BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Application Of Southern California Edison Company (U 338-E) For Authority To Increase Its Authorized Revenues For Electric Service In 2025, Among Other Things, And To Reflect That Increase In Rates.	A.23-05-010

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) MOTION FOR A RULING AUTHORIZING SCE TO ESTABLISH THREE MEMORANDUM ACCOUNTS TO TRACK CERTAIN COSTS BEGINNING IN 2023 AND 2024

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I.

INTRODUCTION

Pursuant to Rule 11.1 of the California Public Utilities Commission (Commission) Rules of Practice and Procedure, Southern California Edison Company (SCE) submits this Motion requesting that the Assigned Commissioner or Assigned Administrative Law Judges (ALJs) in this proceeding issue a ruling or order authorizing SCE to establish the following three memorandum accounts:

(1) Advanced Metering Infrastructure 2.0 Memorandum Account (AMIMA), with an effective date of May 12, 2023, to record the revenue requirements for the 2023 and 2024 O&M expenses associated with planning for the project to replace SCE's aging smart meter fleet and associated infrastructure (the AMI 2.0 project)

(2) Cybersecurity Compliance Memorandum Account (CCMA), with an effective date of May 12, 2023, to record the revenue requirements associated with the incremental O&M expenses and capital expenditures that are incurred to adhere to new cybersecurity regulations and requirements

(3) NextGen ERP SAP Memorandum Account (NGESMA), with an effective date of January 1, 2024, to record the revenue requirements associated with O&M expenses

and capital expenditures for activities related to the implementation phase of the NextGen Enterprise Resource Planning (ERP) project

As discussed below, the costs SCE proposes to track in these three memorandum accounts are incremental, substantial, and not speculative.

So that SCE has clear regulatory guidance before it begins incurring these costs, SCE respectfully requests expedited disposition of this Motion, which could occur as soon as in the forthcoming scoping memorandum.

II.

BACKGROUND

SCE's Test Year 2025 General Rate Case (GRC) application was filed and served, along with SCE's opening testimony, on May 12, 2023. This application details, among other items, SCE's ratemaking proposals in this proceeding to establish, modify, and eliminate various balancing/memorandum accounts and recover certain memorandum account balances.[1] In the normal course, these proposals, which are supported by SCE's opening testimony in Exhibit SCE-07, Vol. 01, will be decided in late 2024 or early 2025 in the final decision resolving SCE's application. However, for three of these proposals—specifically, SCE's requests to establish the AMIMA, CCMA, and NGESMA—an earlier decision (and an earlier effective date) is needed so that SCE can proceed with necessary work in 2023 and 2024, without precluding cost recovery at a future date due to the rule against retroactive ratemaking.

A. Advanced Metering Infrastructure 2.0 Memorandum Account (AMIMA)

As discussed in SCE's application and testimony,[2] by 2028 approximately 80 percent of SCE's existing Advanced Metering Infrastructure (AMI) meters (AMI 1.0) will have been

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[1] *See* Application, Chapter IV.

[2] Application, Chapter IV.A; Exhibit SCE-02, Vol. 03, Chapter III; Exhibit SCE-07, Vol. 01, Chapter V.B.2.c.

installed in the field for more than 15 years. As SCE's meter fleet has aged, SCE has been experiencing an increase in failures year-over-year. This increasing failure rate impacts SCE's ability to provide its customers reliable, timely, and accurate billing and results in higher manual billing costs, and increased costs for personnel to troubleshoot and replace failed meters. The AMI 1.0-meter population is also experiencing technology obsolescence. Given the increasing meter failures, the risk of meter obsolescence, and inability to update the associated and necessary software, it is imperative that SCE begins the replacement process for its meter fleet and associated infrastructure to provide customers adequate billing services and avoid additional operational costs. Additionally, since SCE needs to replace the existing AMI system, it is prudent for SCE to build in capabilities that will be required during the life span of the new metering infrastructure and that can provide customer benefits in areas such as real-time energy data and more powerful customer energy management tools. This program is referred to as AMI 2.0.

SCE has included base-level planning costs for AMI 2.0 from 2023 through 2027 in its testimony in this proceeding for activities including capability definition, technology evaluation, and field testing. SCE subsequently intends to submit a separate application to the Commission in 2025 for the balance of the costs of the full AMI 2.0 deployment. Because SCE currently estimates that it will incur approximately $5 million in O&M expenses over 2023 and 2024 for planning costs for the new AMI system, however, and because this work was not included in SCE's 2021 GRC, SCE also seeks authorization to establish a new memorandum account, the AMIMA, with an effective date of May 12, 2023, to record the revenue requirements for the pre-Test Year O&M expenses associated with the planning costs for the new AMI project.[3] SCE proposes to seek recovery of the amounts recorded in the AMIMA in the forthcoming 2025 standalone AMI 2.0 application and, upon a finding of reasonableness by the Commission, SCE will transfer the balance in the AMIMA, including accrued interest, to the distribution sub-

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[3] SCE is seeking review and recovery for the planning capital expenditures in this GRC.

account of the Base Revenue Requirement Balancing Account (BRRBA) to be recovered in customers' distribution rates (or to an AMI 2.0-related balancing account and then to BRRBA depending on the cost recovery framework included in the standalone AMI 2.0 application).

B. Cybersecurity Compliance Memorandum Account (CCMA)

As discussed in SCE's application and testimony,[4] SCE is closely monitoring a variety of emerging mandatory cybersecurity standards that are at various stages of development and that would require additional investment to comply with. The federal government has on many occasions highlighted the significant cyber and physical security risks to critical grid infrastructure that utilities must be prepared to meet, and these comments have more recently been accompanied by calls to expand regulation for utility cybersecurity. For example, President Biden in March 2022 sent a letter to governors calling on public utilities commissions to explore the introduction of distribution-level cybersecurity mandates. Similar calls have been echoed by officials in various public appearances and the President's National Cybersecurity Strategy from March 2023 highlighted the importance of cybersecurity for the distribution system and distributed energy resources. Meanwhile, other federal agencies have introduced rulemakings on other cybersecurity mandates, such as increased reporting to the Cybersecurity and Infrastructure Security Agency and the Securities and Exchange Commission. The Department of Defense has also notified the sector that we will likely be subject to its forthcoming Cybersecurity Maturity Model Certification. Finally, various members of Congress have also expressed their desire to expand cybersecurity regulations, such as those for distribution cybersecurity and systemically important critical infrastructure. In light of this potential – but still undefined – wave of regulation, SCE expects to incur additional costs as early as 2023 to comply with new regulatory requirements. However, due to the uncertainty in the magnitude, scope, and timing, SCE was unable to accurately forecast these costs for inclusion in its 2025 GRC request.

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[4] Application, Chapter IV.A; Exhibit SCE-04, Vol. 03; Exhibit SCE-07, Vol. 01, Chapter V.B.2.e.

Therefore, SCE seeks authorization to establish a new memorandum account, the CCMA, with an effective date of May 12, 2023, to record the revenue requirements associated with the incremental O&M expenses and capital expenditures that are incurred to adhere to new cybersecurity regulations and requirements. SCE will present the costs recorded in the CCMA for reasonableness review and recovery in either SCE's annual Energy Resource Recovery Account (ERRA) Review proceeding or in a subsequent GRC. Upon a finding of reasonableness by the Commission, SCE will transfer the amounts recorded in the CCMA, plus accrued interest, to the distribution subaccount of the BRRBA for recovery in customers' distribution rates.

C. <u>NextGen ERP SAP Memorandum Account (NGESMA)</u>

SCE's core business data and functions – including its financial operations, human resources, asset and work management, and supply chains – run or flow through SAP. As the SAP Business Suite Enterprise Resource Planning (ERP) Platform reaches the end of its life cycle,[5] SCE faces increasing risk that added complexity and customizations, with the emergence of new technological advancements, will not be supported by the current platform. To help mitigate this risk, SCE plans to replace its current SAP with newer SAP cloud technology to broaden its digital capabilities across its business data and function. This program, which is referred to as NextGen ERP, will benefit customers not only by mitigating the risk posed by the current outdated ERP platform but also by enabling additional connections to other business systems across SCE that will enable multiple functionality improvements with respect to areas such as tax, procurement, and frequency and accuracy of customer notifications.

As discussed in SCE's application and testimony,[6] at the time of the filing of this GRC, SCE had recorded costs or high confidence estimates for three phases of the program through

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[5] SCE's current on-premises ERP system reaches end of life and end of SAP support in 2027.

[6] Application, Chapter IV.A; Exhibit SCE-06, Vol. 02, Chapter V.D.1; Exhibit SCE-07, Vol. 01, Chapter V.B.2.b.

mid-2024: solution planning, solution analysis phase 1, and solution analysis phase 2.[7] The program costs for executing the implementation and post-implementation phases, however, will not be known with enough certainty until the completion of solution analysis phase 2 in 2024 and, thus, were not included in either SCE's 2021 GRC or SCE's forecasts in this 2025 GRC. Therefore, SCE seeks authorization to establish a new memorandum account, the NGESMA, with an effective date of January 1, 2024, to record the revenue requirements associated with O&M expenses and capital expenditures for activities related to the implementation phase of the NextGen ERP project. SCE proposes to address the reasonableness and recovery approach for the amounts recorded in the NGESMA in a forthcoming 2024 NextGen ERP standalone application. Upon a finding of reasonableness by the Commission, SCE proposes to transfer the balance in the NGESMA, including accrued interest, to the distribution sub-account of the BRRBA to be recovered in customers' distribution rates, or to a NextGen ERP-related balancing account and then to BRRBA, depending on the cost recovery framework included in the standalone NextGen ERP application.

III.

APPLICABLE STANDARD REGARDING MEMORANDUM ACCOUNTS

A. Purpose and Function of Memorandum Account

"A memorandum account allows a utility to isolate and list costs related to a particular activity and later to seek to recover [] those costs in rates."[8] The Commission "require[s] such recovery from pre-approved memorandum accounts to avoid unlawful retroactive ratemaking," based on the "well established tenet . . . that ratemaking is done on a prospective basis."[9] It is the "Commission's practice . . . not to authorize increased utility rates to account for previously

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[7] SCE recorded $7.68 million in capital expenditures for solution planning, forecasts a total of $17.2 million in capital expenditures for solution analysis phase 1, and forecasts a total of $45.23 million in capital expenditures for solution planning phase 2. Exhibit SCE-06, Vol. 02, Chapter V.D.1.

[8] D.19-09-026, at p. 5.

[9] *Id.*

incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum or balancing account for possible future recovery in rates."[10]

A request to establish a memorandum account "falls within the broad outline of the acceptable uses of memorandum accounts [where an applicant] seek[s] to track and record incremental costs that, for various reasons, could not be included in [its] GRC [General Rate Case] or other ratemaking applications."[11] Where, for purposes of complying with a legal or regulatory obligation, a "utility is already incurring costs or expects to soon," but "is unable to rely on its GRC to collect costs in rates[,] . . . a memorandum account is the appropriate mechanism to provide the utilit[y] the opportunity to recover the costs in rates, provided these costs are found reasonable, to avoid retroactive ratemaking."[12] The Commission commonly grants requests to establish memorandum accounts under such circumstances.[13]

B. Relevant Factors

The costs recorded in a memorandum account must be "incremental," "substantial," and "not speculative."[14] Incremental costs are those "not already covered in rates" and include costs arising from the "[d]evelopment of new technologies and processes" that are not covered by existing ratemaking applications.[15] Costs that are "potentially significant" are "substantial" for purposes of establishing a memorandum account.[16] Costs that are "not speculative" include costs

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[10] *Id.* (citation omitted).
[11] *Id.*, at p. 6.
[12] *Id.*, at p. 7.
[13] *See* D.19-09-026; D.19-01-019; D.18-11-051; D.18-06-029.
[14] D.19-09-026, at p. 8. *See also* D.18-11-051, at p. 5 ("the Commission has recognized three reasons an application to establish a memorandum account will be denied: the costs are recoverable in a general rate case, are not substantial, or are speculative").
[15] D.19-09-026, at p. 8, n.22 (citation omitted).
[16] *Id.*, at p. 10.

tied to a specific mandate, even if it is not certain those costs will in fact materialize or the utility is "unsure of the exact amount of costs [it] will incur to implement" the mandate.[17]

C. Recovery Based on Subsequent Showing of Reasonableness

Recovery of the costs recorded in a memorandum account "is not automatic," but rather turns on a subsequent showing that such costs are "reasonable."[18] Thus, while the establishment of a memorandum account allows for tracking of incremental costs incurred in compliance with a new obligation, recovery of such costs is subject to a "reasonableness review . . . in the appropriate GRC or other ratemaking application,"[19] providing an additional layer of protection and review for customers.

D. Effective Date

The Commission has authority to "establish an effective date of a memorandum account prior to the date of the decision" authorizing that account.[20] Based on this authority, "the date of the filing of the application may be used as an effective date for any memorandum accounts."[21] Using the application filing date as the effective date for a memorandum account has been described by the Commission as "a longstanding practice."[22] To that end, there is recent precedent deeming a memorandum account effective as of the filing date of the application when a utility must incur costs to meet regulatory requirements prior to the Commission's final decision with respect to those costs, notwithstanding that the Commission grants the motion at a

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[17] *Id.*, at p. 9.
[18] *Id.*, at p. 7.
[19] *Id.*
[20] *Id.*, at p. 10 (citing, inter alia, Cal. Pub. Util. Code § 1731(a) ("[t]he [C]ommission may set the effective date of an order or decision before the date of issuance of the order or decision").
[21] D.21-12-005, p. 8. *See also* D.19-09-026, p. 10 ("Based on Commission precedent and statutory authority, we find it appropriate to establish effective dates of the memorandum accounts as of the date the [a]pplications were filed"); D.18-11-051, p. 8 ("The Commission finds that granting SCE's [memorandum account] effective as of the application's filing date does not constitute retroactive ratemaking").
[22] D.22-09-027, p. 4.

later date.[23] Similarly, "there is precedent for authorizing a memorandum account with an effective date prior to the Commission decision authorizing it, where the account is established not as a part of general ratemaking, but rather to account for unanticipated costs."[24]

IV.

DISCUSSION

A. The Relevant Factors Support Permitting SCE To Establish These Memorandum Accounts

As discussed above, establishing a memorandum account is appropriate to avoid retroactive ratemaking concerns, where the costs to be tracked in that account are incremental, substantial, and not speculative. These factors weigh in favor of granting SCE's request to establish the three memorandum accounts here.

First, the costs SCE intends to record and track in the proposed memorandum accounts are incremental costs not covered by prior ratemaking and not able to be included in this GRC for recovery on a forecast basis. The incremental 2023 and 2024 AMI 2.0 O&M expenses, which SCE proposes to track in the AMIMA were not included in SCE's 2021 GRC given uncertainty in the magnitude, scope, and timing for these costs at the time that application was filed. Similarly, the incremental O&M expenses and capital expenditures that SCE proposes to track in the CCMA for adhering to new cybersecurity regulations and requirements were not included in SCE's 2021 GRC due to the emergent nature of this need. Nor were any portion of these costs able to be included in this 2025 GRC for recovery on a forecast basis due to the uncertainty in the magnitude, scope, and timing for these costs. Finally, the NextGen ERP implementation costs, which SCE proposes to track in the NGESMA were not included in either

[23] *See e.g.*, D.19-09-026, p. 10; D.18-11-051, p. 8.
[24] D.18-06-029, p. 12.

SCE's 2021 GRC or this 2025 GRC since the magnitude and timing of these costs will not be known with enough certainty until the completion of the solution analysis phase 2 in 2024.

Second, the costs SCE intends to record and track in the proposed memorandum accounts will be substantial. As previously indicated, SCE is forecasting $5 million in O&M expenses over 2023 and 2024 for planning for the new AMI system. While the exact magnitude of O&M expenses and capital expenditures for adhering to new cybersecurity regulations and requirements and for implementing NextGen ERP are not known with certainty at this stage, SCE expects these costs to also be significant—millions of dollars for cybersecurity and hundreds of millions of dollars for NextGen ERP implementation.

Third, the costs SCE intends to record and track in the proposed memorandum accounts are not speculative. SCE must begin the replacement process for its meter fleet and associated infrastructure given the increasing meter failures, the risk of meter obsolescence, and inability to update the associated and necessary software. The planning SCE will begin in 2023 is necessary to select the appropriate hardware and software technologies and enable systemwide installation of devices, systems, and processes starting in 2027 or 2028 (at which time 80% of SCE's AMI 1.0 meters will have been installed in the field for more than fifteen years). SCE cannot conduct this planning work without incurring costs. Similarly, as discussed above, there are several emerging mandatory cybersecurity standards that are at various stages of development. When new regulations and standards materialize out of these developments, SCE will not be able to implement these regulations and standards without incurring costs. Finally, with SCE's current on-premises ERP system reaching end of life and end of SAP support in 2027, SCE must replace it. SCE began planning for the NextGen ERP project in 2020 and has already incurred costs to complete the solution planning phase. Over the next two years (2023 and 2024), SCE will incur further costs for the solution analysis phases 1 and 2, after which SCE will begin incurring costs for the implementation phase.

In light of these factors, the requested memorandum accounts are necessary and reasonable so that SCE can timely proceed with the actions necessary to plan for AMI 2.0, implement emerging cybersecurity regulations and standards, and begin the implementation phase of AMI 2.0, without precluding subsequent cost recovery. Additionally, with respect to the AMIMA and NGESMA in particular, the reasons for granting SCE's request for a memorandum account are also analogous to the reasons cited by the Commission in SCE's 2018 GRC in ordering SCE to establish a memorandum account to track costs for another large project to replace an old system with a new system, the Customer Service Re-Platform (CSRP):

> We have found a memorandum account may be warranted if the following factors are present: expenditures are caused by an event of an exceptional nature outside of the utility's control; not reasonably foreseen in the utility's last GRC; substantial in the amount of money involved; and, beneficial to the customers. SCE's forecasted O&M and capital expenditures [for CSRP] will be incurred due to the undertaking of an exceptional project. . . . [T]his project is outside of the utility's control and the anticipated costs and timing cannot be reasonably foreseen. It is also established there is a substantial amount of money involved and the project is anticipated to be beneficial to customers. Therefore, SCE shall establish a memorandum account to track these costs for review in the next GRC. For these same reasons and to avoid presenting an expense to ratepayers now for a project which may face changes and delays, we find it reasonable and proper for SCE to track its capital expenditures in the memorandum account as well.[25]

Finally, as discussed, recovery of costs tracked in a memorandum account involves a separate inquiry requiring a showing of reasonableness. As such, while the requested memorandum accounts will protect against retroactive ratemaking, the existence of the memorandum accounts will not guarantee recovery of the costs recorded therein absent subsequent Commission approval.

B. The Effective Dates of the Requested Memorandum Accounts Should Be the Date of the Application for AMIMA and CCMA, and January 1, 2024 for NGESMA

As explained above, the Commission has discretion to establish an effective date of a memorandum account prior to the date of the decision authorizing that account, including as of the filing date of the application to establish the account. It is appropriate for the effective date

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[25] D.19-05-020, pp. 160-61.

of the requested AMIMA to be the filing date of SCE's application, May 12, 2023, given that necessary planning work for AMI 2.0 must begin in 2023 to keep the project on track for full deployment starting in 2027 or 2028. Similarly, it is appropriate for the effective date of the requested CCMA to be the filing date of SCE's application, given the multitude of emerging mandatory cybersecurity standards that are at various stages of development. New cybersecurity mandates may get approved in 2023, and SCE must take steps immediately to comply with those mandates when they are issued. Finally, January 1, 2024 is an appropriate effective date for the requested NGESMA given that SCE is on track to complete the solution analysis phase 2 for the NextGen ERP project in mid-2024, at which time SCE will begin executing the implementation phase. Because recovery of the costs tracked in the requested memorandum accounts will depend on a separate determination of reasonableness, setting the effective date of each of these memorandum accounts as requested is in no way prejudicial to customers.

V.

CONCLUSION

For the foregoing reasons, SCE respectfully requests that the Assigned Commissioner or ALJs in this proceeding expeditiously issue a ruling or order approving the AMIMA, CCMA, and NGESMA with the requested scope and effective dates so that SCE has clear guidance before incurring these costs.

Respectfully submitted,

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