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

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| Joint Application of Pacific Gas and Electric Company (U 39-E), Southern California Edison (U 338-E) and San Diego Gas & Electric Company (U 902-E) Requesting Commission Approval of Proposals for a BCR Calculation Methodology, Audit Methodology, and Cost Recovery Conditions as Specified in Resolution SPD-37. | Application A.26-02-005<br>(Filed February 9, 2026) |
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# MUSSEY GRADE ROAD ALLIANCE REPLY BRIEF REGARDING JOINT IOU APPLICATION, STAFF BCR CALCULATION WHITE PAPER, AND PARTY COMMENTS AND REPLIES

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# 1. INTRODUCTION

Pursuant Rule 13.12 of the Rules of Practice and Procedure, the schedule set forth in the April 10, 2026 Scoping Memo,[1] and the ALJ DeAngelis email response to the Phase 1 Schedule Question,[2] the Mussey Grade Road Alliance (MGRA) files this Reply Brief.

## 1.1. Procedural History

The procedural history for this proceeding is related in MGRA's Opening Brief, filed on August 7, 2026.[3] Other parties including PG&E,[4] Cal Advocates,[5] EPUC[6] and TURN[7] filed briefs at that time.

This reply brief addresses issues raised by the other parties and will concentrate on the issue of risk scaling.

This reply brief was prepared by Joseph W. Mitchell, Ph.D.

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[1] A.26-02-005; ASSIGNED COMMISSIONER'S SCOPING MEMO AND RULING; April 10, 2026. (Scoping Memo)

[2] Email: From Regina DeAngelis; 9/3/2026, 12:05 pm; A.26-02-005 | Phase 1 Application | Schedule Question.

[3] A.26-02-005; MUSSEY GRADE ROAD ALLIANCE OPENING BRIEF REGARDING JOINT IOU APPLICATION, STAFF BCR CALCULATION WHITE PAPER, AND PARTY COMMENTS AND REPLIES; August 7, 2026; pp. 3-4. (MGRA Brief)

[4] A.26-02-005; OPENING BRIEF OF PACIFIC GAS AND ELECTRIC COMPANY (U 39-E), SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E); August 7, 2026. (Joint IOU Brief)

[5] A.26-02-005; OPENING BRIEF OF THE PUBLIC ADVOCATES OFFICE; August 7, 2026. (Cal Advocates Brief)

[6] A.26-02-005; OPENING BRIEF OF THE ENERGY PRODUCERS AND USERS COALITION; August 7, 2026. (EPUC Brief)

[7] A.26-02-005; OPENING BRIEF OF THE UTILITY REFORM NETWORK (TURN) ON JOINT APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY, SOUTHERN CALIFORNIA EDISON, AND SAN DIEGO GAS & ELECTRIC COMPANY REQUESTING COMMISSION APPROVAL OF PROPOSALS FOR A BCR CALCULATION METHODOLOGY, AUDIT METHODOLOGY, AND COST RECOVERY CONDITIONS AS SPECIFIED IN RESOLUTION SPD-37; August 7, 2026. (TURN Brief)

### 1.2. Recommendations

#### 1.2.1. Risk Scaling

Regarding risk scaling MGRA recommends that:

- Utilities should submit not only alternative risk estimates using risk neutral scaling, but also an alternative portfolio using risk neutral scaling. The latter may be a subset of the application based on the IOU risk scaling function.
- Utilities should provide full justification for their risk scaling function, as per the suggested guidance in the previous section.
- The Commission has the authority and flexibility to adopt or reject either portfolio, in full or with modifications.
- A rejection of a portfolio based on inadequacy of a scaling function may be deemed a rejection.
- Should the utility develop a new scaling function that is compliant with Commission requirements, this should proceed through an application to modify the EUP.
- The Commission should participate in and oversee the development of a common utility scaling function such as that suggested by OEIS in its most recent WMP decisions. Applications to modify any current EUPs based on the new risk scaling function may be issued once this work is complete.

## 2. RISK SCALING

### 2.1. Summary of MGRA Position on Risk Scaling

MGRA briefing and comment have shown that the risk scaling functions provided by SDG&E and PG&E are faulty and not fit for use in EUP proceedings. The alternative, risk neutral scaling, is often adopted by regulatory bodies,[8] and would be entirely appropriate until such a time as a well-reviewed common risk attitude approach is adopted. Other intervening parties argue for this approach. While a risk neutral attitude is valid and supportable, the question of risk scaling is currently being litigated in the PG&E and SDG&E rate cases and the outcome of these proceedings

[8] MGRA Brief; pp. 14-15.

remains to be determined. Additionally, while the new RDF proceeding R.26-04-016 does not explicitly have risk scaling as part of its scoping,[9] it is inevitable that the topic will arise and need to be addressed because risk attitude and risk tolerance are so closely intertwined. The current proceeding may reach a final decision before any of these other proceedings, and so its determination may set precedent for them, as well as for the EUPs. MGRA therefore suggests an alternative that does not force a decision between risk neutral scaling and risk functions created by PG&E or SDG&E as an outcome of this phase, but rather would require EUP applications to contain an application that contains both a risk neutral approach and a risk scaled approach (if the company so desires), allowing the Commission to accept or reject either as part of its EUP evaluation.[10] By the time EUP applications come before the Commission, there will be more clarity as to the validity of current utility risk scaling functions and the characteristics of what a logically, scientifically, and legally defensible risk scaling function should be.

### 2.2. Joint IOU Brief

The Joint IOU Brief is a curtailed version of the Joint IOU Comments and Replies, and contains no substantive new information or argument. All substantive issues raised by the Joint IOU Brief have already been addressed in the MGRA Brief. This Reply Brief therefore provides a brief summary and cites to the MGRA Brief where appropriate.

#### 2.2.1. Permissibility of Utility Risk Scaling

Joint IOUs argue that prior Commission decisions allow utilities to use a risk scaling function.[11] The MGRA Brief provides an extensive response to this claim,[12] arguing that:

- Public Utilities Code §451 does not allow the Commission to delegate ratemaking authority to the utilities, and that risk scaling is a determinant of rates,
- D.24-05-064 at pp. 93-94 recognizes that risk attitude is a matter of preference,
- D.24-05-064 at p. 97 states that risk scaling is not necessary to address uncertainty,

[9] R.26-04-016; ASSIGNED COMMISSIONER'S SCOPING MEMO AND RULING; July 20, 2026.
[10] MGRA Brief; pp. 26-28.
[11] Joint IOU Brief; pp. 27-28.
[12] MGRA Brief; pp. 9-12.

- Rulings in the PG&E and SDG&E RAMP proceedings require a neutral baseline to be submitted in addition to any scaled values,[13] and subsequently also determined in D.25-08-032 at p. A-10.

The Joint IOU Brief states that the additional submission of risk-neutral BCR values is "for transparency".[14] The Joint IOUs state their preferred interpretation of this requirement in their Application: "*The IOUs do not object to reporting BCR values both with and without a scaling function in the EUP as long as a large electrical corporation is allowed to make mitigation decisions based on either scaled or unscaled BCRs, consistent with the RDF*."[15]

D.25-08-032 does not state that utilities are "*allowed to make mitigation decisions based on either scaled or unscaled BCRs*," rather that they must report both methods in their filings. As the MGRA Brief observes:

"*The Commission's determination raises the question that if, as the Joint IOUs maintain, the utilities have the right to set their own risk scaling function, what purpose does supplying risk-neutral risks and BCRs serve? We must conclude that the Commission will compare these calculations with an eye to determining whether the risk scaling function is reasonable. If the risk scaling function is not reasonable, the Commission would have the option of rejecting the application in its entirety, or accepting only portions of the application that would be supported by risk-neutral scaling*."[16]

#### 2.2.2. Proper estimation of tail risk

Joint utilities use ambiguous language to misdirect the reader toward improper conclusions. One example of this is the use of the word "value": "*Risk-averse scaling is necessary to properly*

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[13] MGRA Brief. Cites:
A.24-05-008; ADMINISTRATIVE LAW JUDGE'S RULING TO PACIFIC GAS AND ELECTRIC COMPANY DIRECTING THE SERVICE OF ADDITIONAL INFORMATION AND OTHER REQUIREMENTS; April 22, 2025. (ALJ RAMP Ruling); p. 8.
[14] Joint IOU Brief; p. 13.
[15] A.26-02-005; JOINT APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY (U 39-E), SOUTHERN CALIFORNIA EDISON (U 338-E) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) REQUESTING COMMISSION APPROVAL OF PROPOSALS FOR A BCR CALCULATION METHODOLOGY, AUDIT METHODOLOGY, AND COST RECOVERY CONDITIONS AS SPECIFIED IN RESOLUTION SPD-37; February 9, 2026; p. 10. (Application)
[16] MGRA Brief; p. 12.

*value tail risks, such as the catastrophic San Bruno explosion, Camp Fire, and Eaton Fire events*."[17] As MGRA's Brief discusses, "value" in the context of risk attitude is a relative term. The EPRI paper cited in MGRA's Brief and Comment is titled "Value Modeling for Reliability of Distribution and Transmission Systems", which explicitly states that in order to choosing a risk attitude with multiple stakeholders requires that "*the relevant people must reach a consensus about the value model.*"[18]

The Joint IOUs therefore imply that risk scaling is required to accurately estimate high-end tail risk losses. As the MGRA Brief points out adopting a power law model allows utilities to estimate high-end losses without appeal to risk scaling.[19] The requirement to provide linear scaling BCRs in addition to any scaled BCR is explicitly tied to the use of power laws, which may be argued is an attempt to prevent the double-counting of tail risk: D.25-08-032 states that "*if a utility chooses to address tail risk using the power law or other statistical approach and chooses to present Risk-Adjusted Attribute Levels by relying on a convex scaling function, then it must supplement its analysis by also presenting Risk-Adjusted Attribute Levels by relying on a linear scaling function*."[20]

### 2.2.3. Risk aversion

Another example of ambiguous language that misdirects the reader is the use of the term "risk aversion" in different contexts. The term "risk aversion" can be used to denote the dislike or avoidance of a risk: "*It is beyond dispute that customers and the public are highly averse to these types of events*."[21] However in the context of risk scaling the question is "*whether to apply a risk-averse scaling function to the BCR*."[22] This has the specific contextual meaning that a convex risk scaling function is chosen over a "risk neutral" scaling function, as stated in D.25-08-032 Appendix A. However, even a "risk neutral" function "avoids" risk and supports mitigation measures. Risk

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[17] Joint IOU Brief; p. 27.
[18] MGRA Brief; p. 13; Cites:
Bloom, J., 2006. Value Modeling for Reliability of Distribution and Transmission Systems (No. 1012501). Electric Power Research Institute; p. 2-1. (EPRI Report)
[19] MGRA Brief; pp. 16-18.
[20] D.25-08-032; Appendix A; A-10.
[21] Joint IOU Brief; p. 27.
[22] Id.

neutrality simply means that the amount to be spent should be limited by the long-term expected losses, i.e. a linear scaling function.

Another example of ambiguous language is the implicit assumption that if a risk-averse scaling function is warranted, then *any* risk-averse scaling function put forward by an IOU must be adopted by the Commission as a basis for ratemaking. The MGRA Brief as well as filings in other proceedings demonstrate that the risk scaling functions suggested by PG&E and SDG&E are flawed in a number of ways rendering them unfit for use.[23] MGRA's Comments and Brief suggest that if the Commission determines that a risk-averse attitude is justified then a common well-founded basis for the risk scaling function should be developed by the Commission and stakeholders.[24]

Consider the following example given by the Joint IOUs:
"*Over the course of one year, 7,000 random people lacerate a finger while preparing dinner versus neighbors who are seriously injured due to an explosion. These two events have similar risk neutral expected values, yet the public's aversion to the explosion event is likely much higher than to finger lacerations*."[25]

This is a hypothetical which should be considered with a different framing. If faulty IOU equipment sent 7,000 people to the emergency room for stitches, this would also be a major scandal and would have significant legal, regulatory, and reputational impact. While it is a human reaction to avoid mass casualty events, and other industries have adopted risk scaling tied to fatalities,[26] it is also a mistake to underweight the cumulative effect of more widespread but lesser harm. Adoption of risk neutrality is not an unreasonable stance and has been adopted by governmental bodies.

#### 2.2.4. Deferred infrastructure

The Joint IOUs make other hyperbolic claims regarding the failure to use IOU scaling functions: "*cost-effective mitigations would be pushed into the future, and residual wildfire risk would increase…*"[27] These are opposite conclusions than those dictated by facts. Accurate BCRs

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[23] MGRA Brief; pp. 20-25.
[24] MGRA Brief; p. 27.
[25] Joint IOU Brief; p. 27.
[26] MGRA Brief; p. 20.
[27] Op. Cite.

ensure that the most cost-effective projects are prioritized. And the residual wildfire risk will be reduced by the program, no matter what form of risk scaling is adopted. Finally, "*failure to use risk scaling would result in significant future costs if high-consequence wildfire risk were to materialize*."[28] What this sentence neglects to say that adopting risk averse scaling results in significant future risk mitigation costs <u>that most probably exceed future high consequence wildfire costs.</u> That is the meaning of risk-averse scaling – the willingness to pay more than the probability-weighted expected loss in order to avoid the loss.

### 2.2.5. Risk Neutrality

Finally the Joint IOU Brief attacks the principle of risk neutrality, stating that "*while several intervenors propose to eliminate risk scaling in favor of "risk neutral" BCRs, such a proposal conflicts with common sense, societal expectations, safety, and cost considerations. Intervenors have also failed to provide any credible evidence or argument that customers or society are "risk neutral*."[29]

On the contrary, the MGRA Brief establishes that risk neutrality is a reasonable choice. MGRA cites cases in which governments choose risk neutral scaling because the risk is pooled between residents.[30] The MGRA also cites a review paper (Rheinberger and Treich) covering numerous studies in different domains that finds that the case of whether people are catastrophe-averse or not is inconclusive.[31] MGRA analysis provides sufficient academic and regulatory support for a risk neutral attitude. As stated by the Commission, government agencies, and academics, it should be emphasized that the risk attitude chosen is a matter of choice.

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[28] Id.
[29] Id.; p. 28.
[30] MGRA Brief; pp. 14-15.
[31] MGRA Brief; p. 14.

### 2.3. Party Positions on Risk Scaling

Parties Cal Advocates,[32] TURN,[33] and EPUC[34] have adopted a similar position similar to MGRA's, specifically that:

- The IOU risk scaling functions provided to date are faulty and should not be used.
- Risk neutral BCRs should be used to evaluate projects submitted in EUPs
- The Commission may at a later date plan a rulemaking to develop a robust risk-scaling function if this is deemed desirable.

MGRA supports the position of these intervenors and would be pleased if their recommendations were adopted. However, risk aversion is under scrutiny in other dockets and these are still under review and litigation. If risk neutrality were determined to be the policy across all dockets that would be supportable by the record, in fact MGRA is and has been arguing in these dockets that a risk neutral approach is greatly preferable to the risk scaling approaches developed by PG&E and SDG&E.

However, the determination in the present proceeding may precede determinations in other dockets, and the Commission may not want to set precedent for those dockets, which are supported by large evidentiary records. For this reason, MGRA has suggested that utilities provide EUP applications that either provide an alternative set of projects supported by risk neutral scaling if the utility wishes to have its risk scaling function considered, or whose application is clearly subdivided into projects that would be supported under risk neutral scaling even if the utility's proposed risk scaling function is rejected.[35] There are a number of advantages to this approach:

- It does not require the current phase of the proceeding to make a determination on either PG&E's or SDG&E's risk scaling function.
- It provides a method for EUPs to be partially approved and continue even if the utility risk scaling function is rejected.
- It provides a path forward to a common Commission-approved risk scaling function.

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32 Cal Advocates Brief; pp. 9-14.
33 TURN Brief; pp. 13-15.
34 EPUC Brief; pp. 17-18.
35 MGRA Brief; pp. 26-28.

## 3. CONCLUSION

The conclusion in MGRA's Brief[36] provides a complete summary of the MGRA position in this phase of the EUP process, and it does not need to be repeated here. The Joint IOU Brief brings up no new information not already addressed in MGRA filings and does not change any of MGRA's conclusions. Filings by other intervenors supporting the adoption of risk neutrality are welcome, but the proposed MGRA approach is designed to be more robust and allow the Commission additional flexibility both in EUP filings and in pending rate cases.

Respectfully submitted this 8th day of September, 2026,

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[36] MGRA Brief; pp. 31-32.