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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric
Company (U902M) for Review of its Safety
Model Assessment Proceeding Pursuant to
Decision 14-12-025.

Application 15-05-002
(Filed May 1, 2015)

And Related Matters.

Application 15-05-003
Application 15-05-004
Application 15-05-005

SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER

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SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER

Summary

Pursuant to Rule 7.3 of the Commission's Rules of Practice and Procedure (Rules),¹ this Scoping Memo and Ruling sets forth the procedural schedule, assigns the presiding officer, and addresses the scope of this proceeding and other procedural matters following the Prehearing Conference held on July 27, 2015.

1. Background

On November 14, 2013, the Commission opened Rulemaking (R.) 13-11-006 *Order Instituting Rulemaking to Develop a Risk-Based Decision-Making Framework to Evaluate Safety and Reliability Improvements and Revise the Rate Case Plan for Energy Utilities (the Risk OIR)*. The purpose of this rulemaking was to incorporate a risk-based decision-making framework into the Rate Case Plan (RCP) for the energy utilities' General Rate Cases (GRCs).² The RCP guides the utility on the type of the information that is presented, and the procedural schedule to be followed, for addressing their revenue requests in their GRCs. In response to the Risk OIR, and as a result of Senate Bill (SB) 705,³ and its emphasis on making natural gas safety a top priority of this Commission, the

¹ All references to rules are to the Commission's Rules, which are available on the Commission's website at http://docs.cpuc.ca.gov/WORD_PDF/RULES_PRAC_PROC/136861.pdf.

² In addition, this would apply to jurisdictional gas corporations' Gas Transmission and Storage (GT&S) rate cases.

³ SB 705 was codified into the Pub. Util. Code §§ 961 and 963 in Chapter 522 of the Statutes of 2011.

existing RCP was modified in Decision (D.) 14-12-025⁴ to incorporate a risk-based decision making framework into the GRCs for the large energy utilities. Such a framework and associated parameters assists the utilities, interested parties, and the Commission, in evaluating how energy utilities assess their safety risk, and to manage, mitigate, and minimize such risks.

For the large energy utilities, this will take place through two new procedures, which feed into GRC applications in which utilities request funding for such safety-related activities: 1) May 1, 2015 filing of a Safety Model Assessment Proceeding (S-MAP) by each of the large utilities, which were consolidated on June 19, 2015 and is the subject of this proceeding; and 2) a subsequent Risk Assessment Mitigation Phase (RAMP) filing for the upcoming GRC wherein the large energy utility files its RAMP in the S-MAP approved report format describing how it plans to assess its risks, and to mitigate and minimize such risks. The RAMP submission, as clarified and modified in the RAMP proceeding, will then be incorporated into the large energy utility's GRC filing. In addition, the large energy utilities are required to file annual reports following the GRC decisions.

According to D.14-12-025, the twin purposes of S-MAP are to: 1) allow parties to understand the models the utilities propose to use to prioritize programs/projects intended to mitigate risks; and 2) allow the Commission to establish standards and requirements for those models. Following the format that the Commission used to establish Long Term Procurement Plans (LTPP) proceedings, the idea is for each successive S-MAP to become more

⁴ See "Decision Incorporating a Risk-Based Decision-Making Framework into the Rate Case Plan and Modifying Appendix A of Decision 07-07-004" issued December 9, 2014.

sophisticated, be able to respond to changing circumstances, and be able to build on its predecessor S-MAP to tackle increasingly difficult issues.

Based on the directives in D.14-12-025, the S-MAP is expected to accomplish several objectives:⁵

- Undertake a comprehensive analysis of each utility's risk-based decision making approach;
- Compare the different approaches that each energy utility may use;
- Detect whether there are common elements among the approaches and models that they use; and
- Assess whether elements of one utility can be adapted for use by the other utilities.

On June 19, 2015, the Administrative Law Judge (ALJ) issued a ruling consolidating the four utility applications, providing a notice of Prehearing Conference (PHC) and workshop, and soliciting pre-PHC statements.

At the PHC on July 27, 2015, parties requested the opportunity to file post-PHC comments following a discussion of scope and schedule at the PHC. On August 10, 2015, "joint" party comments were timely filed by: 1) Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE); 2) San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas); 3) Indicated Shippers and the Energy Producers and Users Coalition; 4) The Utility Reform Network and Mussey Grade Road Alliance; and 5) The Utility Consumers' Action Network.

⁵ D.14-12-025 at 27.

2. Scoping of Issues

Interested parties were provided an opportunity to provide input on the proceeding at the PHC and through post-PHC comments. After considering comments filed in response to a preliminary draft of scoping questions, the first S-MAP shall address the following issues organized by general topic:

First S-MAP: Policies and Guidelines

A. Promote Understanding

- 1) Provide Commission staff and parties an opportunity to analyze and understand the various models that energy utilities will use to prioritize safety in their GRC proceedings.
- 2) What are the common and different elements among the models, methodologies, and approaches that utilities use in their risk-based decision making?

B. Provide a Common Set of Definitions

- 3) What direction can and should be provided to the utilities regarding use of a common lexicon, or list, or related terms and conditions?

C. Assess Common Standards

- 4) What standards or elements should the Commission require to be uniform or common among all the utilities' models?
 - a. How detailed should these standards and requirements be?
 - b. Should investor-owned utilities subscribe to a certain body of risk-related standards, including Independent System Operator (ISO) 31000 and ISO 55001, asset management North American Electric Reliability Corporation (NERC) bulk electric system, among others?

D. Improve Risk-Informed Decision-Making

- 5) Do the utilities' approaches and models adequately prioritize safety risk; if not, how can they be improved?

- 6) Do the utilities' models and approaches adequately prioritize risk mitigation measures based on cost-effectiveness; if not, how can they be improved?
- 7) Are Utilities' Executive and Senior Management sufficiently engaged in the Risk Management process? To what extent do Executive and Senior Management participate in the Risk Assessment and prioritization process, and in determining mitigation proposals and budgeting for them?
- 8) Are the utilities' approaches and models adequate for use in their RAMP GRC submissions; and if not, how can they be improved? What guidance should be provided in S-MAP that will inform RAMP applications?
- 9) Should the Commission consider and adopt the Cycla 10-step evaluation methodology⁶ to gauge the robustness and maturity of a utility's risk-informed resource allocation process to manage its risks? If not, what other alternative methodology should the Commission adopt?
- 10) What is the appropriate scope of consideration that should be included in the methodologies for scoring risks and mitigation proposals? In particular, should S-MAP models and RAMP filings be focused not only on safety considerations, but also other considerations such as reliability, financial impacts, etc?⁷
- 11) What is the appropriate level of granularity of the risks and mitigation efforts that should be scored in the utilities' models?
- 12) How should the utilities' models reflect the degree of uncertainty regarding the inputs and results of the models?

⁶ Cycla original 10-step process originally appeared as Attachment 3 in the May 16, 2013 report prepared by Cycla Corporation for PG&E's Test Year-2014 GRC.

⁷ See D.14-12-025 at 20.

- 13) What constitutes an interim and long term plan to migrate from relative risk scoring for prioritizing tasks to a more quantitative method for optimized risk mitigation?

E. Reporting

- 14) What direction can and should be provided to the utilities for the structure and detail of the two accountability reports required by D.14-12-025: the risk mitigation accountability report and risk spending accountability report?⁸
- 15) What direction can and should be provided to the utilities regarding developing, tracking, and reporting a set of performance metrics that are designed to measure the safety improvements achieved by the utilities?
 - a. What is the status of data collection and how can it be improved over time?
 - b. What performance metrics should be developed for the first S-MAP and/or second S-MAP?

F. Benchmarking/Identify Industry-Wide Practices

- 16) What direction can and should be provided to the utilities regarding the value of benchmarking to gauge effectiveness of risk management programs?
 - a. What benchmarking elements/industry wide practices should be developed in the first and/or second S-MAP?

The first S-MAP scoping questions will be primarily resolved through a series of workshops and the formation of stakeholder working groups (e.g., Lexicon Working Group), along with written comments and replies in response to workshop summaries and staff proposals. Please see Section 3, “Workshop Topics” for more detail.

⁸ For a more complete description of these, see D.14-12-025 Section 3.5 “Verification and Annual Reporting” at 43-47.

As stated in the preliminary Risk Order Instituting Rulemaking (OIR), the first S-MAP will have a stronger “informational” and “educational” function—acquainting parties with the utilities’ models—and providing utilities an opportunity to gauge reactions from Commission staff and parties and modify their models as they deem appropriate in response to Staff/parties’ concerns and recommendations.⁹

In response to comments, it is possible that we may delay consideration of some aspects of reporting and performance metrics issues into a second phase of the first S-MAP, depending on progress in achieving the first S-MAP objectives. Deferring some issues should not impair the ability of utilities to prepare their RAMP submittals due as early as November 2016

Second S-MAP: Policies and Guidelines

The policies and guidelines developed in this proceeding shall influence a second S-MAP proceeding that will commence in May, 2018. Therefore, we cannot establish a precise scope or schedule for this phase at this time. The second S-MAP shall consider refinement of guidance provided by the first S-MAP.

3. Workshop Topics

According to the Risk OIR, similar to the LTPP process, many of the issues associated with the S-MAP can be accomplished through the use of workshops, comments, and evidentiary hearings (EH).¹⁰ Workshops will be organized, noticed, and led by the Commission’s Safety and Enforcement Division (SED).

⁹ D.14-12-025 at 22-23.

¹⁰ D.14-12-025 at 23.

The assigned Commissioner and ALJ will decide which processes should be utilized to gather ideas and proposal about the rules and procedures to be adopted by the Commission. As necessary, the schedule will remain flexible so that additional workshops (e.g. reporting, RAMP filing requirements) can be added depending on developments in the proceeding.

Following is a preliminary list of workshops and specific topics that will be addressed.

1. Workshop #1 on August 3, 2015:
 - a) Utility presentation of risk assessment models;
 - b) Discussion on standardization of risk lexicon; and
 - c) SED presentation on Cycla risk assessment evaluation criteria.

2. Workshop #2 on September 20-21, 2015
 - a) Risk Lexicon (coming to consensus before moving forward);
 - b) Consideration of common risk management standards;
 - c) Detailed analysis of utilities' risk-based decision making approach;
 - d) Detailed analysis of utilities' risk models;
 - e) Prioritization of risk mitigation, cost effectiveness, optimization;
 - f) Consideration of common risk model elements and approaches; and
 - g) Data issues

3. Workshop #3 on October 6, 2015
 - a) Roadmap and future S-MAP plans;
 - b) Should factors besides safety be used in risk scoring?;
 - c) Appropriate level of granularity of risk assessment; mitigation; and data issues; and
 - d) Guidance of RAMP.

4. Workshop #4 on December 4, 2015

- a) ALARP¹¹
- b) Accountability Reports;
- c) RAMP filing requirements;
- d) Consideration of potential S-MAP Phase 2; and
- e) “Spillover” issues from Workshops 1-3.

To enhance the development of the record related to “Improving Risk-Informed Decision Making,” SED Staff will publish a paper regarding ALARP (As Low as Reasonably Practicable) Framework in late October 2015. Similarly, the Commission’s Planning and Policy Development Division (PPD) will issue a paper regarding “Benchmarking and Industry Wide Practices” in December 2015. The ALJ will invite respondents and parties to file formal comments on these papers. Work on relevant scoping memo questions will overlap or run concurrently with work on other scoping memo questions. *See* Section 6, “Proceeding Schedule” for more details.

Following the conclusion of four workshops between August and December 2015, SED will publish a Staff report that will evaluate whether a particular risk assessment and risk management approach or model that a utility is using, or a variant of an alternative model, can be used as a basis for each energy utilities’ RAMP filing in its respective GRC.¹² Respondents and parties will have an opportunity to comment on the report and a proposed decision will

¹¹ ALARP (As Low as Reasonably Practicable) refers to a risk management framework that is used to decide whether risk mitigation is needed, when it is needed, and how much should be spent before the benefits of mitigation are disproportionately outweighed by the additional cost.

¹² D.14-12-025 at 30. Consistent with OP 7 at 56, the Commission could hire external consultants to help write the evaluation report.

be issued that incorporates the results of the four workshops and SED report consistent with scoping memo objectives.

A “Lexicon Working Group,” comprised of utility representatives, parties, and stakeholders has been formed to establish a list of terms that will foster the development of a risk-based decision making framework. Parties concur that having a common understanding of terms will be useful in accomplishing S-MAP and RAMP objectives.¹³ SED staff will help coordinate activities of this group, such as proposal development, in cooperation with respondents and interested parties.

4. Relationship to Other Proceedings

As described above, this current proceeding draws guidance most directly from D.14-12-025 (the Risk OIR decision), the interim decision in Rulemaking (R.) 13-11-006 that established the new S-MAP process and other procedural revisions to develop a risk-based decision-making framework in the General RCPs for energy utilities (Risk OIR). R.13-11-006 remains an open proceeding, in part to deal with other miscellaneous changes to the RCP. While a Phase 2 of the Rulemaking has not been initiated, there is a possibility that subsequent determinations could have some impact on aspects of the pending S-MAP applications or provide additional guidance.

For example, subsequent to the Risk OIR decision, the Commission approved Decision 15-01-029, the final decision closing Pacific Gas & Electric’s 2014 GRC (Application 12-11-009/Investigation 13-03-007), which deferred a number of unresolved issues into Phase 2 of the Risk OIR. These primarily took

¹³ D.14-12-025 at 48.

the form of recommendations from two Commission consultants – Overland Consulting and Cycla Corporation – that were not fully acted upon in the PG&E GRC decision. “We conclude that R.13-11-006 is an appropriate forum to address the issues pending in this proceeding relating to PG&E’s prospective safety and reliability risk assessment and mitigation practices.”¹⁴

The Commission anticipates a decision in the Risk OIR in the near term that will analyze those residual consultants’ report recommendations to determine which are best addressed in this S-MAP proceeding on a global basis for all relevant utilities, and which matters should be addressed in PG&E’s next GRC. The outcome of such a ruling will be incorporated into this proceeding to ensure a seamless transition of issues for resolution.

In addition, Ordering Paragraph (OP) 3 of D.14-12-025 applied the new risk-based decision-making framework to all future GRCs, as of February 1, 2015. Currently, there are two pending GRCs for electric utilities, Application (A.) 14-11-003/004 for San Diego Gas & Electric and Southern California Gas Company (Sempra Utilities), and Application (A.) 13-11-003 for Southern California Edison. Although both of these proceedings were initiated in advance of D.14-12-025’s application of the new framework to GRCs, each proceeding did include a preliminary effort to consider risk and its relationship to GRC program requests. In both cases, the SED issued evaluation reports to review safety and

¹⁴ D.15-01-029 at 4.

risk aspects of the GRC applications and to make recommendations for aligning outcomes in those cases with the directions being determined in this S-MAP.¹⁵

To the extent that decisions in those proceedings pose requirements or conditions on the final GRCs to enable better alignment with S-MAP and the rest of the risk framework on a prospective basis, they may be considered in the decisions reached in this proceeding.

5. Categorization

On May 21, 2015, the Commission issued a Resolution ALJ 176-3357 that made a preliminary categorization of the applications as ratesetting as defined in Rule 1.3 (e). While a couple of parties support this preliminary determination, all four utilities requested that this proceeding be categorized as quasi-legislative and anticipated no need for hearings unless there are disputed facts at issue. This scoping memo confirms the Commission's final categorization as quasi-legislative and that hearings are not necessary. However, in this proceeding we will rely extensively on formal comments from parties on issues raised in multiple workshops and in SED/PPD staff proposals. We may re-evaluate the need for hearings after parties have submitted comments about the proposed rules and procedures the Commission should adopt throughout the course of the proceeding.

6. Proceeding Schedule

The expedited schedule below is adopted for this proceeding and may be modified by the Commissioner and/or ALJ as required to promote the efficient

¹⁵ SED Report on Risk and Safety in SDG&E and SoCalGas GRC (A.14-11-003/004), March 27, 2015, and SED Report on Southern California Edison GRC (A.13-11-003), August 15, 2014.

and fair resolution of identified issues. If it is later determined that evidentiary hearings, testimony, and briefs, are needed to establish a record, then the schedule may be delayed approximately two to three months.

A number of parties have commented that the overall list of issues discussed at the PHC may be overly ambitious for the first S-MAP proceeding. We agree it is critical that parties receive timely guidance from the Commission about what to include in their upcoming RAMP filings, which are scheduled to be filed at the Commission in November, 2016. As SDG&E and SoCalGas have noted, there must be a reasonable amount of time (several months minimum if any substantial adjustments are recommended) between the S-MAP outcome and RAMP filing date for SDG&E and SoCalGas to incorporate whatever guidance the S-MAP provides. For this reason, the first S-MAP is designed to address time-critical core issues listed in this scoping memo and will likely address some longer term issues in a potential second phase of this proceeding or second S-MAP. If work associated with this proceeding is not completed on a timely basis, then we will make a later determination regarding whether to relieve SDG&E and SoCalGas of the requirement to undertake the RAMP prior to a GRC and focus on whichever utility is “next in line” to file a RAMP. For the time being, as directed in D.14-12-025, regardless of circumstances, utilities must apply a risk-based decision-making framework, as described in OP 3 of D.14-12-025, and apply them to all future GRC application filings of PG&E, SDG&E, SoCalGas, and SCE.¹⁶

¹⁶ D.14-12-025 OP 3 at 55.

Parties should also note that for the workshops planned in this proceeding, notices of such workshops will be posted on the Commission's Daily Calendar to inform the public that a decision-maker or an advisor may be present at those workshops. Parties should check the Daily Calendar regularly for such notices.

Milestones/Schedule
(if no evidentiary hearings held)

Timeline	Date
First S-MAP	
Open Risk OIR and issue Preliminary Scoping Memo	December 9, 2014
Four large utilities file separate S-MAP applications and serve prepared testimony	May 1, 2015
ALJ issues ruling consolidating the four S-MAP applications and notices a PHC	June 19, 2015
Pre-PHC Statements	July 20, 2015
PHC	July 27, 2015
SED Hosts Workshop #1 <i>See Section 3 "Workshop Topics" for additional detail.</i>	August 3, 2015
Post-PHC Statements on Preliminary Scoping Memo Questions and Schedule	August 10, 2015
SED Issues Workshop #1 Preliminary Summary	August 31, 2015
Scoping Memo	September 9, 2015
Comments on Workshop #1 Preliminary Summary	September 18, 2015
SED Hosts Workshop #2	September 21-22, 2015
ALJ issues Workshop #1 Final Summary	September 2015

ALJ Ruling Issuing Staff ALARP	October 2015
SED Hosts Workshop #3	October 6, 2015
SED Issues Workshop #2 Preliminary Summary	October 13, 2015
Comments on Workshop #2 Preliminary Summary	October 27, 2015
SED Issues Workshop #3 Preliminary Summary	October 27, 2015
ALJ issues Workshop #2 Final Summary	November 2015
Comments on Workshop #3 Preliminary Summary	November 10, 2015
ALJ issues Workshop #3 Final Summary	December 2015
SED hosts Workshop #4	December 4, 2015
ALJ Ruling Issuing PPD Staff Benchmarking/Industry Wide Best Practices Report	December 2015
Initial and Reply Comments on PPD Staff Benchmarking/Industry Wide Best Practices	January 2016
SED issues Draft Final Report (also incorporates Workshop #4 outcomes)	January 2016
Comments on SED Final Report	February 2016
Comments on SED Final Report	March 2016
Proposed Decision Issued	May 2016
Interim Decision Adopted by Commission	June 2016
Second Phase First S-MAP Scoping Memo (tentative)	Beginning July 2016
Final Decision Issued	To Be Determined
Subsequent filing of S-MAP applications	Every Three Years

7. Intervenor Compensation

The PHC in this matter was held on July 27, 2015. Pursuant to Pub. Util. Code § 1804 (a)(1), a customer who intends to seek an award of compensation must have filed and served a notice of intent to claim compensation by August 26, 2015. Under the Commission's Rules, future opportunities may arise for such filings but such opportunity is not guaranteed.

In this proceeding, parties intending to seek an award of intervenor compensation must maintain daily record keeping for all hours charged and a sufficient description for each time entry. Sufficient means more detail not just "review correspondence" or "research" or "attend meeting." In addition, intervenors must classify time by issue. When submitting requests for compensation, the hourly data should be presented in an Excel spreadsheet.

As reflected in the provisions set forth in Pub. Util. Code § 1802.5, all parties seeking an award of intervenor compensation must coordinate their analysis and presentation with other parties to avoid duplication.

8. Ex Parte Communications

This proceeding is subject to Article 8 of the Commission's Rules, which specifies the standards to be followed for communicating with a decision maker. Pursuant to Rule 8.3(a), *ex parte* communications are allowed without any restrictions or reporting requirements unless an appeal of the categorization pursuant to Rule 7.6 is successful.

9. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Presiding Officer pursuant to Rule 13.2 of the Commission's Rules of Practice and Procedure. Colette E. Kersten is the assigned Administrative Law Judge.

IT IS RULED that:

1. The scope and schedule are set forth in the body of this ruling unless amended by a subsequent ruling of the assigned Commissioner or assigned Administrative Law Judge.
2. This proceeding may be resolved through comments and workshops without the need for evidentiary hearings.
3. The category of this rulemaking is quasi-legislative as defined in the Commission's Rules of Practice and Procedure Rule 1.3(d). The ruling is appealable within 10 days under Rule 7.6.
4. Pursuant to Article 8 of the Commission's Rules of Practice and Procedure, *ex parte* communications in this proceeding are permitted without restriction or reporting requirements.
5. Any person expecting to file an intervenor compensation claim for participation in this proceeding shall file a notice of intent to claim intervenor compensation consistent with the Commission's Rules of Practice and Procedure Rule 17.1.

6. Pursuant to this Scoping Memo, Michael Picker is the assigned Commissioner and Presiding Officer.

This order is effective today.

Dated September 9, 2015, at San Francisco, California.

/s/ MICHAEL PICKER

Michael Picker
Assigned Commissioner