit of Kerman and its affiliates is warranted and therefore will conform the ordering paragraphs in this resolution to reflect the following:
>
> The Office of Ratepayer Advocates shall conduct an audit of the affiliate transactions and jurisdictional separation practices of Kerman Telephone Company. ORA is authorized to retain, under contract, the services of an auditor to perform the duties assigned to them within this ordering paragraph. Kerman shall be responsible for the funding of ORA's contracted auditor. Kerman may seek recovery, via a separate AL filing, the costs associated with the audit, which, if approved, will be amortized over three years by use of an across-the-board bill-and-keep billing surcharge on those services that are currently subject to a billing surcharge/surcredit. Kerman shall also establish a memorandum account to record the direct expenses incurred as a result of the funding obligation created by this order.[20]

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[17] Public Utilities Code §309.5.

[18] CASL Opening Brief, p. 9.

[19] CASL Opening Brief, p. 9, footnote 20.

[20] Resolution T-16597, pp 10-11.

Since 2001, when the Commission adopted Resolution T-16597, the Legislature has granted ORA more autonomy over its staffing resources, and greater control over its budget than ORA had when the Resolution was adopted.[21] Pursuant to the Public Utilities Code Section 309.5, ORA develops its budget internally, and then works with the CPUC to ensure ORA has sufficient resources for the effective representation of consumer interests. ORA's budget is now statutorily designated as a separate account into which funds are annually transferred via the annual Budget Act to be used exclusively by ORA in the performance of its duties. This was not the case in 2001.

As to CASL's reference to ORA Comments in the Risk Based Decision Making Framework OIR, CASL is correct that ORA recommended that "the Commission … conduct more formal reviews of utility spending in the intervening years between GRC proceedings, including audits."[22] But the reference is to ORA's recommendation that the *Commission*, not ORA, conduct more formal audits.

It may be that, in the next SCE GRC, ORA will decide that the interests of SCE's ratepayers can best be served by conducting the audit CASL proposes. But that is a matter for ORA to decide when the time comes. Not CASL.

2.1. SCE's Revenue Requirement Request

ORA's Opening Brief already addresses this issue.

2.2. Safety and Reliability Consequences

ORA's Opening Brief already addresses SCE's and CUE's arguments on this issue.

2.3. Recorded Expense Data for 2013

SCE makes the statement in its Opening Brief that "[u]sing recorded-unadjusted expenses is invalid and can result in significant forecast errors."[23] Although the 2013 recorded expense data was the subject of considerable controversy during the hearings, SCE says in its Opening Brief that "ORA also agrees with SCE that 2013 O&M expense data "would be merely supplementary."[24]

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[21] *See, e.g.*, Chapter 440, Statutes of 2005 (Senate Bill (SB) 608); Chapter 356, Statutes of 2013 (SB 96).

[22] CASL Opening Brief, p. 9, citing ORA Comments in R.13-11-006, dated January 15, 2014, at page 8.

[23] SCE Opening Brief, p. 30.

[24] SCE Opening Brief, p. 31.

If, by that statement, SCE is suggesting that ORA agrees that SCE should be excused from providing recorded expense data in the same format as it presented its forecast expense data, SCE is mistaken. In its decision in SCE's TY 2012 GRC, the Commission stated that "…there is nothing in the Rate Case Plan which limits discovery of 2010[25] actual recorded expenditures and the Commission finds them informative."[26] Just as the Commission found a comparison of SCE's forecasts and its actual expense data informative in the last GRC, it should do so in this one.

If the Commission is in any doubt about ORA's position on SCE's failure to provide 2013 recorded adjusted data in a manner comparable to 2013 forecasts, ORA asks that the Commission refer to ORA's testimony[27], rather than SCE's mischaracterization of it.

3. Evidentiary Standards and the Burden of Proof

ORA's Opening Brief already addresses this issue.

4. Risk Management

In Section 4 of SCE's Opening Brief, SCE says that "ORA and TURN were essentially silent on SCE's supplemental showing and the SED Report."[28] SCE then uses this factually inaccurate premise to characterize any adverse assessment of what ORA and/ or TURN consider unsubstantiated funding requests as "ORA's and TURN's indifference to safety."[29]

As the Commission noted in SCE's last GRC, "…the use of implied motives and ad hominem attacks on DRA and TURN does not advance SCE's position."[30] The same is true here.

In fact, ORA's testimony *does* address SCE's Supplemental "Risk Assessment" testimony.[31] Exhibit ORA-10, Exhibit ORA-11, and Exhibit ORA-21 all address SCE's Exhibit 15. In Exhibit-21, ORA's conclusions include the following:

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[25] In SCE's TY 2012 GRC, the base year was 2009, the forecast year was 2010. Here, the base year is 2012, the forecast year is 2013.

[26] D.12-11-051, p. 13.

[27] See, e.g., Ex. ORA-21-WP, pp. 53-56, DRA-308-TXB, Subject: 2013 recorded expense data.

[28] SCE Opening Brief, p. 21. Later in Section 6.3.1.2 (p. 71) of its Brief, SCE does acknowledge that ORA addresses Exhibit SCE-15, though SCE obviously disagrees with ORA's conclusions. As noted earlier, both Exhibits ORA-10 and ORA-11 directly address SCE-15.

[29] SCE Opening Brief, p. 21.

[30] D.12-11-051, p. 22.

[31] The SED Report was issued on August 15, 2014, after ORA served its testimony on August 4, 2014.

> The categorization exercise SCE presents in Exhibit SCE 15 is comprehensive, but does not evidence a dynamic risk management process. More specifically, ORA was looking for the advance planning, fully resourced process discussed in D.12-11-051… Unfortunately, SCE's description of its categorization model does not appear to distinguish between a risk management feed back loop and a reactive, opaque blace box….. ORA is concerned about … a reactive and myopic safety culture.[32]

ORA's concerns mirror the findings in the SED Report.[33]

5. Generation

5.1. Power Procurement

ORA's Opening Brief already addresses this issue.

5.2. Power Production

ORA's Opening Brief already addresses this issue.

5.3. Nuclear Generation

ORA's Opening Brief already addresses this issue.

5.4. Coal Generation

ORA's Opening Brief already addresses this issue.

5.5. Hydroelectric Generation

ORA's Opening Brief already addresses this issue.

5.6. Gas Fired Generation

5.6.1. Mountainview

In its Opening Brief, SCE says that "ORA's base forecast for FERC Account 554 non-labor expenses is not sufficient to fund annually recurring maintenance expenses."[34] According to SCE, "ORA's Last Recorded Year forecast provides insufficient funding for the greater level of repairs expected in the future."[35]

SCE's non-labor maintenance account (FERC 554) four-year averaging method (2008, 2010-2012) is based on: (1) "[I]n 2012 relatively few breakdowns were incurred, and relatively

[32] Ex. ORA-21, p. 16.

[33] See Ex. ALJ-1, Executive Summary.

[34] SCE Opening Brief, p. 40, heading 5.6.1.1.4.

[35] SCE Opening Brief, pp. 40-41.

less maintenance was performed as compared to prior years while awaiting the extended outages for the planned 2013 MI overhauls," and (2) "[r]ecorded non-labor costs in this account have fluctuated during 2008 through 2012 so an average is an appropriate base forecast."[36] SCE provides no other quantifiable data to examine the validity of historical averages for non-labor. ORA's forecast is based on the clear year-over-year trend during 2010-2012 for non-labor in FERC Account 554. Further, from 2009-2012 total non-labor has declined year-over-year.[37] Declining non-labor expenses have translated into SCE over-collecting from customers to support Mountainview O&M expenses. SCE's Opening Brief cites its Rebuttal, which said that "…SCE believes that the increase in Mountainview expense in 2013 (as compared to 2012) was very substantial. Once adjusted and computed, the incremental costs of the 2013 overhauls will almost certainly be well in excess of the 2012 "underspend" noted by ORA."[38]

From 2010-2012 SCE has spent $47.9 million less than Commission authorized for Mountainview ($14.3 million in 2012 alone), well above the average of 2009-2012 total O&M expenses of $35.8 million.[39] SCE offers no further explanation regarding overcollections for Mountainview. ORA is concerned that adoption of SCE's forecast will mean that SCE's customers will continue to overfund Mountainview O&M expenses. ORA recommends the Commission adopt a TY 2015 "base" O&M expense level of $18.651 million, $1.7 million less than SCE proposes.

5.7. Generation – Other

5.7.1. Solar Photovoltaic

In its Opening Brief, SCE says that the "…Commission should reject ORA's recommendation to disallow the $10.1 million termination fee SCE paid pursuant to the SunPower contract."[40] ORA disagrees.

SCE incurred a $10.1 million (2011$) expense to terminate a contract with SunPower for undelivered solar photovoltaic (PV) arrays. SCE entered into the contract with SunPower in the

[36] Ex. SCE-2, Vol. 8, p. 28.

[37] Ex. ORA-7, p. 28, Table 7-10.

[38] Ex. SCE-18, p. 18.

[39] See Ex. ORA-7, p. 9.

[40] SCE Opening Brief, p. 51.

first quarter of 2010,[41] for delivery of 200 MW of solar arrays. At the time, SCE had completed 3.66 MW (DC) of utility owned generation (UOG).[42] The contract stipulated that SCE could not terminate the contract unless it had procured a confidential amount of arrays from SunPower,[43] which, by SCE's own admission, it procured well above market prices, only one quarter later.[44]

SCE attempts to justify making ratepayers pay the costs of terminating the contract by quantifying savings. But SCE's unreasonable business conduct was signing a contract for 50 times plus the MWs it had completed at the time. This is not "20/20 hindsight" as SCE says.[45] Had SCE been looking out for its ratepayers, instead of focusing on protecting its shareholders by staying under the capital cost cap, the facts were evident. ORA continues to recommend the Commission disallow the $10.1 million (2011$) SCE incurred for the termination the contract. There is no reason to make SCE's customers pay for SCE's imprudence.

6. Transmission and Distribution

6.1. Policy

ORA's Opening Brief already addresses this issue.

6.2. Engineering and Grid Technology

ORA's Opening Brief already addresses this issue.

6.2.1. Centralized Remedial Action Scheme

In its Opening Brief, SCE says that its "Centralized Remedial Action Scheme (C-RAS) represents a reasonable solution to a pressing issue."[46] Actually, as the evidence shows, SCE's C-RAS is still in an experimental stage. Moreover, although it appears SCE sought approval of the C-RAS project from the Western Electric Coordinating Council (WECC), there is no evidence in the record that WECC approval has been granted.[47]

Given the speculative nature of the benefits of this project, ORA continues to recommend that if the Commission does authorize ratepayer funding, it do so with the requirement that SCE

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[41] Ex. SCE-18, p. 80, and pp. G-26-44, SCE's response to DRA-291-PM1 Q.4.

[42] Ex. SCE-2, Vol. 10, p. 3.

[43] Ex. SCE-18, p. 80 and Appendix G, p. G-26, SCE's response to DRA-291-PM1 Q.4, page 19 of 110. SCE asserts confidential information.

[44] See Ex. SCE-18, pp. G-27, G-44. Note: SCE entered the contract with SunPower in Q1 2010.

[45] SCE Opening Brief, p. 52.

[46] SCE Opening Brief, p. 68.

[47] Ex. ORA-10-WP, p. 41 (SCE response to DRA-250-LLK, Q.1.c.)

establish a one-way balancing account.[48] In light of all the claims SCE makes for the C-RAS, "better system reliability, lower SAIDI and SAIFI figures for retail customers, and improved utilization of generation, including renewable generation,"[49] the Commission should require SCE to provide objective evidence to substantiate these claims in future rate cases.

6.3. Electric System Planning

6.3.1. SCE's Arguments re Exhibit ORA-10

6.3.1.1. Jurisdictionalization and Customer Contributions

In SCE's Opening Brief, in reference to its Results of Operations (RO) Model, SCE says that it "… met with the ORA analysis assigned to this section and through multiple phone conversations and data requests explained the RO model in line item detail."[50]

The lack of labelling and unclear explanations in SCE's testimony and workpapers in this area did indeed necessitate multiple meetings and phone conversations between the ORA engineer who prepared Exhibit ORA-10 and SCE staff. But the citations SCE gives for the statement that it explained the RO Model in "line item detail," do not support that claim.

The citations to Exhibit SCE-19, Volume 3 are responses to ORA questions asking SCE about specific allocations in the RO Model, as opposed to SCE's testimony and/ or workpapers. The January 23rd meeting SCE references, as evidenced by Exhibit SCE-65, was an overview of SCE's distribution system and planning approach, not a line-by- line review of the 127 large Electric System Planning projects for which SCE sought ratepayer funding.

ORA's Opening Brief already addresses some of the many problems with SCE's RO Model.[51] Nothing in SCE's Opening Brief addresses those shortcomings, and ORA remains concerned that there are likely other errors in the RO Model outputs that have not been detected.

6.3.1.2. Supplemental Risk Testimony

In its Opening Brief, SCE refers to Exhibit ORA-10, which addresses Exhibit SCE-15, SCE's "Supplemental Risk Testimony."[52] In Exhibit ORA-10, ORA expressed concern that

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[48] Ex. ORA-10, p. 23.

[49] SCE Opening Brief, p. 69.

[50] SCE Opening Brief, pp. 70- 71.

[51] ORA Opening Brief, pp 7-10.

[52] SCE Opening Brief, p. 71.

SCE's identification of "Inadequate System Capability Risk" as a justification for the projects SCE proposes for ratepayer funding in Exhibit SCE-3, Volume 3 is incomplete and overbroad.

Given SCE's historic propensity for over-forecasting and under-spending in this area, ORA continues to recommend that the Commission keep in mind that, in 2013, SCE spent $111 million *less* than it forecast for System Planning efforts,[53] yet says it still provided "safe and reliable service."[54]

6.3.1.3. Recorded Costs and Estimates

In its Opening Brief, SCE says that its "…workpapers for most projects show how cost estimates are developed by project element (substation, transmission, environmental, real properties, and telecommunication), work order (for example by substation or transmission line segment) cost elements (labor material, overheads, etc.) and electrical parts (circuit breakers, transformers, etc.)."[55] As authority for this, SCE cites to a data request response, and four pages of the transcript of the cross examination of ORA's engineer on the issue.

The data request response SCE cites says that SCE's "… cost estimates are based on a model" and that it is the model that compiles the "detailed scope information for various project elements."[56] This is hardly a showing of "how cost estimates are developed by project element." SCE then offered to show ORA the capabilities and assumptions of SCE's "cost estimation tool." But ORA did not ask for a demonstration of SCE's computer model; ORA asked for actual unit costs and other variables that would allow ORA to make its own assessment of load growth projections. At no point in the transcript pages cited by SCE did ORA's witness agree that SCE's "workpapers for most projects show how cost estimates are developed." ORA still does not do so.

The workpapers just show summaries produced by a computer model. But, as ORA's witness pointed out in response to questions from the ALJ, what ORA was asking for were unit costs, and load growth differences, etc.[57] Since SCE said it did not have workpapers that would allow ORA to make its own "alternate assumptions in unit costs, vendor selection, inflation

[53] Ex. ORA-10, p. 27.

[54] 6 RT 251, Litzinger/SCE.

[55] SCE Opening Brief, p. 72.

[56] Ex. SCE-62, DEF-LLK-042, Q. N.01.

[57] 18 RT 2026, Krannawitter/ORA.

assumptions, etc.," meetings to go over information SCE did not have would have been a waste of time.[58]

Nothing in SCE's Opening Brief causes ORA to change its recommendation that SCE be ordered in its next rate case to provide breakdowns of recorded and projected information for System Planning projects. This would allow the Commission to follow material costs, miles of transmission lines, types of equipment, terrain allowances, labor hours, contract hours, overheads, project management costs, etc., to better understand the basis for and reasonableness of SCE's cost estimates.[59]

6.3.1.4. ORA's Proposed Reductions

In its Opening Brief, SCE criticizes ORA for not making "project-by-project" recommendations but instead basing recommended disallowances "…solely on one year's spending without regard for historical spending levels, forecast spending, the need for particular projects, or the real consequences to safety, reliability and the operation of the utility in light of such a dramatic reduction in authorized capital."[60]

This is a particularly surprising argument since SCE did not provide five years of annual historical costs for the subcategories of System Planning of Transmission and Interconnection, Load Growth programs, Generation Interconnection or Added Facilities. SCE just lumped together all historical costs before 2013 in a column marked "Prior."[61]

ORA certainly agrees that historical spending levels are important, and, if SCE had provided them, ORA would certainly have considered them.

6.3.2. Transmission & Interconnection Planning Projects

ORA's Opening Brief already addresses the arguments SCE makes in this area.[62]

6.3.3. Load Growth

SCE says that its "requests for Load Growth programs are based on rigorous system planning and engineering analysis followed by detailed cost estimation"[63] and criticizes ORA's blanket 21% reduction as "insufficient to meet its admittedly low burden of production."[64]

[58] Ex. 62, SCE Response to DRA-Verbal-17, Q. 3.

[59] Ex. ORA-10, p. 29.

[60] SCE Opening Brief, p. 73.

[61] Ex. SCE-3, Vol. 3, see, e.g., Table I-11.

[62] ORA Opening Brief, pp. 57-65.

ORA addresses above the failure of SCE, in its direct testimony, to provide five years of historical costs for the System Planning subcategories. Load Growth is one of the subcategories in which SCE offered forecasts for 2013, 2014 and 2015, but historical spending for years before 2013 is just grouped together as "Prior."[65] This is hardly a "rigorous" analysis.

SCE's argument that "[t]here is no direct relationship between capital expenditures in Load Growth programs in one year to future years" has no factual basis and should be rejected.[66]

SCE's argument that the Commission should "ignore" ORA's recommendation because it is based, in part, on only one year's recorded data should also be rejected. SCE chose to provide only that one year of historical cost data and SCE's failure to meet its own burden does not shift it to ORA.

ORA did attempt to piece together information from an SCE response to a "deficiency" data request, and the Commission's decisions in the SCE TY 2009 and TY 2012 GRCs to determine what the Commission had authorized and what SCE had spent on Load Growth Planning projects since 2008. In D.09-03-025, the Commission adopted funding for "load growth projects at the levels requested by SCE for 2008 and 2009, $283.0 million and $438.7 million, respectively."[67] In 2008, SCE spent only $222.9 million.[68] In 2009, SCE spent only $330.6 million.[69]

In the TY 2012 decision, it appears that the Commission authorized $468 million in 2011, and $491.0 million in 2012 for Load Growth Planning projects.[70] In 2011, SCE spent $343.1 million and in 2012, SCE spent $306.5 million on Load Growth Planning projects.

According to SCE's witness, however, "[t]he authorized number is not the authorized figure for that particular entry called load growth planning projects, but rather it is the authorized amount for the entire load growth category."[71] SCE offers no support for this interpretation.

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[63] SCE Opening Brief, p. 75.

[64] SCE Opening Brief, p. 76.

[65] Ex. SCE-3, Vol. 3, pp. 37, 39, 49, 64, 66, and 85.

[66] SCE Opening Brief, p. 76.

[67] D.09-03-025, p. 203.

[68] Ex. SCE-62, p. 4.

[69] Ex. SCE-62, p. 4.

[70] *See* D.12-11-051, Finding of Fact 152.

[71] 7 RT 560, Takayesu/ SCE.

Since SCE has not addressed the apparent discrepancy between SCE's authorized revenue requirement for Load Growth Planning projects and its actual spending, ORA continues to recommend a 21% reduction to SCE's Load Growth forecasts to protect SCE's ratepayers from SCE's persistent inflation of its Load Growth Planning project forecasts.

6.4. Infrastructure Replacement

ORA's Opening Brief already addresses this issue.

6.5. Customer-Driven Programs and Distribution Construction

ORA's Opening Brief already addresses this issue.

6.6. T&D – Distribution Inspection and Maintenance

6.6.1. Operations and Maintenance Expenses

ORA's Opening Brief already addresses this issue.

6.6.2. Maintenance and Inspection Capital Request

Regarding underground structure replacements, SCE argues that "ORA has repudiated its own forecasting methodology."[72] In fact, ORA stipulated to SCE's numbers: Exhibit ORA-57 states "[i]n light of SCE's agreement to use 2013 recorded capital expenditures and upon further review and analysis of the record in this proceeding, ORA stipulates." In making the stipulation for underground structure replacements, ORA's forecasting methodology was not disregarded or repudiated; ORA simply agreed to SCE's request for the reasons stated in Exhibit ORA-57.

6.6.3. Distribution Maintenance Pole Expenses

6.6.3.1. Distribution Pole Inspections

In the portion of its Opening Brief where SCE attempts to address ORA's evidence of a Rule 1.1 violation, SCE states that (1) ORA is confused as to SCE's pole inspection program and (2) ORA's impeachment of SCE was unhelpful, ineffective and a waste of hearing time.[73] Both of these statements are incorrect. ORA was neither confused, nor was its impeachment improper. To support its request for funding for the intrusive wood pole inspection program, SCE has made misleading and incorrect statements. SCE's arguments are nothing more than red herrings, or as Thomas Fuller said, "a hog in armour is still but a hog."[74]

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[72] SCE Brief at 106.

[73] SCE Opening Brief, p. 111.

[74] *See,* http://en.wikipedia.org/wiki/Lipstick_on_a_pig

SCE requested funding for intrusive pole inspections, not visual pole inspections

SCE states that the record is "clear" that SCE includes both visual and intrusive counts in its request to increase its rates.[75] Moreover, SCE states that it does not include costs associated with record corrections in its rate request.[76] These statements are not supported by the record.

First, SCE requested funds to complete *intrusiv***e** wood pole inspections as required by G.O. 165, not funds for visual inspections.[77] SCE's statement that the record is "clear" that it included in its testimony a request to recover costs associated with visual inspections too, is belied by at least two facts: (a) per G.O.165, SCE is to only intrusively inspect poles that are 15 years or older and SCE has admitted that, if it visually inspects a pole at all, it only does so to those younger than 15 years;[78] and (b) when pressed to explain the difference between the numbers contained in SCE's testimony and SCE's G.O. 165 reports, SCE admitted that the explanation could not be found in its testimony.[79] If the Commission would like clarity, ORA recommends that the Commission *not* rely on SCE's testimony or its brief.

The record does indeed lack clarity as to whether or how many record corrections are included in SCE's recorded and forecast numbers. SCE fails to mention "record corrections" in either its direct or reply testimony. However, it is evident that at least for the years 2008 and 2009, SCE's actual intrusive inspection data included record corrections.[80] As discussed below, it is imperative that SCE's recorded data be accurate. In its next GRC, the Commission should require SCE to present both its recorded and forecast data clearly, especially if SCE is basing its request for ratepayer funding on such.

ORA's impeachment of SCE brought forth evidence of Rule 1.1 violations

Instead of addressing or correcting the misleading and incorrect data found in SCE's testimony, SCE seeks to prevent ORA from presenting pertinent evidence to the Commission.

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[75] SCE Opening Brief, p. 111.

[76] SCE Opening Brief, p. 111.

[77] 15 RT 1392-1393, Trainor/SCE.

[78] *See*, *Id* at 1403, "In a 10-year cycle, some percentage will not fall into the requirement to actually do an intrusive." *See also*, Ex SCE-3, Vol. 6, Pt. 1, p. 38:2-4, SCE "may also perform a visual inspection on poles that are in the inspection grid but that are younger than 15 years old …"

[79] *See*, 15 RT 14007-1408, Trainor/SCE, "I don't believe we spelled out the visual and intrusive number."

[80] *See*, Ex ORA-54.

ORA would usually find such arguments risible if they were not so troubling.[81] SCE's argument that the impeachment was improper because the witness was not the author of the report is astounding; and is a red herring. The witness presented testimony, both written and oral supporting *SCE's* request for increased ratepayer funding for intrusive wood pole inspections as required by G.O. 165. It is irrelevant that SCE's witness neither authored nor verified the reports. The witness testified under oath on behalf of SCE.

ORA is seeking an Order to Show Cause against SCE, not the witness. The very same SCE Vice President, Walter Johnson, who verified SCE's G.O. 165 reports, is the person in charge of overseeing the budget for the intrusive wood pole inspection program.[82] While it may be true that the witness neither "filed" nor "compiled" the G.O. 165 reports,[83] it simply beggars belief that the SCE witness seeking funding for G.O. 165 intrusive wood pole inspections required by G.O. 165, is not familiar with G.O. 165 reports, reports in which SCE sets forth the total the number of poles intrusively inspected.

SCE's inappropriate attempts to rewrite the hearing rules should be rejected. If SCE is truly interested in making hearing time more effective and efficient, SCE should refrain from submitting misleading and incorrect data. A clear way to have SCE do this is to issue the Order to Show Cause as to why SCE should not be found to have violated Rule 1.1.

Finally, it is interesting to note that SCE completely fails to address the misleading and incorrect data it provided to ORA in response to data requests. This is a second and distinct violation of the Commission's Rule 1.1.

6.7. T& D – Pole Loading

ORA's Opening Brief already addresses these issues.

6.8. T&D Grid Operations

ORA's Opening Brief already addresses these issues.

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[81] SCE's attempt to characterize ORA's position as one opposed to the conducting of visual inspections borders on the ridiculous. Recall, even though SCE believes that intrusive pole inspections are an important tool when it comes to assessing the health, safety and reliability of SCE's poles, (*see*, 6 RT 279, Litzinger/SCE) it was SCE that decided to reduce the number of inspections conducted due to the delay in the 2012 decision, but at the same time gave out increased bonuses (*see*, 6 RT 287-288, Litzinger/SCE). The mirror is not kind to SCE.

[82] 15 RT 1396, Trainor/SCE and Ex. ORA-54.

[83] 15 RT 1412, Trainor/SCE.

6.8.1. Grid Operations: Operations and Maintenance Expenses

Service Guarantees

Regarding SCE's service guarantee payments to customers, SCE persists in asking that ratepayers pay for the payments that would be caused by SCE's failure to provide service in a timely fashion.[84] The purpose of SCE's service guarantee payments is two-fold: (1) to compensate customers for the inconvenience of missed appointments, and (2) to give SCE a financial penalty for failing to meet its appointment obligations. Given these purposes, ratepayers should not be contributing to SCE's service guarantee payments. SCE persists in arguing that ratepayers should pay some baseline amount, but given the purpose of the service guarantee payments, this also makes little sense.

7. Customer Service

ORA's Opening Brief already addresses these issues.

8. Information Technology

ORA's Opening Brief already addresses these issues.

9. Human Resources, Benefits and Other Compensation

ORA's Opening Brief already addresses these issues.

10. Safety, Security & Compliance

10.1. Ethics and Compliance

10.2. Corporate Environmental, Health and Safety

10.2.1. Marine Mitigation Projects

In its Opening Brief, SCE refers to ORA's proposal that shareholders pay 50% of current and future costs associated with marine mitigation in order to give SCE an incentive to pursue an amendment to its Coastal Development Permit.[85] SCE characterizes ORA's proposal as "an unsubstantiated penalty."[86] Similarly, in its Opening Brief, the San Diego Gas & Electric Company (SDG&E) refers to ORA's recommendation as a "financial punishment."[87] Whether SCE and SDG&E genuinely misunderstand ORA's recommendation is unclear; they have, however, mischaracterized it.

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[84] SCE Opening Brief at 142.

[85] SCE Openig Brief, p. 86.

[86] SCE Opening Brief, p. 244.

[87] SDG&E Opening Brief, p. 10, footnote 43.

The Public Utilities Code has very specific provisions relating to the imposition of "penalties" and the Commission has adopted rules, policies and practices relating to adjudicatory proceedings, as opposed to ratesetting proceedings. Both SCE and SDG&E have been the subject of Rule 1.1 investigations and ought to be well aware of the difference between a penalty and a ratemaking adjustment.[88]

11. Financial, Legal and Operational Services

11.1. Financial Services

11.2. Audit Services

11.3. Property and Liability Insurance

11.4. Legal

11.4.1. Law

Regarding SCE's Outside Counsel costs and Claims costs relating to the Grass Valley Fire, SCE argues that these should be recoverable in rates.[89] ORA argued that these costs should have been removed from rate recovery, and continues to take that position.[90] The fact that SCE settled the Grass Valley Fire claims does not absolve SCE from financial responsibility. The fire would not have occurred if SCE had dealt with the suspect tree that brought down SCE's power lines. As an incentive for SCE to pay proper attention to vegetation management, SCE's shareholders should pay for the Grass Valley Fire settlement.

12. External Relations

12.1. Corporate Communications

In its Opening Brief, SCE says that ORA's forecast of $4.871 million for SCE's Corporate Communications FERC Accounts 920/921 is "based on a flawed forecasting methodology," is "arbitrary and unreasonable," and "does not take into account SCE's recorded dollars in each of the FERC Accounts or any TY 2015 adjustments SCE made in each of the accounts."[91] According to SCE, "ORA's arbitrary use of the total authorized amount in SCE's 2012 GRC for the Corporate Communications Department and re-allocating that amount to

[88] *Decision Regarding Performance Based Ratemaking Finding Violations of PBR Standards, Ordering Refunds and Imposing a Fine* (2008) D.08-09-038; *Decision Approving Phase 3 Settlement of the Consumer Protection and Safety Division and San Diego Gas & Electric Company* (2009) D.09-07-018.

[89] SCE Opening Brief, pp. 254, 256.

[90] ORA-26 at p. 7.

[91] SCE Opening Brief, p. 273.

various FERC accounts, without explanation or taking any test year adjustments into account, is unreasonable and should be rejected.[92]

In fact, ORA's testimony does provide an explanation of why and how it re-allocated SCE's TY 2012 authorized amount into individual FERC Accounts. The "why" is because "SCE's general advertising activities have been fully funded and do not require a massive increase."[93] As ORA shows in its testimony, "SCE's conservation advertising campaign duplicates the marketing, education and outreach in existing Demand Response programs,"[94] and "SCE's advertising campaigns are not in accord with the integrated, advance planning systems that the Commission envisions."[95] Moreover, SCE's advertising goals include corporate image enhancement which should not be funded by ratepayers,[96] and SCE's claim that its shareholders funded the Public Safety Around Electricity and Summer Readiness campaigns does not justify any increase.[97]

As to" how" ORA re-allocated SCE's TY 2012 authorized amount, that too, is fully explained in ORA's testimony. ORA compared SCE's 2012 recorded adjusted expenses with TY 2012 authorized level of $13.928 million.[98] ORA used that total authorized level from TY 2012 and "re-allocated it using relative shares of SCE's 2013 sub account forecasts to derive ORA's forecast for TY 2015."[99] As shown in Exhibit ORA-21, Table 21-3,[100] ORA quantifies the relative differences between ORA's full funding method, and SCE's forecast using SCE's recorded adjusted 2012 data and what was authorized by FERC Account.

ORA's method focuses on total activity, as did D.12-11-051.[101] ORA's method then allocates specific dollars to each FERC Account, as did SCE. ORA's recommendation is 40%

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[92] SCE Opening Brief, p. 274.

[93] Ex. ORA-21, p. 7, heading, lines 6-8.

[94] Ex. ORA-21, p. 8.

[95] Ex. ORA-21, pp. 8-9.

[96] Ex. ORA-21, pp. 9-10

[97] Ex. ORA-21, p.10-11.

[98] SCE's authorized amounts exceeded its recorded adjusted expenses by $3.8 million. (Ex. ORA-21, p. 8.)

[99] Ex. ORA-21, p. 8.

[100] Ex. ORA-21, p. 7.

[101] D.12-11-051, pp. 318-319, and 526.

above 2012 recorded. ORA's TY recommendation is less than the total authorized in D.12-11-051 because ORA rejects SCE's proposal to include 2012 expenses for a "Summer Readiness Campaign"[102] and "Corporate Responsibility Report[103] for the reasons explained in Exhibit ORA-21 and, again, in ORA's Opening Brief.[104]

In its Opening Brief, SCE repeats an argument from its Rebuttal testimony, that "ORA acknowledged in a data request response" that "…it cannot provide a citation to any specific SCE safety advertising project, including its Public Safety Around Electricity Education Campaign."[105] From this premise, SCE argues that, therefore, ORA's testimony that the campaign was fully funded in SCE's 2012 GRC is "wrong."[106]

ORA's Opening Brief already addresses this argument, but ORA notes that, using SCE's "logic," the Commission did not fund ANY programs for TY2012 despite the fact that D.12-11-051 does discuss public safety and the need for additional scrutiny of SCE's showing.[107] In fact, SCE does not itemize its recorded, adjusted expenses by project or program and its forecast increases, typically only identifies incremental changes. For SCE to suggest that a certain program was unfunded when, in fact, the TY 2012 authorized amount exceeded the 2012 recorded, adjusted expense totals by 37.5 percent, is ridiculous.

SCE should be held accountable for the missing ratepayer funding before the Commission authorizes SCE's proposed 94%. In this regard, SCE's choosing to book expenses to shareholders is not a good start for effectuating transparency and accountability of ratepayer funds.

In its Opening Brief, SCE also says that "[d]espite SCE's detailed testimony regarding [SCE's Public Safety Around Electricity] Campaign and the Commission's longstanding policy on advertising, ORA attacks this Campaign by stating that "SCE's advertising goals include corporate image"… "falls under institutional advertising," and "is driven by a single event, a 2011 windstorm." From this, SCE concludes that:

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[102] ORA-21, p. 8 and see SCE-09, p. 29.

[103] ORA-21, p. 10.

[104] Ex. ORA-21, pp. 8-9, ORA Opening Brief, p. 340.

[105] SCE Opening Brief, p. 275.

[106] SCE Opening Brief, p. 275.

[107] ORA-21, p. 7, fn. 7 and see D.12-11-051, pp. 318—319 and 526.

> [n]one of ORA's arguments have merit. First, there is no question that Public Safety Around Electricity Education Campaign is targeted toward safety and not improving corporate image. SCE provided testimony and workpapers with numerous examples of the safety advertisements that have been produced as a result of this Campaign.[108]

This SCE argument is, again, based on a false premise. ORA does not "attack" SCE's Public Safety Around Electricity Campaign anywhere. And SCE's citation to Exhibit ORA-21, page 16, does not help SCE. That portion of ORA's testimony covers Exhibit SCE-15, SCE's Supplemental Testimony on Risk Management and Safety Matters, but it does not contain or otherwise mention any dollar recommendations. In that testimony ORA does not single-out, "attack," or mention SCE's "Public Safety Around Electricity" Campaign. Furthermore, SCE does not refute ORA's many citations to SCE's documentation and testimony identifying how many times and where SCE states that its safety programs were "driven" by downed power lines during the 2011 windstorms.[109]

Regarding SCE's Summer Readiness Energy Conservation Campaign, SCE argues "ORA and TURN are incorrect in asserting that the Summer Readiness Energy Conservation Campaign duplicates "existing Demand Response programs"[110] Instead, according to SCE, "[t]he demand response advertising focuses on enrollment in specific conservation programs, such as the Summer Discount Plan, while the Summer Readiness Energy Conservation Campaign focuses on a broader effort with a long-term goal of affecting attitudes and behaviors of our customers around energy conservation, particularly during hot summer months. The Commission has allowed these specific energy conservation advertising expenses to be recovered in rates."[111]

SCE's "new" Summer Readiness Energy Conservation Campaign duplicates the long-term and short term goals of energy conservation, particularly during hot summer peak usage days. SCE testified in this Application, for the new Summer Readiness Energy Conservation Campaign, and in Application 11-03-003, for SCE Demand Response programs, that the long

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108 SCE Opening Brief , p. 277.

109 ORA-21, p.16, footnotes 29 and 30. Note: SCE omits ORA's use of the phrase "downed power lines."

110 SCE Opening Brief, p. 278.

111 SCE Opening Brief, p. 278.

term goal is engaging customers to adopt energy efficiency broadly as a way of life and, in the short run, the key concern is possible energy shortages during the summer peaks.[112] If programs have the same stated goals, then these programs are duplicative. SCE has offered nothing to refute the quotations ORA's testimony cites. Thus, as far as ORA can tell, SCE's Opening Brief is contradicted by SCE's actual testimony in the two proceedings.

In its Opening Brief, SCE cites a 1976 Commission decision that authorized conservation program expenses as support for SCE's new 2015 conservation program.[113] SCE does not provide any context for this ruling but these costs are already covered in another generic proceeding, A.11-03-003, which addresses Demand Response programs. There is no need for ratepayers to pay for duplicative conservation programs, previous programs authorized decades ago, notwithstanding.

12.2. Corporate Membership Dues and Fees

ORA has no comments on this issue.

12.3. Integrated Planning and Environmental Affairs

In its Opening Brief, in connection with SCE's requested increase for its Integrated Planning and Environmental Affairs, SCE says that ORA's reduced forecast, based on its argument that 'this account should not contain unaudited amounts from previous test years without SCE showing that tracked expenses are associated only with authorized support functions,' is without merit."

According to SCE:

> The non-labor expenses are reviewed in the annual Energy Resource Recovery Account (ERRA) review proceedings, which consists of an audit performed byORA, to verify that Generation Planning's non-labor expenses are only for authorized support functions as directed by the Commission. Further, because the non-labor expenses remain in a PDDMA memorandum account, the customers will only pay for actually incurred expenses which are subject to the reasonableness review in ERRA. Finally, SCE is using the same forecasting methodology for this FERC Account, which has been approved by the Commission for several rate

[112] Ex. ORA-21, p. 8, footnotes 8, 9, and 10; Ex. SCE-9, p. 28, ll. 4-6, 11-13, and A.11-03-003, Ex. SCE-1, Vol. 3, pp. 5-7.

[113] SCE Opening Brief, p. 278, footnote 1759.

> cases, that is, the Test Year 2015 forecast was based on escalating the Test Year 2012 authorized amount.[114]

This is an interesting argument for SCE to make here. For Corporate Communication, SCE argues that, using previously authorized dollars is "flawed" or "arbitrary and unreasonable."[115] However, when SCE recycles a stale number from its 2006 application for its Project Development Division activities,[116] it urges the Commission to adopt it.

SCE does not refute ORA's conclusion that SCE's unaudited 2006 forecast is stale. Instead, SCE seems to be arguing that, because this amount is escalated and will be audited in the ERRA proceeding, there is no concern for accuracy and reliability. ORA disagrees. The Commission should adopt ORA's forecast for SCE's Integrated Planning and Environmental Affairs as reflective of the most recent, reliable and accurate data.

13. Ratemaking

ORA's Opening Brief already addresses these issues.

14. Jurisdictional Issues

ORA's Opening Brief already addresses these issues.

15. Sales and Customer Forecasts

Regarding the modeling of customer meters, SCE's Opening Brief illustrates its failure to adequately address statistical theory, statistical computations, and statistical documentation.

As discussed in more detail below:

- SCE has not demonstrated that its model statistically fits the data in a way that allows it to forecast new meter connections. Nor has SCE demonstrated that its model parameters have the statistical significance it attributes to them.
- SCE has presented unjustified statistical computations to illustrate its arguments.
- SCE has relied on statistical computations it could not adequately document.

[114] SCE Opening Brief at 279-280.

[115] SCE Opening Brief, p. 273-274.

[116] ORA-21, pp. 12-13 and see SCE Opening Brief, p. 280.

SCE again[117] claims that ORA's ARIMA models are inappropriate for forecasting new meter connections because such models should be used for short term, rather than long term, forecasting:

> While Pankratz focuses on univariate models –models that rely solely on one variable, the predictive variable – the principle that ARIMA is less reliable in the long-term logically applies to multivariate models that rely heavily on ARIMA variables.[118]

It seems that SCE has finally read some pages in Dr. Pankratz' textbook[119], other than the page SCE quoted originally.[120] Apparently, SCE now realizes that Dr. Pankratz used the term "ARIMA[121] model" in his book to stand for a model of a time varying variable whose future values depend only on its own past values and on no other information. Thus, SCE now accepts that the arguments it extracted from page 10 of Dr. Pankratz' textbook and used in its Rebuttal[122] do not apply to ORA's models, since ORA's models for residential new meters involve other information, such as housing starts.

However SCE still reaches the same conclusion by "logically" extending the argument in Dr. Pankratz' textbook to apply to "multivariate models that rely heavily on ARIMA variables." SCE should have read pages 261-262 of Dr. Pankratz' book before it made this argument. Specifically, page 262 has a section entitled "Analyzing residuals" which explains how ARIMA analysis can be used to complement econometric models.[123] This is common statistical practice. SCE did it in its own Commercial Customer Model in its last rate case[124] and now should "logically" conclude that its results in the last rate case were not long-term reliable.[125] In

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117 Ex. SCE-26, Vol. 1, p. 35, lines 4-9.

118 SCE Opening Brief at 289.

119 Ex. ORA-58, excerpts from Pankratz, Forecasting with Univariate Box-Jenkins Models, 1983, pp. 4, 5, 8-11, 18-21, and 260-263.

120 Ex. SCE-66, Appendix D, p. D1-2, SCE Response to DRA-341-MRK, Q. 1.a.

121 Autoregressive Integrated Moving Average.

122 Ex. SCE-26, Vol. 1, p. 35, lines 4-9.

123 Ex. ORA-58, p. 262.

124 Ex. ORA-59, p.5, SCE 2012 RO workpapers, at p. 34.

125 Ex. ORA-58, SCE Response to DRA-341-MRK Q. 1.a, 'However, even a model that does not explicitly specify ARIMA terms, may inappropriately emphasize most recent historical values, thereby creating the problems addressed by Pankratz." SCE's 2012 Rate Case Commercial Customer model does not have an explicit autoregressive term, but regresses the dependent variable D(COMCUST) on

summary, if SCE has evidence that forecasting with multivariate econometrical models using ARIMA variables is in general long-term unreliable, this will come as a surprise to the statistical community.

SCE's Opening Brief presents its view on analyzing residuals:

> ORA criticizes SCE's model because the residuals in SCE's new residential meter model do not pass the "white noise" test. This would be true if SCE were using an ARIMA model, but it is not a fair criticism of SCE's model. SCE's model is an econometric regression model which differs fundamentally from ORA's ARIMA statistical time series model. In econometric regression models such as SCE's, which rely on multiple variables and fundamental economic drivers, the white noise diagnostic test is not dispositive of model performance.[126]

This paragraph is wrong on many levels. First, SCE seems to have forgotten that ORA's model is an econometric model, in that it relies on other econometric variables not just the past values of the dependent variable. Second, as stated before, SCE should have read page 262 of Dr. Pankratz' textbook which explains how ARIMA analysis can be used to complement econometric models by testing residuals for independence. Third, SCE cites no authority for its assertion that the "white noise test is not dispositive of model performance" and ORA is aware of none. On the contrary, all the texts on regression ORA is aware of emphasize that the usual assumptions of regression analysis -- that the errors are independent and with the same variance, i. e., white noise. If the model fails the white noise tests, or some similar residual based test, then the model parameters cannot be trusted. If the model is an econometric model, then the model parameters cannot be relied on as indicators of the empirical relationships between the dependent variables and the various independent variables.

In summary, SCE's residential new meter models do not pass the white noise test and therefore are fundamentally flawed as econometric statistical models, irrespective of how intuitive their estimated parameters and resulting predictions may seem.

On pages 289-290 of its Opening Brief, SCE discusses how ORA's and SCE's models will treat the addition of 1,000 additional housing starts a month. Based on SCE's data request

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D(COMCUST(-1) and other econometric variables. (D(COMCUST(-1) is the one month lag of the dependent variable D(COMCUST).) Thus, according to SCE, its own 2012 Rate Case Commercial Customer model inappropriately emphasized its most recent historical values.

[126] SCE Opening Brief at 292.

response to DRA-341-MRK (an exhibit in the record), the addition of 1,000 housing starts per month will increase ORA's forecast by about 12%.[127] In contrast, again according to SCE, the same 1,000 housing starts added to SCE's model leads to a 71% increase in SCE's forecast of new meters.[128]

SCE's analysis that ORA's forecast would increase by 12% was simply based on the value of 0.1193 for ORA's SCE6 coefficient.[129] SCE's analysis that its own forecast would increase by 71% was simply based on the value of 0.707 for SCE's sum-of- lags coefficient.[130]

SCE's analysis that its own forecast would increase by 71% is flawed because SCE failed to show that its sum-of-lags variable had no significant interaction with the other regressors.[131] If there were significant interaction terms, then these terms should have appeared in SCE's model and should then have been properly used to compute the effect of adding 1000 additional housing starts during the forecast period.

ORA's model for residential new meters is a valid forecasting tool, firmly based on sound statistical practice. Furthermore, its 0.1193 SCE6 coefficient does not have the interpretation that SCE seems to wish to assign to it, and it should not be used in the manner SCE did, to compute the effect of adding 1000 monthly additional housing starts. On the other hand, ORA's model has satisfactory white noise residuals,[132] whereas SCE's model does not.[133]

With regard to SCE's documentation of its residential new meter model, SCE asserts that ORA raises these documentation issues "… to justify adoption of its problematic modeling approach."[134]

In fact, ORA raises the documentation issues because it took much more time than it should have to clarify what SCE meant by variables such as its PDL(SCESTART) variable, as well as the historical bases for its PDL models. SCE's abdication of responsibility, arguing that

[127] Ex. ORA-58, SCE Response to DRA-341-MRK Q.3.

[128] Ex. ORA-58, SCE Response to DRA-341-MRK Q.3.

[129] Ex. ORA-3 WP, Vol. 3, p. 389.

[130] Ex. SCE-10, Vol. 1, Chapter 5, Pt. 1, Workpapers, p. 54.

[131] Ex. ORA-63, SCE response to DRA-347-MRK, Q.1.a.

[132] Ex. ORA-3 WP, Vol. 3, p. 396.

[133] Ex. ORA-3 WP, Vol. 3, p. 382.

[134] SCE Opening Brief, p. 293.

this is the way EViews does it, rather than clearly stating the historical basis for SCE's analysis, caused problems in its last rate case as well.[135]

ORA, therefore, continues to recommend that SCE be required, in its next GRC, to provide:

- The historical basis for the company's model clearly stated in a way that does not depend on familiarity of the particular statistical analysis the company has performed to get its forecasts.
- The variables used in the analysis in the work papers and on spreadsheets. Their definition should not depend on the particular statistical analysis the company has performed to get its forecasts.[136].

16. Other Operating Revenue

ORA's Opening Brief already addresses this issue.

17. Cost Escalation

ORA's Opening Brief already addresses this issue.

18. Post-Test Year Ratemaking

ORA's Opening Brief already addresses this issue.

19. Electric Plant

ORA's Opening Brief already addresses this issue.

20. Depreciation

ORA's Opening Brief already addresses this issue.

21. Taxes

ORA's Opening Brief already addresses this issue.

22. Rate Base

ORA's Opening Brief already addresses this issue.

23. Results of Examination

ORA's Opening Brief already addresses this issue.

24. Operational Excellence

Operational Excellence Service and IT O&M Savings

In its Opening Brief, SCE argues that ORA's and TURN's proposals to assign 100% of potential OpEx savings to the Test Year forecast ignores the implicit productivity adjustment of

[135] Ex. ORA-3, p. 11, footnote 35.

[136] Ex. ORA-3, p. 16.

attrition years.[137] Essentially, SCE argues that ORA and TURN's proposals double count the productivity adjustment imposed on SCE through post-test year ratemaking. SCE is incorrect.

ORA's CPI plus 0.5% attrition mechanism takes into account productivity gains by escalating the revenue requirement by a reasonable amount. Under cost of service ratemaking, SCE should not be permitted to keep the OpEx Customer Service and IT savings, since SCE's operating costs will be reduced in the attrition years.

Respectfully submitted

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[137] SCE Opening Brief at 323.