BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Order Instituting Rulemaking to Refine the Risk-Based Decision-Making Framework for Electric and Gas Utilities.	R.26-04-016

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) OPENING COMMENTS ON ORDER INSTITUTING RULEMAKING TO REFINE THE RISK-BASED DECISION-MAKING FRAMEWORK FOR ELECTRIC AND GAS UTILITIES

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I.

INTRODUCTION

Pursuant to the California Public Utilities Commission's (Commission's or CPUC's) "Order Instituting Rulemaking To Refine The Risk-Based Decision-Making Framework For Electric And Gas Utilities" issued on May 7, 2026 (Rulemaking), Southern California Edison (SCE) respectfully submits these Opening Comments.[1]

A. Discussion

The Rulemaking requests that parties comment on the following scoping and procedural questions:[2]

a) Whether changes to the preliminary scope of issues should be made;

b) Whether there are objections to the preliminary categorization of this proceeding;

c) Whether evidentiary hearings are needed;

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[1] The date for filing Opening Comments on the OIR is "30 days after OIR issued" (Rulemaking, p. 17). By SCE's calculation, that makes Opening Comments due June 8, 2026.

[2] Rulemaking, pp. 18 – 19.

d) Whether to hold workshop(s) on any of the following topics: Risk Tolerance, BCR Modifications, RAMP Schedule/Process, and/or SMJU Reporting; and

e) Whether there are any additional procedural issues that may impact just and efficient conduct of this OIR

SCE addresses each of these topics below.

1. <u>Whether changes to the preliminary scope of issues should be made</u>

The Rulemaking suggests a preliminary list of issues to frame the scope of this proceeding.[3] Below, SCE offers its initial thoughts and responses to the four topics (Risk Tolerance, RAMP Schedule and Process, Improvements to RDF BCR Calculations and Issues and SMJU Reporting) and associated issues[4] that the Rulemaking outlines.

SCE respectfully interprets the Rulemaking as not directing that parties must address each of the substantive questions included in Appendix A at this time. SCE reserves the right to supplement its position as the record develops and as additional guidance is provided through the scoping memo and workshops.

<u>*Risk Tolerance:*</u>

1. Should the Commission adopt a Risk Tolerance Standard or Framework for the RDF? If so, what standard or framework should the Commission adopt?

2. How should a Risk Tolerance Standard or Framework inform risk mitigation investments in GRC Phase 1 applications?

3. Should the Commission, and if so how, adopt a benchmark that reflects the level of common risks California utility customers face in their everyday lives? How should this benchmark inform risk?

SCE believes that the above-listed issues as set forth in the Rulemaking are relevant and within the scope of the Commission's Risk-Informed Decision-Making

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[3] Rulemaking, pp, 16 – 17.

[4] Rulemaking, pp, 16 – 17.

Framework (RDF). SCE emphasizes that the Commission should prioritize establishing and applying a clear, realistic, durable, and consistently applied risk tolerance framework in this proceeding. Fulfilling this critical goal requires that underlying BCR methodologies be sufficiently stable and well-defined to achieve internally consistent policy outcomes.

RAMP Schedule and Process

4. Should the Commission modify the Rate Case Plan to allow the SPD more time to complete its evaluation of a utility's RAMP application?

5. Should the structure of the formal schedule allow parties the option to provide informal comments on RAMP filings in addition to formal comments on RAMP filings and SPD evaluation report?

SCE is amenable to discussing potential modifications to the procedural schedule as outlined in the Rulemaking's Issues 4 and 5 (set forth immediately above). However, we caution that continued extensions, particularly for party comments and Safety Policy Division (SPD) review, may hinder the IOUs' ability to meaningfully incorporate changes into their respective General Rate Case (GRC) applications.

It is well-established that the party with the burden of proof requires reasonably lengthy lead time to develop GRC showings. This includes extensive and complex forecasting, modeling, testimony and workpaper preparation, and internal governance (including detailed senior management review and feedback). Thus, late-stage changes to RAMP requirements are not realistic, and may be infeasible to implement, carrying the risk of introducing misalignment between RAMP and GRC filings.

Additionally, parties may benefit from first evaluating the Commission's review of the current RAMP cycle (and the first application of certain new requirements) before advancing further changes. Premature or iterative modifications, such as a change in BCR methodology from RAMP to GRC within a short timeframe, risk creating unproductive and even wasteful reworking of significant portions of the rate case showing and substantially impact the orderly and timely processing of rate case proceedings.

Improvements to RDF BCR Calculations

Below, SCE addresses the two specific issues that that Commission sets forth for this topic in the Rulemaking. As an overarching point, SCE recommends that rather than continuing to modify Benefit-Cost Ratio (BCR) calculations, the Commission should first establish a stable BCR methodological baseline and then subsequently finalize risk tolerance determinations. SCE has previously commented on the interdependency between these two concepts.

BCR calculations have evolved multiple times across successive IOU RAMP/GRC cycles. These iterative changes may limit utilities' ability to perform meaningful, apples-to-apples comparisons between utilities and across rate case cycles.

As reflected in SCE's recently-filed 2026 RAMP Application, the purpose of RAMP is to identify, evaluate, and prioritize safety risks using a structured, Commission-endorsed risk framework, with BCRs serving as an important analytical input but not the sole or determinative factor or metric. A BCR does not take into account certain operational realities, resource constraints, detailed feasibility reviews, and other factors that SCE (or other utilities) must consider in developing its mitigation plan. For example, if one were to consider PSPS as an ignition mitigation, then despite a seemingly attractive BCR score there are critical practical and regulatory limits to how much PSPS can be deployed. SCE tries to minimize the use of PSPS given the hardships they cause for our customers.

The Commission has repeatedly confirmed the flexibility surrounding use of BCRs. Among other pronouncements, the Commission has stated the following in the Risk OIR:

- "Although we adopt Staff's proposed Cost-Benefit Approach, 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. Instead, as with the RSE [Risk Spend Efficiency] values produced by the MAVF [Multi-Attribute Value Function] approach, while Cost-Benefit Ratios must be used by the IOUs to rank risk mitigations in GRC applications, they need not be the only consideration in the utility's selection of Mitigations."[5]

- "The utility's proposed Enterprise Portfolio, including its Mitigation and Control Programs selection, Risk Reporting Unit prioritization, and Risk Mitigation Portfolio optimization can be influenced by Benefit-Cost Ratios and other factors *including, but not limited to, funding, labor resources, technology, planning and construction lead time, compliance requirements, Risk Tolerance thresholds, operational and execution considerations, and modeling limitations and/or uncertainties affecting the analysis*."[6]

Accordingly, repeated changes to BCR methodologies, including differing ways of treating cost components such as Present Value Revenue Requirement (PVRR)and Operations and Maintenance (O&M) costs or savings, introduce unnecessary variability that can hinder an "apples-to-apples" comparison and inadvertently lessen transparency. In contrast, a consistent articulation of acceptable levels of residual risk (i.e., risk tolerance) informed by a stable and comparable BCR framework, would provide a more reliable and policy-relevant benchmark for evaluating mitigation portfolios. This is particularly true when significant prior investments have already materially reduced baseline risk.

SCE therefore encourages the Commission to sequence the Rulemaking's examination of these issues so that BCR methodology is first clarified or stabilized. It can

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5 D.22-12-027 (Risk OIR Phase 2 Decision), p. 26.

6 D.25-08-032 (Risk OIR Phase 4 Decision), Appendix A, Risk-Based Decision-Making Framework, p. A-22 (emphasis added).

then be applied as a consistent analytical foundation in the second step of developing and implementing risk tolerance.

6. Should the Commission adopt a standard method to treat O&M expenses in the calculation of BCRs?

As noted above, SCE believes the focus of this rulemaking should be appropriately centered on risk tolerance, supported by a stable and transparent BCR framework, rather than continually reconsidering underlying BCR formulations. This is particularly important given that SCE recently filed its 2026 RAMP in compliance with the Phase IV Decision in R.20-07-013 (Risk OIR). To the extent BCR issues remain within the scope of this proceeding, SCE recommends that the Commission narrowly focus such discussions on discrete methodological clarifications, such as the treatment of O&M savings rather than introducing broader structural changes that have already been examined (e.g., PVRR incorporation) and raise ratemaking policy considerations beyond the scope of this proceeding.

7. Should the Commission require BCR calculations to be based on an estimated ratepayer PVRR in the RDF?

The Commission should not require that BCR calculations in the RDF include PVRR estimates. Including PVRR may improve representation of lifecycle costs for long-term investments. However, as noted above, its mandatory incorporation into BCR calculations introduces broader ratemaking and cost allocation considerations that are more appropriately addressed through the Rate Case Plan and GRC processes, rather than in this proceeding.

Further, including PVRR could introduce inconsistencies if applied unevenly across activities or asset types. This would undermine one of the core objectives of the RDF, namely the ability to compare mitigation alternatives on a consistent and transparent basis. Absent a fully standardized and universally applicable framework for incorporating PVRR, its inclusion can reduce comparability and increase analytical complexity without corresponding policy benefit.

SMJU Reporting

8. Should the Commission require Alpine and WCG to file RSAR reports based on the requirements for other utilities in D.22-10-002?

SCE does not take a position at this time regarding potential modifications to SMJU reporting requirements.

2. Whether there are objections to the preliminary categorization of this proceeding

SCE does not object to categorizing this rulemaking as "quasi-legislative" and agrees that such a designation is appropriate given the broad policy questions under consideration, including the potential development of risk tolerance frameworks and overarching methodological guidance applicable across utilities. Importantly, the predecessor proceeding (R.20-07-013) was classified at quasi-legislative through all four phases of that rulemaking.[7]

3. Whether evidentiary hearings are needed

SCE recognizes the significance of the issues before the Commission in this proceeding – particularly the development of a Risk tolerance framework, and the importance of ensuring that any resulting policies are grounded in a complete and well-developed factual record. This can include input and guidance from third-party experts in the risk field.

Given the potentially consequential nature of risk tolerance determinations, SCE believes that evidentiary hearings on Risk Tolerance might be warranted. Although SCE is not requesting evidentiary hearings at this time, the Commission should allow "room"

[7] *See, e.g.,* R.20-07-013, Assigned Commissioner's Phase 4 Scoping Memo And Ruling, p. 13.

for evidentiary hearings in the procedural schedule in case hearings ultimately prove to be necessary as the record develops.

SCE emphasizes the importance of ensuring that all parties are afforded a fair and transparent process to present their proposals, provide written comments on the proposals of others, and participate in workshop(s) that facilitate constructive dialogue. This approach will foster a robust and more complete record that reflects a full range of stakeholder perspectives for the Commission's careful consideration. In the event material factual disputes arise that cannot be adequately resolved through the workshop and comment process, then SCE would support the scheduling of evidentiary hearings and therefore respectfully reserves the option to seek to further address the most critical issues as needed through hearings at the appropriate time.

4. Whether to hold workshop(s) on any of the following topics: Risk Tolerance, BCR Modifications, RAMP Schedule/Process, and/or SMJU Reporting

Yes, SCE believes that the Commission should convene a separate series of workshops on proposed modifications to the BCR and risk tolerance framework, if the Commission moves forward with potential BCR modifications. These workshops should be designed with a formal and structured format that allows all parties to meaningfully prepare and participate, present proposals, leverage third-party experts as warranted, and engage in substantive discussion.

We recommend that the Commission organize these workshops into two coordinated and sequential tracks. The first track should focus on BCR methodology (if the Commission is inclined to consider changes to the current BCR methodology). This first track would be followed by a second series of workshops addressing risk tolerance. As previously explained above, sequentially establishing BCR methodology first is critical. Methodological choices such as, in particular, the treatment of O&M costs and savings, directly influence mitigation evaluation, comparability across portfolios, and resulting investment rankings.

In SCE's experience in its recent RAMP application, BCR is a foundational component of portfolio optimization under the Phase IV Decision of the Risk OIR. As such, any modifications to BCR formulations will have significant downstream implications for how projects are selected and prioritized. Because these BCR outputs may also be used to inform the Commission's consideration of risk tolerance, resolving BCR methodology first is essential to ensure a consistent and analytically sound foundation for subsequent policy determinations.

Following the development of party proposals, workshops, and any resulting refinements on BCR methodology, the Commission should then address risk tolerance in the second track. Determinations regarding acceptable levels of residual risk (i.e. risk tolerance) are inherently dependent on the cost-effectiveness metrics used to evaluate mitigation performance. Addressing these topics sequentially will promote internal consistency between how risk reduction per dollar spent is measured and how broader considerations of affordability and acceptable risk levels are balanced.

We also note that BCR methodology is already under active consideration in Application (A.) 26-02-005 through the Staff White Paper issued in connection with Resolution SPD-37. Any modification to the BCR framework will necessarily extend beyond undergrounding projects and will affect the evaluation of a multitude of mitigation alternatives and utility investments across enterprise risks. This includes the items considered in RAMP and GRC proceedings. Accordingly, the proper venue to evaluate changes, if deemed necessary, is this proceeding rather than that more narrowly-focused application.

With respect to the treatment of O&M expenses in BCR calculations, we support adoption of a standardized methodology that includes net O&M costs in the denominator alongside capital expenditures, such that total resource costs are compared directly against risk reduction benefits in the numerator. This approach preserves a clear and intuitive "risk reduction per dollar spent" framework and aligns with longstanding Commission practice.[8]

Maintaining consistency with previously adopted BCR methodologies is important to preserve comparability across prior RAMP and GRC cycles. Accordingly, any proposed changes to the BCR framework should be clearly justified, including an explanation of why the modification is necessary and whether its benefits outweigh the loss of comparability over time. Absent such justification, retaining the current methodology provides continuity, transparency, and stability in regulatory decision-making.

5. Whether there are any additional procedural issues that may impact just and efficient conduct of this OIR

As noted above, we reiterate our recommendations that the Commission adopt a more formal and structured workshop process to support the efficient and effective conduct of this proceeding. Workshops should be designed to allow all parties to meaningfully prepare, participate, present proposals, and engage in substantive, constructive dialogue.

In addition, the Commission should provide sufficient time between the issuance of scoping questions and/or requests for proposals to enable parties to develop well-supported positions, review the submissions of other parties, and prepare informed responses, including counterproposals where appropriate.

Establishing a clear, transparent, and predictable workshop framework, with defined timelines, opportunities for iterative feedback, and structured engagement, will

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[8] *See* D.14-12-025, at §II (establishing the principle that safety investments should be evaluated within a broader framework to achieve risk mitigation at the lowest practicable cost). *See also* D.22-12-027 and D.25-08-032 (establishing the BCR as a core metric to evaluate mitigation effectiveness based on monetized benefits relative to cost within the RDF framework).

help ensure the development of a robust and more complete record, promote procedural fairness, and support well-vetted and durable policy outcomes.

II.

CONCLUSION

SCE appreciates the opportunity to provide these Opening Comments on the Rulemaking. We look forward to productive collaboration and thought exchanges with the Commission and other stakeholders as this proceeding advances.

Respectfully submitted,

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