Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.	Application 10-12-005 (Filed December 15, 2010)
And Related Matter.	Application 10-12-006

DECISION REGARDING JOINT PETITION FOR MODIFICATION OF ELECTRIC RELIABILITY STANDARDS IN ORDERING PARAGRAPH 9 OF DECISION 13-05-010 AND RELATED PETITION FOR MODIFICATION

Summary

On June 6, 2014, San Diego Gas & Electric Company (SDG&E) and the Coalition of California Utility Employees filed a joint petition for modification of the electric reliability standards in Ordering Paragraph 9 of Decision (D.) 13-05-010 (Joint Petition). The relief requested in the Joint Petition is similar to the relief that was originally requested by SDG&E when it filed a separate petition for modification of the same standards in D.13-05-010 on March 17, 2014 (March 17, 2014 Petition).

Today's decision grants the Joint Petition to modify Ordering Paragraph 9 of D.13-05-010, and concludes that the March 17, 2014 Petition, filed by SDG&E, is moot in light of the granting of the Joint Petition.

Procedural Background

In the decision addressing the test year 2012 general rate case application of San Diego Gas & Electric Company (SDG&E), Decision (D.) 13-05-010, the Commission concluded that it was reasonable to adopt the recommendation of the Coalition of California Utility Employees (CCUE) to implement performance incentives that had previously been developed for SDG&E in D.08-07-046. D.13-05-010 ordered SDG&E to file an advice letter "proposing a set of reliability performance incentives consistent with what was adopted in D.08-07-046, updating the targets that would have been in effect in 2010." (D.13-05-010, Ordering Paragraph [OP] 9.)

Previously, in D.08-07-046, the Commission adopted electric reliability performance incentives for the period from 2008-2012 for the system average interruption duration index (SAIDI), the system average interruption duration exceeding threshold (SAIDET), and the system average interruption frequency index (SAIFI). These different indices help to measure electric reliability. Unlike OP 9 of D.13-05-010, the Commission gave SDG&E the ability in D.08-07-046 to accept or reject the reliability performance incentives. (*See* D.08-07-046 at 49, Ordering Paragraph 16 at 105.) SDG&E elected to reject the electric reliability incentive mechanisms adopted in D.08-07-046.

In compliance with OP 9 of D.13-05-010, SDG&E filed Advice Letter (AL) 2518-E on September 6, 2013. In addition to the information that the OP 9 requires, SDG&E proposes an alternative reliability mechanism. SDG&E contends that the alternative reliability mechanism is consistent with the intent of OP 9, and more appropriate for SDG&E which has operated at a high reliability level for the past several years. At the direction of the Energy Division, and to advance its alternative reliability mechanism proposal in the AL, SDG&E filed its

March 17, 2014 petition for modification of the electric reliability standards in OP 9 of D.13-05-010 (March 17, 2014 Petition).

On April 16, 2014, CCUE filed a response in opposition to SDG&E's March 17, 2014 Petition.

On April 25, 2014, SDG&E and CCUE requested in an e-mail that action on SDG&E's March 17, 2014 Petition, and CCUE's April 16, 2014 response, be delayed to allow time to see if SDG&E and CCUE could resolve their differences regarding the March 17, 2014 Petition. The e-mail request to defer action on the March 17, 2014 Petition was granted in an April 25, 2014 e-mail ruling to the service list.

Then on June 6, 2014, SDG&E and CCUE filed their joint petition for modification of OP 9 in D.13-05-010 (Joint Petition). No one filed a response to the Joint Petition.

Discussion

The Joint Petition, and the March 17, 2014 Petition, were both filed to modify the requirement in OP 9 of D.13-05-010 that a set of electric reliability performance incentives be established. The reliability performance incentives were adopted in D.13-05-010 as a result of CCUE's recommendation that the Commission adopt incentives to improve SDG&E's electric reliability. OP 9 of D.13-05-010 provides:

> San Diego Gas & Electric Company is directed to file a Tier 3 advice letter within 90 days of the effective date of this decision, proposing a set of reliability performance incentives consistent with what was adopted in D.08-07-046, updating the targets that would have been in effect in 2010.
>
> a. The advice letter shall include at a minimum the system average interruption duration index (SAIDI), system average interruption duration exceeding threshold (SAIDET), and system average interruption frequency

> index (SAIFI) with proposed targets, deadbands, increments, rewards, penalties and maximum amounts, and annual improvement measures for each index.

Both the Joint Petition and the March 17, 2014 Petition seek to modify the design requirements for the reliability performance incentives that are set forth in OP 9 of D.13-05-010. SDG&E and CCUE contend in the Joint Petition that OP 9 of D.13-05-010 "would fall short of creating the most effective incentives to address SDG&E's specific reliability profile," because those reliability performance incentives are based on D.08-07-046 which relies on information that is nearly 10 years old. (Joint Petition, at 1.) The Joint Petition further contends that "SDG&E, which has comparatively good reliability overall, has worked with CCUE to design more precisely targeted incentives based on SDG&E's specific reliability profile and most current reliability data." (Joint Petition at 1.)

The reliability performance incentives that are being proposed in the Joint Petition propose "an alternative performance-based ratemaking (PBR) mechanism, formed through a partnership between SDG&E and CCUE, which is consistent with the intent of OP 9, while taking into account the particular nature of electric reliability at SDG&E." (Joint Petition, at 1-2.) The Joint Petition further states:

> This proposed reliability mechanism is modified from that requested in SDG&E's Advice Letter (AL) 2518-E, filed in compliance with OP 9, on September 6, 2013. The reliability indicators included in this proposal differ from OP 9 in some key areas; however, the intent is the same, to ensure that SDG&E continues to seek ways to improve reliability for all of its customers. In light of the cooperation between SDG&E and CCUE, in accordance with the principles of PBR, SDG&E and CCUE request [ALJ] Wong and the Commission to adopt the

> proposed reliability mechanisms as reasonable and in the public interest. (Joint Petition at 2.)

SDG&E and CCUE contend that OP 9 of D.13-05-010 should be modified to recognize that because of "significant system-wide reliability improvements, SDG&E is on an overall basis one of the most reliably performing utilities in the country." (Joint Petition, at 3.) SDG&E and CCUE contend that the proposed alternative reliability mechanism "looks at reliability differently by using a combination of indices that balance between maintaining excellent overall reliability, while focusing on specific areas of SDG&E's service territory that have lagged behind system averages for reliability." (Joint Petition at 3-4.)

The Joint Petition further states that the outages are not shared equally among SDG&E's customers, and that "there is a very large disparity in the outage time and frequency experienced by SDG&E's customers." SDG&E and CCUE contend that the proposed alternative reliability mechanism "addresses this disparity while still maintaining incentives for overall system-level reliability," … and "introduces two new measures based on improving reliability in those areas that need it the most." (Joint Petition at 5.)

In comparing the March 17, 2014 Petition to the Joint Petition, SDG&E and CCUE have proposed different modifications from what was set forth in the March 17, 2014 Petition. The Joint Petition proposes that OP 9 of D.13-05-010 be modified to reflect the following:

1. Annual Improvement Factors have been reduced but not eliminated. SDG&E and CCUE propose a 1% improvement factor that takes into account SDG&E's relatively good reliability and safety history, as well as a need for continued improvement. The application of the Annual Improvement will begin in the second year of a PBR period. When applicable, benchmarks after the first year will be calculated by decrementing the improvement

factor from the value of the original five year average, for each year into the PBR period.

2. The initial "stretch" factor has been removed, because duplicative annual improvement factors have been retained at reduced levels.
3. SAIDET will remain, but as a report-only index.
4. Two new indices (Worst Circuit SAIDI and Worst Circuit SAIFI) are added that focus on improving the system's worst performing circuits. Although SDG&E's overall system reliability is relatively good, these indices will address segments of its service territory where reliability could be improved. These indices would improve portions of SDG&E's service territories with lower customer density levels, thus spreading improved reliability across the service territory.
5. Penalty and Reward amounts have been updated for SAIDI and SAIFI, with proposed higher penalty/reward per increment (*see* Table 3 below [in Joint Petition]). (Joint Petition, at 5-6.)

In addition to the above, the Joint Petition differs from the March 17, 2014 Petition in the way in which the indices for the Worst Circuit SAIDI and Worst Circuit SAIFI are calculated by incorporating a historical improvement factor. (Compare Joint Petition at 6-8, footnote 8; March 17, 2014 Petition at 5-7.) The calculated historical improvement factor for the Worst Circuit SAIDI and Worst Circuit SAIFI are 15% and 3%, respectively. Under the Joint Petition, "the Worst Circuit SAIDI and Worst Circuit SAIFI benchmarks will be set by determining the customer-weighted average of the worst 10 circuits, then reducing that value by the historical improvement factor." (Joint Petition at 7.)

A comparison of the Joint Petition to the March 17, 2014 Petition also reflects that SDG&E and CCUE are proposing a different penalty/reward structure. (Compare Joint Petition at 8-10; March 17, 2014 Petition at 6-7.) For

the penalty/reward structure for the Worst Circuit SAIDI, SDG&E and CCUE are proposing "an increment of 10 minutes, a deadband of 35 minutes, a payout per increment of $125,000, and a maximum penalty/reward of $1 million." For the penalty/reward structure for the Worst Circuit SAIFI, SDG&E and CCUE are proposing "an increment of 0.10 outages, a deadband of 0.35 outages, a reward or penalty per increment of $125,000, and a maximum penalty/reward of $1 million." (Joint Petition at 8.) In addition, the Joint Petition requests that the penalty/reward per increment for SAIDI and SAIFI "increase from $250,000/increment to $375,000 increment, with a maximum penalty/reward of $3,000,000 for both indices." (Joint Petition at 8.)

As set forth in section IV of the Joint Petition, SDG&E and CCUE request that specific wording changes be made to D.13-05-010. A comparison of the Joint Petition to the March 17, 2014 Petition reflects that the primary difference is that the Joint Petition would include text changes which reflect the updated changes that SDG&E and CCUE have included in the Joint Petition as described above. This primary difference, however, is not reflected in Appendix A of the Joint Petition. Appendix A of the Joint Petition is supposed to contain the redline changes that are to be made to D.13-05-010. When Appendix A of the Joint Petition is compared to Appendix A of the March 17, 2014 Petition, SDG&E and CCUE appear to have neglected to update Appendix A of the Joint Petition to reflect the wording changes described in section IV of the Joint Petition. Based on the intent of the Joint Petition, and the wording changes specified in section IV of the Joint Petition, it is clear that SDG&E and CCUE intended to reflect their updated proposals into Appendix A of the Joint Petition. Accordingly, and as described below, in granting the relief requested in the Joint Petition, we have

included text changes to D.13-05-010 that refer to the wording changes set forth in section IV of the Joint Petition.

The only two parties who expressed an interest in the electric reliability incentives are SDG&E and CCUE. When SDG&E filed its March 17, 2014 Petition, CCUE was the only party who filed a response to the March 17, 2014 Petition. In its April 16, 2014 response, CCUE opposed the March 17, 2014 Petition. As a result of discussions between SDG&E and CCUE, and the filing of the Joint Petition, it is evident that SDG&E and CCUE are now in agreement with how the electric reliability incentives should be structured.[1]

In deciding whether the Joint Petition should be granted or not, we need to review the Commission's intentions when it adopted OP 9 and the electric reliability incentives in D.13-05-010, and to decide if the modifications to D.13-05-010 are warranted.

The Commission approved CCUE's recommendation in D.13-05-010 to adopt the electric reliability incentives because of a concern over a decline in SDG&E's reliability performance indicators, and because the use of performance incentives in the past helped to ensure reliability. (*See* D.13-05-010 at 204-206.) The Commission decided that the "reliability measures can track whether the authorized level of funding helps to improve or to worsen the reliability measures." (D.13-05-010 at 207.)

[1] Although the Utility Consumers Action Network (UCAN) supported the use of reliability performance measures in D.13-05-010, UCAN did not file any responses to the March 17, 2014 Petition, or to the Joint Petition.

In D.13-05-010, the Commission adopted CCUE's recommendation to implement the performance incentives that had previously been developed in D.08-07-046, and directed SDG&E to update the incentives with the targets that would have been in place in 2010. (D.13-05-010 at 207.) In adopting the updated performance incentives, the Commission expressed a concern that the reliability incentive metrics could be outdated. (D.13-05-010 at 205.)

The Joint Petition proposes to adopt performance reliability measures that are acceptable to CCUE, the proponent of such measures which led to the adoption of OP 9 in D.13-05-010. These performance reliability measures have been updated by SDG&E and CCUE in the Joint Petition to reflect recent data, and "to design more precisely targeted incentives based on SDG&E's specific reliability profile and most current reliability data." (Joint Petition at 1.) SDG&E and CCUE contend that although their request in the Joint Petition differs from OP 9 in D.13-05-010 in some key areas, the intent behind their proposed reliability indicators "is the same, to ensure that SDG&E continues to seek ways to improve reliability for all of its customers." (Joint Petition at 2.) The performance reliability measures proposed in the Joint Petition have also been revised from what was originally proposed in the March 17, 2014 Petition.

Due to the acceptance of CCUE to adopt the updated performance reliability measures proposed by SDG&E and CCUE, and because the proposed measures reflect updated data to target areas where reliability could be improved, the Joint Petition of SDG&E and CCUE to modify OP 9 of D.13-05-010 should be granted, and the wording changes to D.13-05-010 that they have recommended in Section IV of the Joint Petition should be adopted.

Since the March 17, 2014 Petition, which was separately filed by SDG&E, was essentially replaced by the updated proposal in the Joint Petition, the March 17, 2014 Petition is moot.

In accordance with the granting of the Joint Petition, the following changes should be made to D.13-05-010. First, in the text of D.13-05-010 at 207, the entire paragraph beginning with the phrase "Because we agree with SDG&E…" should be replaced in its entirety by the following:

> Because we agree with SDG&E that the performance incentives developed for SCE are not appropriate for SDG&E, we decline to adopt CCUE's alternate recommendation. We conclude that it is reasonable to adopt reliability performance incentives consistent with those described in SDG&E's primary proposal in Advice Letter 2518-E, in SDG&E's Petition to Modify Decision 13-05-010, dated March 17, 2014, and ultimately in the Joint SDG&E/CCUE Petition dated June 5, 2014. SDG&E is directed to file a Tier 3 advice letter within 90 days of the effective date of this decision, proposing a set of reliability performance incentives consistent with what was described in SDG&E's primary proposal in Advice Letter 2518-E, in SDG&E's Petition to Modify Decision 13-05-010, dated March 17, 2014, and in the Joint SDG&E/CCUE Petition dated June 5, 2014. The advice letter should include SAIDI, Worst Circuit SAIDI, SAIFI, and Worst Circuit SAIFI indices with proposed targets, deadbands, increments, rewards, penalties and maximum amounts, and annual improvement measures for each.

Second, Finding of Fact 65 in D.13-05-010 should be replaced in its entirety with the following:

> It is reasonable to require SDG&E to implement reliability performance incentives consistent with those described in SDG&E's primary proposal in Advice Letter 2518-E, in SDG&E's Petition to Modify Decision 13-05-010 dated March 17, 2014, and in the Joint SDG&E/CCUE Petition dated June 5, 2014.

Third, Conclusion of Law 14 in D.13-05-010 should be replaced in its entirety with the following:

> SDG&E should file a Tier 3 AL within 90 days of the effective date of this decision, proposing a set of reliability performance incentives consistent with what was described in SDG&E's primary proposal in Advice Letter 2518, in SDG&E's Petition to Modify Decision 13-05-010, dated March 17, 2014, and in the Joint SDG&E/CCUE Petition dated June 5, 2014.

Fourth, Ordering Paragraph 9 in D.13-05-010 should be replaced in its entirety with the following:

> San Diego Gas & Electric Company is directed to file a Tier 3 advice letter within 90 days of the effective date of this decision, proposing a set of reliability performance incentives consistent with what was described in SDG&E's Petition to Modify Decision 13-05-010, dated March 17, 2014 (including attachments, specifically SDG&E Advice Letter 2518-E, and SDG&E's primary proposal for reliability indicators as set forth therein), and in the Joint SDG&E/CCUE Petition dated June 5, 2014.
>
> a. The advice letter shall include system average interruption duration index (SAIDI), Worst Circuit SAIDI, system average interruption frequency index (SAIFI), and Worst Circuit SAIFI with proposed targets, deadbands, increments, rewards, penalties and maximum amounts, and annual improvement measures for each index.

Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is waived.

Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and John S. Wong is the assigned ALJ in this proceeding.

Findings of Fact

1. In compliance with OP 9 of D.13-05-010, SDG&E filed AL 2518-E on September 6, 2013, in which SDG&E proposed an alternative reliability mechanism.

2. To advance its alternative reliability mechanism proposal in AL 2518-E, SDG&E filed its March 17, 2014 Petition.

3. The April 25, 2014 e-mail request to defer action on the March 17, 2014 Petition was granted.

4. On June 6, 2014, SDG&E and CCUE filed their Joint Petition.

5. No responses to the Joint Petition were filed.

6. Both the Joint Petition, and the March 17, 2014 Petition, seek to modify the design requirements for the reliability performance incentives that are set forth in OP 9 of D.13-05-010.

7. In comparing the March 17, 2014 Petition to the Joint Petition, SDG&E and CCUE have proposed different modifications from what was set forth in the March 17, 2014 Petition.

8. The Joint Petition also differs from the March 17, 2014 Petition in the way in which the indices for the Worst Circuit SAIDI and Worst Circuit SAIFI are calculated, and the different penalty/reward structures.

9. A comparison of the Joint Petition to the March 17, 2014 Petition reflects that the Joint Petition would include text changes which reflect the updated changes that SDG&E and CCUE have included in the Joint Petition, but such wording changes have not been reflected in Appendix A of the Joint Petition.

10. With the filing of the Joint Petition, SDG&E and CCUE are now in agreement with how the electric reliability incentives should be structured.

11. The Commission approved CCUE's recommendation in D.13-05-010 to adopt the electric reliability incentives because of a concern over a decline in SDG&E's reliability performance indicators, and because the use of performance incentives in the past helped to ensure reliability.

12. In adopting the updated performance incentives in D.13-05-010, the Commission expressed a concern that the reliability incentive metrics could be outdated.

13. The Joint Petition proposes to adopt performance reliability measures that are acceptable to CCUE, the proponent of such measures which led to the adoption of OP 9 in D.13-05-010.

14. The proposed performance reliability measures have been updated in the Joint Petition to reflect recent data and to target areas where reliability could be improved.

Conclusions of Law

1. Based on the intent of the Joint Petition, and the wording changes specified in section IV of the Joint Petition, it is clear that SDG&E and CCUE intended to reflect their updated proposals into Appendix A of the Joint Petition.

2. The Joint Petition to modify OP 9 of D.13-05-010 should be granted, and the wording changes to D.13-05-010 that SDG&E and CCUE have recommended in section IV of the Joint Petition should be adopted.

3. Since the March 17, 2014 Petition was essentially replaced by the updated proposal in the Joint Petition, the March 17, 2014 Petition for modification of D.13-05-010 should be considered moot.

O R D E R

IT IS ORDERED that:

1. The June 6, 2014 "Joint Petition of San Diego Gas & Electric Company (U902E) and Coalition of California Utility Employees for Modification of Electric Reliability Standards in Ordering Paragraph 9 of Decision 13-05-010" is granted as set forth below.

2. Decision 13-05-010 is modified as follows:

   a. The entire paragraph that appears at 207 of Decision 13-05-010 beginning with the phrase "Because we agree with SDG&E…" shall be replaced in its entirety with the following paragraph:

      "Because we agree with SDG&E that the performance incentives developed for SCE are not appropriate for SDG&E, we decline to adopt CCUE's alternate recommendation. We conclude that it is reasonable to adopt reliability performance incentives consistent with those described in SDG&E's primary proposal in Advice Letter 2518-E, in SDG&E's Petition to Modify Decision 13-05-010, dated March 17, 2014, and ultimately in the Joint SDG&E/CCUE Petition dated June 5, 2014. SDG&E is directed to file a Tier 3 advice letter within 90 days of the effective date of this decision, proposing a set of reliability performance incentives consistent with what was described in SDG&E's primary proposal in Advice Letter 2518-E, in SDG&E's Petition to Modify Decision 13-05-010, dated March 17, 2014, and in the Joint SDG&E/CCUE Petition dated June 5, 2014. The advice letter should include SAIDI, Worst Circuit SAIDI, SAIFI, and Worst Circuit SAIFI indices with proposed targets, deadbands, increments, rewards, penalties and maximum amounts, and annual improvement measures for each."

b. Finding of Fact 65 in Decision 13-05-010 shall be replaced in its entirety with the following:

"It is reasonable to require SDG&E to implement reliability performance incentives consistent with those described in SDG&E's primary proposal in Advice Letter 2518-E, in SDG&E's Petition to Modify Decision 13-05-010 dated March 17, 2014, and in the Joint SDG&E/CCUE Petition dated June 5, 2014."

c. Conclusion of Law 14 in Decision 13-05-010 shall be replaced in its entirety with the following:

"SDG&E should file a Tier 3 AL within 90 days of the effective date of this decision, proposing a set of reliability performance incentives consistent with what was described in SDG&E's primary proposal in Advice Letter 2518, in SDG&E's Petition to Modify Decision 13-05-010, dated March 17, 2014, and in the Joint SDG&E/CCUE Petition dated June 5, 2014."

d. Ordering Paragraph 9 in Decision 13-05-010 shall be replaced in its entirety with the following:

"San Diego Gas & Electric Company is directed to file a Tier 3 advice letter within 90 days of the effective date of this decision, proposing a set of reliability performance incentives consistent with what was described in SDG&E's Petition to Modify Decision 13-05-010, dated March 17, 2014 (including attachments, specifically SDG&E Advice Letter 2518-E, and SDG&E's primary proposal for reliability indicators as set forth therein), and in the Joint SDG&E/CCUE Petition dated June 5, 2014.

b. The advice letter shall include system average interruption duration index (SAIDI), Worst Circuit SAIDI, system average interruption frequency index (SAIFI), and Worst Circuit SAIFI with proposed targets, deadbands, increments, rewards, penalties and maximum amounts, and annual improvement measures for each index."

3. The March 17, 2014 "Petition of San Diego Gas & Electric Company (U902E) for Modification of Electric Reliability Standards in Ordering Paragraph 9 of D.13-05-010" is moot in light of the filing of, and granting of, the June 6, 2014 "Joint Petition of San Diego Gas & Electric Company (U902E) and Coalition of California Utility Employees for Modification of Electric Reliability Standards in Ordering Paragraph 9 of D.13-05-010."

4. These consolidated proceedings are closed.

This order is effective today.

Dated _____, at San Francisco, California.