



**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

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) OPENING COMMENTS
ON PROPOSED DECISION REGARDING PHASE II 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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SUBJECT INDEX OF RECOMMENDED CHANGES

- In moving to a monetization-based approach, the PD is premature in light of the lack of discussion or progress on risk tolerance and other threshold issues.
- SCE agrees with the confirmation in the PD that cost-benefit ratios cannot serve as the sole determinant when selecting and carrying out risk mitigations.
- For Value of Statistical Life, the Commission or the Legislature may not share the PD's apparent view that a single number taken from an entirely different context fairly represents, in the PD's words, "how much people are willing to pay for a reduction in the risk of death."
 - The PD's view appears to be particularly erroneous when viewed within the framework of SCE's statutory requirement under Senate Bill 901 to provide safe electricity service to customers.
- SCE supports the PD's approach to Environmental and Social Justice (ESJ) pilots.
- SCE would appreciate clarity on cost recovery for participation in ICE 2.0 in the event that the Commission directs additional analyses beyond the base analysis to support the ICE 2.0 calculator.

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Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (CPUC or Commission) and the November 3, 2022 Commissioner’s Proposed Decision (PD), Southern California Edison Company (SCE), respectfully submits the following Opening Comments.

I.

**THE PROPOSED DECISION’S MOVE TO MONETIZATION IS PREMATURE GIVEN THE
LACK OF DISCUSSION OR PROGRESS ON RISK TOLERANCE AND OTHER KEY ISSUES**

SCE disagrees with the PD’s assertion that “although we intend to examine the additional issues SCE identifies (i.e., Risk Tolerance, Risk Attitude, uncertainty, tail risk and other issues) in Phase III of this proceeding, it is not necessary to do so before adopting the Cost-Benefit Approach. These issues pertain also to the MAVF approach and require our attention more generally.”¹ The fact that the PD

¹ PD, p. 25.

acknowledges that these issues require further attention but then summarily proceeds to sidestep them before moving to a new framework, constitutes error and renders the PD premature.

The PD seeks to change the existing Multi-Attribute Value Function framework (MAVF) by effectively replacing the existing Risk-Spend Efficiency (RSE) calculations with a monetization approach that would feature Benefit-to-Cost Ratios (BCRs) for proposed utility risk mitigation activities. SCE respectfully submits that the PD is not addressing the actual, structural problems with the existing MAVF. Specifically, in this Rulemaking, SCE has continually emphasized that any changes to the MAVF should include the key components that are currently missing from the calculation; namely uncertainty, tail risk, risk tolerance, and risk attitude.

For example, in the Technical Working Group (TWG) session on August 18, 2022, SCE's independent expert Dr. Ali Mosleh² presented alternative ways of thinking about risk that would include these crucial concepts, including by using surrogate metrics for events the utilities can actually control (*e.g.*, number of wire-downs or ignitions). This is in contrast to the external-type outcomes that inform the MAVF today (*e.g.*, number of acres burned or structures destroyed). Crucially, Dr. Mosleh's alternative analyses far more closely align with how utilities (and industrial companies at large) *actually make risk-informed decisions* compared to the existing MAVF methodology. An example is found in SCE's Overhead Conductor Program, which was discussed in both SCE's 2018 and 2022 RAMP filings. The Overhead Conductor Program assesses metrics for events that are generally within the utility's scope of influence (*e.g.*, number of wire-down events).

The alternatives that Dr. Mosleh outlined have also been adopted in one form or another by important safety regulators in other industries, including the Federal Aviation Administration (FAA) and the Nuclear Regulatory Commission (NRC). For instance, Dr. Mosleh mentioned that the NRC establishes a specific risk tolerance standard that is specific to reactor core meltdown; operators can then establish appropriately-tailored strategies and methods to mitigate those potential failures.

² As stated in prior written comments in this proceeding, Dr. Mosleh is Director of the Garrick Institute for Risk Sciences at UCLA.

While SCE appreciates the time and engagement that the Assigned Commissioner, the Administrative Law Judge, and the Staff have devoted to this proceeding, the PD errs because it would simply update the current flawed methodology and would provide no real incremental benefits to the parties. Nor are the changes to rely wholesale on BCRs even necessary: currently, stakeholders can *already request or calculate for themselves a conversion from RSEs to BCRs*.

In sum, the PD is premature until further discussions on risk tolerance and alternative methods take place. Risk tolerance ultimately must be set by the Commission with appropriate utility and other stakeholder input. It should be the highest priority for the next steps of this Rulemaking.³ It is erroneous and counterproductive to engage in a wholesale modification of the weights and ranges without an appropriate discussion of a minimally acceptable risk tolerance or risk attitude. These important aspects must be examined specifically as related to safety (*e.g.*, fatalities and serious injuries) and in terms of impact on individual risks. Relying on BCR could lead to outcomes in which certain financial or reliability attributes are seen as outweighing crucial safety considerations, potentially to the detriment of the customers and communities that SCE serves. The monetized value approach also does not represent how the IOUs actually manage our businesses and serve our customers, nor does it reflect views on risk tolerance/attitude. The PD does not grapple with uncertainty, as well as tail risk, even though these were issues that were substantively raised by the Commission's own outside consultants.⁴

Finally, as a separate but related item, SCE is also concerned that the PD does not adequately address the timing for Phase III of this proceeding. For instance, the PD states that “we intend to further explore the application of Risk Attitude, Risk Tolerance, uncertainty, and tail risks later in this or a successor proceeding.”⁵ If this inquiry and record-building occurs in a successor proceeding, the critical

³ SCE has outlined such next steps in written comments. *See, e.g.*, SCE's Opening Comments on Staff Proposal Addressing Phase II Issues (filed August 29, 2022), p. 3.

⁴ *See* Staff Proposal, Future Work Topics, p. 27: “Risk attitude: Ensuring that IOUs will have the flexibility to define risk consequence costs in a way that correctly captures the attitude of the appropriately defined stakeholders toward the risk events. Probabilistic ranges: Ensuring that the IOU's final approach is structured to capture and deal with uncertainty (probabilistic ranges) and Acceptable risk levels (risk tolerance): Ensuring the final approach handles threshold risk events and concepts such as ALARP (As Low as Reasonably Practical).” (internal footnotes omitted).

⁵ PD, p. 26.

issues may not be addressed in a timely and productive manner. SCE would also appreciate any revisions that can occur to the PD that provide more detail on what Phase III of this Rulemaking will entail, and the contemplated timing of the Phase III exploration of issues.

II.

SCE AGREES WITH THE PROPOSED DECISION’S CONFIRMATION THAT COST-BENEFIT RATIOS CANNOT SERVE AS THE SOLE DETERMINANT WHEN SELECTING AND CARRYING OUT RISK MITIGATIONS

SCE agrees with the PD’s express confirmation that “we do not intend that the Cost-Benefit Ratios produced using this method must serve as the sole determinants of IOU proposals or Commission decisions on risk Mitigations” and statement that Cost-Benefit Ratios “need not be the only consideration in the final selection of Mitigations.”⁶ Management of critical risks by the utility cannot be viewed simply from the lens of dollars. There are absolute risk issues that may not be captured by the Ratios, as well as a host of ethical, socioeconomic, compliance, and physical and resource constraints which are not readily translatable to dollar values, but which are crucial to the sophisticated process of actually managing resources, risks, and service.

Toward that end, SCE recommends a revision to the text of the Finding of Fact number 11. That Finding of Fact includes language that Cost-Benefit Ratios are “central to the evaluation of risk mitigations.” However, there has simply been no showing or evidentiary support for that contention, and the PD does not offer any supporting citations. The referenced language should be deleted.

⁶ PD, p. 24. *See also* PD at p. 53, Conclusion of Law 7 (“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,”).

III.

REVISIONS ARE WARRANTED TO THE PD'S DISCUSSION OF THE VALUE OF A STATISTICAL LIFE (VSL)

SCE respectfully but strongly disagrees with the PD's suggestion that "adopting use of the DOT [Department of Transportation] VSL [does not] raise[] unresolvable ethical issues."⁷ SCE agrees that a "VSL is a concept from economics," but does not believe that the Commission or the Legislature share the PD's apparent view that one number taken from an entirely different context fairly represents "how much people are willing to pay for a reduction in the risk of death"⁸ when viewed within the framework of SCE's statutory requirement to provide safe electricity service to customers and the communities we serve. To the contrary, in 2019 the Legislature made explicit in adopting Senate Bill (SB) 901 that the utilities are legally required to "construct, operate, maintain and operate [their] electrical lines and equipment in a manner that will *minimize* the risk of catastrophic wildfire"⁹ In order to achieve this risk minimization mandated by SB 901, SCE's proposed investments in its Wildfire Mitigation Plan (WMP) (which flow through to its General Rate Case (GRC)) must be designed "to ensure the *highest* ... level of safety, reliability, and resiliency, and to ensure that its system is prepared for a major event, including hardening and modernizing its infrastructure with improved engineering, system design, standards, equipment and facilities"¹⁰

By adopting a VSL that dramatically reduces the implicit value of a human life, the PD's new proposed MAVF methodology will almost certainly be used by intervenor parties to oppose crucial proposed risk mitigations that are designed to ensure public safety and which are necessary to meet SCE's statutory obligations. The Commission should carefully consider the potentially profound negative safety implications of making such a dramatic policy decision now, in light of the PD's

⁷ PD, p. 32.

⁸ PD, p. 32.

⁹ Cal. Pub. Util. Code § 8386(a) (emphasis added).

¹⁰ Cal. Pub. Util. Code § 8386(c)(14) (emphasis added).

simultaneous conclusion to push off to a further phase consideration of the critical topics of risk tolerance and risk attitude.¹¹

IV.

SCE IS SUPPORTIVE OF THE ENVIRONMENTAL AND SOCIAL JUSTICE (ESJ) PILOTS

As stated in our comments on the Staff Ruling, SCE is supportive of the ESJ pilots proposed by Staff and the Commission.¹² SCE agrees with the PD that even through “the Staff Proposal did not include a recommendation that SCE participate in the ESJ Pilot effort,”¹³ it is important that “implementation of the ESJ Pilot should be consistent across all of the IOU service territories so that lessons learned can be relevant to all the IOUs.”¹⁴ SCE is happy to participate in pilots prior to our own pilot, which will be submitted with our 2026 RAMP filing.

SCE appreciates the PD’s clarification that Disadvantaged and Vulnerable Communities (DVCs) will serve as the focus of the ESJ pilots. This aligns directly with the ESJ focus of the Climate Adaptation and Vulnerability Assessment (CAVA) that is scheduled to be filed at the same time. SCE would like to provide some additional suggestions for parties’ considerations when developing the scope and timelines for these pilots. SCE believes that coordination with other relevant proceedings and filings should be taken into consideration when conducting the pilots. This includes Track 5 Value of Resiliency in the Microgrids proceeding (R.10-09-009) and the DVC climate resiliency work conducted as part of the CAVA effort. There may be lessons learned from these work streams that can be included in the ESJ pilots and may help avoid any duplicate work efforts.

¹¹ There is language in the body of the decision which suggests that “the use of weights and ranges in the current MAVF approach has at times produced unreasonable ‘implied VSLs’ in utility RAMP filings.” See PD, p. 32. This text should be excised. There is no evidence in the record that such “implied VSLs” in RAMP filings have been deemed unreasonable by the Commission. The PD includes no citations in support of its characterization.

¹² SCE Opening Comments, p. 10.

¹³ PD, p. 42.

¹⁴ PD, p. 42.

V.

SCE WOULD APPRECIATE CLARITY ON COST RECOVERY FOR PARTICIPATION IN ICE 2.0

The PD recognizes the potential costs (\$600,000) associated with the IOUs' participation in the ICE 2.0 calculator,¹⁵ but it is not clear how SCE will be able to recover these costs in the absence of authorization to establish a new memorandum account to track them. SCE notes that the \$600,000 only represents the budget for the base analysis to support the ICE 2.0 calculator. If the Commission is intending that the IOUs participate in any additional analysis, including specific PSPS impacts, additional funding would be necessary. SCE's next GRC is for Test Year 2025, and the referenced costs will likely be incurred before then.¹⁶ Accordingly, the PD should expressly state that the utilities are authorized to submit Tier 1 Advice Letters to establish a memorandum account (if necessary) to track these new, incremental costs that would be imposed by the PD.

VI.

CONCLUSION

SCE appreciates the opportunity to provide these comments on the PD, and urges that the Commission assess and treat the PD in line with our comments.

¹⁵ PD, p. 29.

¹⁶ According to the LNBL website, the ICE Calculator 2.0 will release in 2024. *See* <https://icecalculator.com/recent-updates>.

Respectfully submitted,

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Appendix A

SCE's Proposed Modifications to Findings, Conclusions, and Orders

SCE’s Proposed Modifications to Findings, Conclusions, and Orders¹⁷

Proposed text deletions are in bold and strikethrough (~~abcd~~)

Proposed text additions are in bold and underlined (abcd)

Reference	Proposed Modification
<u>PD, FOF 11, p. 50</u>	As with the RSE values produced by the MAVF approach Cost-Benefit Ratios are central to the evaluation of risk mitigations but need not be the only consideration in the final selection of Mitigations.
<u>PD, FOF 12, p. 50</u>	The DOT VSL <u>partially</u> represents an estimate of society’s willingness to pay for small reductions in the risk of death from adverse health conditions.
<u>PD, COL 18, p. 55</u>	The Commission should authorize the IOUs to include costs for participating in LBNL’s ICE 2.0 process in their GRC applications, up to \$600,000 per utility <u>for the base analysis to support the ICE 2.0 calculator. The Commission should also authorize the IOUs to submit Tier 1 Advice Letters to establish a memorandum account (if necessary) to track any additional incremental costs that result from performing any additional analyses as directed by the Commission.</u>
<u>PD, OP 2(b)iii, p. 58</u>	Each IOU is authorized to include costs for participation in ICE 2.0 in its next General Rate Case (GRC) application, up to \$600,000, <u>for the base analysis to support the ICE 2.0 calculator. The IOUs are also authorized to submit Tier 1 Advice Letters to establish a memorandum account (if necessary) to track any additional incremental costs that result from performing any additional analyses as may be directed by the Commission.</u>

¹⁷ Note: In addition to the recommended revisions set forth below, SCE’s comments also address why the PD on a more overall basis is premature and should not be adopted by the Commission at this time. It is impractical and would risk confusion to try to recommend specific revisions that concisely and accurately reflect SCE’s crucial overall point.