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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) REPLY COMMENTS ON ORDER INSTITUTING RULEMAKING TO REFINE THE RISK-BASED DECISION-MAKING FRAMEWORK FOR ELECTRIC AND GAS UTILITIES

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I. INTRODUCTION

Southern California Edison Company (SCE) respectfully replies to other parties' opening comments regarding the Order Instituting Rulemaking to Refine the Risk-Based Decision-Making Framework for Electric and Gas Utilities (OIR). As the Administrative Law Judge and Assigned Commissioner review and consider the various opening comments, four overarching concerns emerge as central to this proceeding, based on the inputs from parties.

First, several parties assert that affordability should directly inform risk tolerance. However, the relationship between affordability and safety concerns must be carefully judged. The divergence in party positions in opening comments highlights that threshold concerns regarding the establishment of a risk tolerance framework must be resolved before any meaningful discussion on a concrete proposal can occur. Additionally, caution must be exercised in any assumption that lower up-front utility infrastructure-related costs—in and of themselves—are always beneficial or more affordable for customers and communities. From a policy perspective, discussing affordability concerns when defining risk tolerance may incorrectly assume that affordability and safety are zero-sum tradeoffs that must be sacrificed for one another. Instead, they are complementary goals where proactive safety improvements,

even ones that appear to cost more at an initial read, can make the system more affordable for customers in the long run, not less so. It is crucial to recognize that a "tradeoff" between safety and affordability is in certain ways an illusory concept. When the Commission initiated the risk-informed decision-making framework (RDF), it declared: "The human suffering caused by these events [San Bruno gas explosion] is overwhelming. Families lost loved ones and an entire community endured widespread destruction. The depth of this tragedy *is the source of our resolve to take all actions necessary to ensure that it never happens again*."[1]

It is not affordable for customers to have an electrical system that is vulnerable to catastrophic events and widespread damage. Catastrophic wildfires associated with utility infrastructure alone have resulted in tens of billions of dollars of damage over the last eight years.[2] Ultimately, those costs can be paid to a significant degree by customers as a cost of service, either directly or indirectly.[3] Thus, even without consideration of the human and community tolls imposed by catastrophic events (including wildfires), it is more appropriate *and* affordable to avoid catastrophic events through mitigation efforts, rather than to pay for them after the fact.[4]

SCE believes that affordability is an important consideration in this proceeding. But it should not be a litmus test when assessing whether or not a specific risk mitigation portfolio warrants authorization, especially before first defining and testing a practical risk tolerance framework. Based on longstanding Commission practice, affordability considerations are more appropriately considered through established ratesetting proceedings such as General Rate Cases (GRCs). In such proceedings, the reasonableness of

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1 R.11-02-019, Order Instituting Rulemaking on the Commission's Own Motion to Adopt New Safety and Reliability Regulations for Natural Gas Transmission and Distribution Pipelines and Related Ratemaking Mechanisms, p. 1 (emphasis added).

2 Li, Z., & Yu, W. (2025, March 3). Economic impact of the Los Angeles wildfires. UCLA Anderson Forecast. https://www.anderson.ucla.edu/about/centers/ucla-anderson-forecast/economic-impact-los-angeles-wildfires. (Estimating that total property and capital losses from the January 2025 Los Angeles wildfires could range from $76 billion to $131 billion and identifying the Palisades Fire and Eaton Fire as the most destructive fires in the event.)

3 For example, please refer to Assembly Bill (AB) 1054 (2020) and Senate Bill (SB) 254 (2025), which collectively have capitalized the State's Wildfire Fund with $20 billion of customer contributions.

4 The Commission's 2023-2028 GRC authorizations for all three large IOUs' wildfire mitigation-driven undergrounding programs cumulatively total less than $5 billion.

requested utility investments is determined and costs are authorized for rate recovery, which necessarily and robustly considers the cost and affordability of investments compared to the need and benefits. This position is consistent with other parties who caution that affordability should not be conflated with risk tolerance at the framework development stage.

Second, the Commission should carefully distinguish between a rigid risk tolerance standard versus a more practical and flexible risk tolerance framework. A rigid standard would not appropriately reflect the differences across utilities in system characteristics, risk profiles, operational constraints, and risk capacity. A framework-based approach should provide the necessary flexibility to support risk-informed decision-making while maintaining transparency, consistency, affordability, and practicality (including operational feasibility).[5] Absent a workable proposal that is fully informed by, and aligned with, the utility's obligations to serve in a safe and reliable manner, it is premature at the least to try to establish rigid requirements.

Third, any risk tolerance framework or proposal must specify *whose* risk tolerance is embedded into the process. As discussed in the RDF Phase IV proceeding and subsequent Joint IOU Risk Tolerance survey,[6] risk tolerance varies significantly across stakeholder groups and cannot reasonably be reduced to a single representative value. Different stakeholders may have very different risk tolerances, and attention must be paid to which stakeholder bears cost responsibility for the outcomes if a risk incident were to occur.

Fourth, it is clear from the opening comments that parties are united in wanting a workable and practical risk tolerance approach. The Commission can solicit party proposals after Staff submits a proposal establishing a common set of conceptual and analytical foundation elements for a risk tolerance

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5 While SCE disagrees with a number of The Utility Reform Network's (TURN) characterizations in its opening comments, SCE notes that TURN refers to risk "frameworks" as well as risk "standards." *See*, *e.g.*, TURN Opening Comments, at pp. 4-5.

6 Pacific Gas and Electric Company (PG&E), Southern California Edison Company, and San Diego Gas & Electric Company (SDG&E), R.20-07-013 – RDF Phase IV Joint IOU Risk Tolerance Survey, (2025) (submitted pursuant to Decision (D.) 25-08-032).

framework. This product from Staff must be carefully and fully informed by the review and comment of parties, notably the utilities that manage the electric system and the attendant risks.[7]

Also, it may be advisable to pilot key aspects of any agreed-upon proposal or approach so that actual data and experience can be factored in before a Commission-endorsed solution is arrived at. Risk tolerance is not an abstract concept, and its application can negatively impact safety (human lives) and property (including damage to homes, schools, and businesses).

II.

A PRACTICAL, TRANSPARENT, AND IMPLEMENTABLE RISK TOLERANCE FRAMEWORK WOULD BE NEEDED

A. A Clear and Understandable Staff Proposal is Required

As reflected in opening comments, SCE broadly agrees with TURN and the Public Advocates Office (Cal Advocates) that transparency and verifiability are essential to any Risk Tolerance mechanism the Commission may adopt.[8] However, the record is unclear as to whether the Commission is prioritizing a rigid risk tolerance standard (which SCE opposes) or a more flexible risk tolerance framework (which SCE supports).

This distinction between having a standard versus a framework is foundational to how any proposals that parties may wish to advance should be developed and evaluated. The absence of clarity on this threshold issue further underscores the need for a Staff-led work product to establish a common foundation. As stated above, this Staff proposal must be informed by utility input and suitably reflect the utility's responsibility to provide safe and reliable service. Collectively, the record to date demonstrates that, prior to soliciting party-specific proposals, the Commission should direct Staff to develop a

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[7] Procedurally, appropriate time should be built in to give a full and fair opportunity for comments to be prepared and considered.

[8] *See* TURN Opening Comments at pp. 7–8; Cal Advocates Opening Comments at pp. 2–4.

sufficiently clear, transparent,[9] and operational proposal that establishes a common conceptual and analytical foundation for further stakeholder input.[10]

B. A Phased and Iterative Approach to Developing a Risk Tolerance Is Warranted

In opening comments, parties also indicate broad agreement that any risk tolerance construct must be developed through a deliberate and sequenced process rather than by immediately adopting fixed requirements.[11]

For instance, the Joint Utilities explicitly recommend "a separate, deliberate process" for risk tolerance development and caution that "incremental modifications without a comprehensive evaluation" can create "ambiguity and unintended consequences."[12] SCE echoes this concern that any Staff proposal must be informed not only by broader policy considerations, but also by the real-world operational role of utilities in managing electric and gas system risks while maintaining safe and reliable service.[13] PG&E likewise stresses that any risk tolerance construct should be supported by a robust evidentiary record, and states that proposals should be submitted through testimony and subjected to formal review to ensure a complete factual basis for Commission decision-making.[14]

Mussey Grade Road Alliance (MGRA) additionally emphasizes that developing a risk tolerance approach requires resolving foundational issues, including the relationship between "risk tolerance and risk attitude" and the treatment of scaling functions within the broader risk framework.[15]

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9 For example, TURN expressly warns that a risk tolerance construct may become opaque and unworkable if its mechanics are not clearly articulated, cautioning that implementation could devolve into "a black box of highly complex assumptions and calculations – an impenetrable process." TURN Opening Comments at pp. 3, 7–8.

10 *See* TURN Opening Comments at pp. 7–8; SDG&E and Southern California Gas Company (Joint Utilities) Opening Comments at pp. 4–5; SCE Opening Comments at pp. 7–10.

11 *See* Joint Utilities Opening Comments at pp. 3–5; PG&E Opening Comments at pp. 4–6; MGRA Opening Comments at pp. 6–10.

12 *See* Joint Utilities Opening Comments at pp. 3–4.

13 *See* Joint Utilities Opening Comments at pp. 4–5; SCE Opening Comments at pp. 3–6.

14 *See* PG&E Opening Comments at pp. 3–6.

15 *See* MGRA Opening Comments at pp. 3–6, 8–10.

TURN, for its part, questions whether development of an abstract risk tolerance framework would be workable or beneficial at all, expressing skepticism that such an effort would "prove fruitful" unless grounded in practical considerations and warning that it may consume significant resources with little resulting public benefit.[16] TURN goes on to state that, if the Commission elects to proceed with a risk tolerance inquiry, that Staff should first develop a proposal that can serve as the starting point for discussion.[17]

Collectively, these comments confirm that the record does not yet support immediate adoption of a comprehensive risk tolerance construct and instead supports a phased and iterative approach that first establishes foundational definitions, structure, methodology, and testing before any implementation occurs. This phased approach is particularly important given the cross-cutting nature of risk tolerance across RDF components, including Benefit-to-Cost (BCR) methodology, risk scaling, and portfolio optimization. For these same reasons, the Commission should also consider piloting key aspects of any prospective approach before broader implementation, so that actual experience and data can inform further refinement.

C. It Is Premature for the Commission to Link Affordability to Risk Tolerance

While TURN, Cal Advocates, and MGRA argue that affordability should be incorporated into risk tolerance, they each have differing concepts of how this could be achieved, demonstrating that no consistent analytical framework currently exists to operationalize that relationship.[18]

TURN argues that customers' tolerance for utility risk is significantly influenced by affordability, stating that "for most residents, their tolerance of utility risk is likely to be significantly influenced by how much utility spending they feel they can afford."[19] Cal Advocates similarly contends that affordability "helps determine how much residual risk ratepayers can support" and recommends that bill

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16 *See* TURN Opening Comments at pp. 2–5.
17 *See* TURN Opening Comments at pp. 5, 7–8.
18 *See* TURN Opening Comments at pp. 2–5; Cal Advocates Opening Comments at pp. 15–19; MGRA Opening Comments at pp. 6–9.
19 *See* TURN Opening Comments at pp. 6–8; Appendix A at pp. 10–13.

impacts be explicitly incorporated into a risk tolerance construct.[20] MGRA goes further and proposes that the definition of risk tolerance should expressly include "the willingness and ability to bear the cost of risk mitigation."[21]

Countering these arguments, the Joint Utilities state that affordability should not be "conflated with risk tolerance" and that risk tolerance should instead be defined first, with affordability addressed separately thereafter.[22] SCE likewise explained in its opening comments that affordability is an important consideration, but one that should not be tethered formulaically to a specific risk tolerance construct, at least until a workable and practical framework has been defined and tested.[23] PG&E also noted that risk tolerance directly affects both safety as well as rates (i.e., a proxy for affordability) but did not propose embedding affordability into the definition itself and instead stressed the need for a complete record before adoption of any standard.[24]

The current record therefore does not support incorporating affordability into the architecture of risk tolerance, because doing so would effectively assume a settled analytical relationship that parties themselves have not defined consistently. Moreover, as SCE explained in its opening comments, and reaffirms in these reply comments, framing affordability and safety as a zero-sum tradeoff is conceptually unsound because prudent safety investments can avoid catastrophic harms that themselves unaffordable for customers and communities.[25] Even TURN acknowledges that safety and cost are balanced within established ratemaking processes, further supporting that this tradeoff is more productively addressed outside the definition of risk tolerance itself.[26]

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20 *See* Cal Advocates Opening Comments at pp. 15–19.
21 *See* MGRA Opening Comments at pp. 6–8.
22 *See* Joint Utilities Opening Comments at pp. 3–4.
23 *See* SCE Opening Comments at pp. 3–6.
24 *See* PG&E Opening Comments at pp. 2–5.
25 *See* SCE Opening Comments at pp. 3–6; Joint Utilities Opening Comments at pp. 3–4.
26 *See* TURN Opening Comments, Appendix A at pp. 10–11.

D. A Commission-Driven Risk Tolerance Framework Must Preserve the Transparency and Analytical Clarity of BCRs as Measures of Risk Reduction Benefit

SCE agrees with PG&E that any Commission-driven risk tolerance framework must preserve the definition of "Benefit" as a measure of risk reduction,[27] and the transparency, comparability, and analytical integrity of BCRs as measures of risk-reduction benefit relative to mitigation costs.[28] BCRs function as the primary analytical signal linking mitigation investments to quantified risk-reduction outcomes, and their structure must preserve that relationship. This principle is especially important here because several parties propose changes to BCR treatment that would materially alter what the metric communicates and, in doing so, which risks diminishing its usefulness as a measure of mitigation performance.[29]

TURN supports revisions to BCR treatment, including standardization of O&M treatment and use of Present Value Revenue Requirement (PVRR) in the denominator, and argues that lifetime revenue requirement is a more accurate representation of utility costs.[30] Cal Advocates similarly advocates for treatment of avoided O&M costs as benefits (instead of defining such costs as "costs") and for greater use of PVRR, while also criticizing what it describes as "diverse and arbitrary methods" currently used by utilities to assess mitigation costs and risk reductions.[31]

However, similar to SCE, PG&E appropriately cautions against BCR methodologies that "convolute the calculated mitigation risk reduction by combining cost elements, i.e., avoided costs and mitigation program savings, in the numerator," because those approaches distort the metric's ability to measure risk reduction performance.[32] PG&E further explains that treating a cost offset such as O&M

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27 *See* D.4-05-064, Appendix A, p. A- 3 (emphasis added). "Benefit - The reduction in Risk, as measured by the changes in Attribute levels, that would occur when a program or set of activities are implemented."

28 *See* SCE Opening Comments at pp. 4–10; PG&E Opening Comments at pp. 2, 8–10. *See also* D.4-05-064, Appendix A, p. A- 19. Row 25 "Benefit- Cost Ratio" (For capital programs, the costs in the denominator should include incremental expenses made necessary by the capital investment.).

29 *See* TURN Opening Comments at pp. 5–6; Cal Advocates Opening Comments at pp. 18–23.

30 *See* TURN Opening Comments at pp. 5–6.

31 *See* Cal Advocates Opening Comments at pp. 2–4, 18–23.

32 *See* PG&E Opening Comments at pp. 2, 9–10.

savings as a benefit in the numerator is "problematic because it may lead to prioritization of projects with low risk reduction and high O&M savings," thereby weakening BCR as a tool for helping identify the most effective mitigations.[33]

SCE raised similar overarching concerns in its opening comments, explaining that repeated methodological changes to BCR calculations can reduce "apples-to-apples" comparability across utilities and across rate case cycles.[34] SCE further explained that BCRs serve as "an important analytical input" within the RDF because they help identify, evaluate, and prioritize safety risks through a structured framework, even though they are not the sole determinant of mitigation selection.[35]

That function is compromised if the numerator no longer exclusively reflects risk-reduction benefits but instead combines analytically distinct concepts such as monetized safety benefits with avoided utility spending. Once cost offsets are moved into the numerator, the resulting metric no longer transparently answers the central comparative question the Commission needs BCRs to answer, which is: *How much risk reduction is achieved for the net costs required to implement the mitigation?*

In certain circumstances, Cal Advocates even agrees that projects may appear more attractive not because they reduce more risk, but because they produce larger accounting offsets, thereby diminishing the interpretability of the benefit, and weakening the metric's usefulness when prioritizing risk mitigation portfolios.[36] This is not merely a methodological concern. The BCR formulation directly affects mitigation selection and mitigation portfolios, as well as achievable risk reduction and the remaining residual risk. In other words, it affects lives and communities.

Accordingly, while the Commission may continue to evaluate refinements to cost treatment, SCE and PG&E strongly recommend that any refinements preserve the core analytical role of BCRs as transparent measures of risk-reduction benefit relative to total mitigation cost, and as one factor among others in the decision-making process. Consequently, any risk tolerance framework that weakens that

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33 *See* PG&E Opening Comments at pp. 9–10.
34 *See* SCE Opening Comments at pp. 4–8.
35 *See* SCE Opening Comments at pp. 4–7.
36 *See* Cal Advocates Opening Comments at pp. 19–20.

relationship would make the framework less transparent, less comparable, and less useful as a decision-support tool.

III.

CONCLUSION

The opening comments in this proceeding demonstrate that parties agree on one central point: if the Commission is to proceed with development of a risk tolerance construct, it must be practical, transparent, and grounded in a clearly articulated analytical framework rather than abstract theory. Additionally, parties appear to support a phased and iterative process, including appropriate testing of any resulting framework prior to implementation.

The Commission should therefore avoid prematurely attempting to embed affordability within risk tolerance, should preserve the analytical clarity and appropriate role of BCRs, and should ensure that any future proposal reflects the central role of utilities in managing safety-based risks and being responsible for the outcomes of risk events.

Respectfully submitted,

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