

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Further
Develop a Risk-Based Decision-Making
Framework for Electric and Gas Utilities.

Rulemaking 20-07-013
(Filed July 16, 2020)

**COMMENTS OF THE UTILITY REFORM NETWORK ON PHASE 2 PROPOSED
DECISION ADOPTING MODIFICATIONS TO THE RISK-BASED DECISION-
MAKING FRAMEWORK ADOPTED IN DECISION 18-12-014 AND DIRECTING
ENVIRONMENTAL AND SOCIAL JUSTICE PILOTS**

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**COMMENTS OF THE UTILITY REFORM NETWORK ON PHASE 2
PROPOSED DECISION ADOPTING MODIFICATIONS TO THE RISK-BASED
DECISION-MAKING FRAMEWORK ADOPTED IN DECISION 18-12-014 AND
DIRECTING ENVIRONMENTAL AND SOCIAL JUSTICE PILOTS**

Pursuant to the Rule 14.3 of the California Public Utilities Commission (CPUC or Commission) Rules of Practice and Procedure, The Utility Reform Network (TURN) offers these comments on the Proposed Decision on Phase 2 issues in Rulemaking (R.) 20-07-013, the second Safety Model Assessment Proceeding (SMAP).

1. INTRODUCTION

The Proposed Decision (PD) on Phase 2 in R.20-07-013 adopts a Cost-Benefit Approach (CBA) for assessing utility risks. The decision also adopts valuations for safety and reliability risks. The CBA replaces the Multi-Attribute Value Function (MAVF) previously agreed to by the parties and reflected in the SMAP Settlement adopted by the Commission. TURN generally supports the PD and the transition to the CBA. However, because the MAVF approach will continue to apply in the current Risk Assessment and Mitigation Phase (RAMP) and General Rate Case (GRC) cycle,¹ the PD should be modified to present a more balanced discussion that recognizes that, in the meantime, the MAVF will continue to offer an important means of ranking and prioritizing mitigations based on cost-effectiveness.

In addition, certain inaccuracies regarding the discussion of important provisions of the Risk Based Decision- Making Framework in Appendix A should be corrected.

¹ The PD directs the IOUs to implement the CBA in “there next respective GRC cycles, beginning with PG&E’s 2024 RAMP application.” This means that the MAVF approach will continue to apply to: Southern California Edison’s (SCE) pending RAMP, A.22-05-013, and future GRC (to be filed in May 2023); Pacific Gas and Electric’s (PG&E) pending GRC, A.21-06-021; and the Sempra Utilities’ pending GRC, A.21-05-015 et al.

TURN's recommended changes to the PD's Findings of Fact and Conclusions of Law are shown in Attachment A to these Comments.

2. THE PD SHOULD BE CLARIFIED TO STATE THAT THE MAVF REMAINS AN IMPORTANT TOOL IN PRIORITIZING UTILITY RISK MITIGATIONS PENDING THE ADOPTION OF THE COST BENEFIT APPROACH.

TURN agrees with the decision to transition from the MAVF to the CBA for presentation of risk analysis in the RAMP. However, the PD presents a somewhat negative discussion of RSEs generated using the MAVF approach. It agrees with the CPUC Staff that the "RSE values produced by the MAVF approach have had limited utility."² Findings of Fact 2, 3, and 6 also contain negative language regarding the MAVF approach. While the PD correctly and importantly acknowledges that "the RSE values produced by the MAVF approach allow for comparison of the relative cost-effectiveness of various mitigation measures," it states that "the RSE values do not indicate whether the Benefits of a proposed mitigation outweigh its costs."³

It is true that RSE values produced using the MAVF approach provide relative rankings of cost-effectiveness and do not (unless converted to Benefit-Cost ratios, as discussed below) provide a *stand-alone* indication of whether a mitigation's benefits exceed its costs. But that limitation does not change the fact that RSEs values are an effective tool by which to compare and rank the cost-effectiveness of different mitigations proposed by a utility.

TURN recommends that, consistent with prior decisions, the Commission use more balance language that recognizes the usefulness and importance of the MAVF approach that will continue to apply until the utilities are required to implement the CBA. Even though the CBA approach is preferable, the MAVF approach continues to be a vast improvement on previous

² PD, p. 23-24.

³ *Id.*

utility risk analysis presentations. As the Commission recognized when it adopted the S-MAP Settlement Agreement (SA), one of the goals achieved by the SA was to “use risk reduction per dollar spent to prioritize projects.”⁴ This ability to *prioritize* risk mitigation initiatives in order to balance risk reduction and affordability considerations was a “critical” step forward, as the Commission again recently explained: “RSE calculations are *critical* for determining whether utilities are effectively allocating resources to initiatives that provide the greatest risk reduction benefits per dollar spent, thus ensuring responsible use of ratepayer funds.”⁵ The Commission should continue to be proud of the significant improvement in quantitative risk analysis that the SA’s MAVF approach represents and avoid sending conflicting signals regarding that achievement in this decision.

Moreover, TURN has demonstrated in the PG&E General Rate Case, A.21-06-021, that the current MAVF can be used to express RSEs as Benefit-Cost ratios. TURN previously included its expert Dr. Jonathan Lesser’s testimony from the PG&E General Rate Case explaining how to make this translation in its comments on the Staff Proposal submitted August 29, 2022. Similarly, in its comments on the Staff proposal, SCE concurred that using the MAVF approach, parties can convert RSEs to Benefit-Cost ratios.⁶ Thus, the MAVF results can be translated to the Benefit/Cost Ratio that the Commission prefers.

Accordingly, in recognition of the fact that RSE analysis based on the MAVF approach will continue to be an essential part of the record of pending and future RAMPs and GRCs, the PD should be modified to present a more balanced discussion of the MAVF approach, consistent with D.18-12-014 and D.21-08-036. In addition to modifying the text, the unduly negative

⁴ D.18-12-014, pp. 12, 14 (item 8, “*” indicates goal was achieved by the SA).

⁵ D.21-08-036, p. 38, quoting Resolution WSD-002 (June 11, 2020), p. 20 (emphasis added).

⁶ SCE Opening Comments on Staff Proposal Addressing Phase II Issues, p. 3.

descriptions of the MAVF approach in the Findings of Fact should be modified, as shown in Attachment A to these comments.

3. ERRORS RELATING TO APPENDIX A SHOULD BE CORRECTED

The PD contains two errors relating to key provisions in the SA and Appendix A to the PD, the revised Risk-Based Decision-Making Framework.

First, the language in the first bullet on page 13 should be corrected to read as follows:

First, the IOU develops a range, expressed in natural units, for each sub-Attribute. The lower and upper bounds of a range generally corresponds with the smallest and largest values ~~observed/measured during historical Risk Events~~ that are observable during ordinary operations and as a consequence of the occurrence of a risk event.

This correction tracks the actual language of Row 3 of the SA and Appendix A (materially unchanged from the SA), which did not use the words “observed/measured” or “historical”. Instead, as the correction shows, the key word in the actual language is “observable”, which does not require ranges to be based solely on values observed in the past.

Second, Conclusion of Law 7 misstates the text of the PD and Row 26 of Appendix A when it states: “Neither Cost-Benefit Ratios nor RSE values are intended to be the sole determinant for decisions made by the Commission on proposed investments by the IOUs in their GRC cycles.” However, the text of the PD, which accurately tracks Row 26, states the point differently – and correctly: “. . . as with the RSE values produced by the MAVF approach, while Cost-Benefit Ratios are central to the evaluation of risk mitigations, they *need not be* the only consideration in the final selection of Mitigations.” The difference is significant. The correct language means that, when the exceptional situations enumerated in Row 26 are not present, RSEs and Benefit-Cost Ratios *can be*, in the Commission’s reasonable discretion, the sole determinant. In contrast, the incorrect language in Conclusion of Law 7 would remove the

Commission's discretion to use Cost-Benefit Ratios and RSE values as the sole determinant, even when none of the Row 26 exceptions apply. This erroneous language should be replaced with language that accurately reflects the text and Row 26 of the SA, as modified in the PD's Appendix A, as follows:

While Cost-Benefit ratios, like the RSE values produced by the MAVF approach, are central to the evaluation of risk mitigations, they need not be the only consideration in the final selection of Mitigations, as explained in Row No. 26 of the Risk-Based Decision-Making Framework contained in Appendix A of this decision.

4. THE PD PROVIDES OTHER VALUABLE IMPROVEMENTS TO UTILITY RISK BASED DECISION MAKING FRAMEWORK

While TURN recommends changes to the wording used to discuss the existing MAVF approach and correction of the errors discussed above, TURN otherwise supports the PD. As an initial matter, the PD proposes specific dollar values to be adopted for safety and reliability attributes and used in the CBA.⁷ By adopting these values, not only does the Commission simplify the future implementation of the CBA, but in the meantime provides important benchmarks for these values.

While the Commission does not adopt a particular risk attitude at this time, it acknowledges that this is an item for near term determination. To that end, the Decision directs that the Technical Working Group adopted in D.21-11-009 be continued to, among other issues, consider risk attitude, risk tolerance, uncertainty and tail risk.⁸ While TURN continues to support the adoption of a risk neutral risk attitude,⁹ additional consideration of the question is appropriate.

⁷ PD, p. 31-37.

⁸ PD, p. 26.

⁹ TURN Comments on Phase 2 Staff Proposal, R.20-07-013 (Aug. 29, 2022 CPUC), pp. 5-6.

Similarly, TURN supports the Environmental and Social Justice pilots required by the PD. The pilots, and especially the incorporation of input from the Disadvantaged Communities Advisory Group (DACAG) and the Community-based Organization Working group (CBOWG) before pilot plans have been finalized, will ensure that the utility pilots are informed by feedback from experts working on these issues and in the impacted communities.¹⁰

5. CONCLUSION

For all of the foregoing reasons, TURN recommends that the Commission adopt the PD with the changes described herein. TURN looks forward to participating in further TWG meetings to develop the issues identified for further consideration.

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Respectfully submitted,

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¹⁰ PD, p. 42.

Attachment A

Changes to Findings of Fact

2. The unitless Risk Scores required in the MAVF approach made it possible to compare and rank mitigation measures based on cost-effectiveness, which facilitates prioritization of utility spending. ~~have made it difficult to interpret IOUs' RAMP filings and have not adequately supported transparency.~~
3. While [t]he RSE values produced by the MAVF approach ~~have had limited usefulness, because while they~~ allow for comparison of the cost-effectiveness of various mitigation measures, they do not require additional calculations to show whether the Benefits of a proposed mitigation measure outweigh the costs.
6. Requiring a standard dollar valuation of Attributes in the RDF eliminates the need to assign weights and ranges to Attributes, ~~which is prone to misapplication and misunderstanding in the MAVF approach.~~

Changes to Conclusions of Law

7. ~~Neither Cost-Benefit Ratios nor RSE values are intended to be the sole determinant for decision made by the Commission on proposed investment by the IOUs in their GRC cycles.~~ While Cost-Benefit ratios, like the RSE values produced by the MAVF approach, are central to the evaluation of risk mitigations, they need not be the only consideration in the final selection of Mitigations, as explained in Row No. 26 of the Risk-Based Decision-Making Framework contained in Appendix A of this decision.