

Decision 22-09-015 September 15, 2022

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California
Edison Company (U338E) for
Authorization to Recover Costs
Recorded in Its Customer Service
Re-Platform Memorandum Account.

Application 21-07-009

**DECISION ADOPTING TRACK 1 SETTLEMENT AGREEMENT
ADDRESSING SOUTHERN CALIFORNIA EDISON
COMPANY'S RECORDED CUSTOMER SERVICE
RE-PLATFORM COSTS AND BENEFITS**

Summary

This decision adopts an uncontested Settlement Agreement addressing the costs and benefits recorded in Southern California Edison Company's (SCE's) Customer Service Re-Platform Memorandum Account through April 2021, as well as the processes to recover the revenue requirements associated with these amounts. The total revenue requirement authorized through this decision is \$388.330 million, consisting of \$12.851 million for the initial revenue requirement through April 2021, and approximately \$375.479 million for the on-going revenue requirement from May 2021 through December 2024. SCE is directed to file a Tier 1 Advice Letter within 30 days of the effective date of this decision to implement the specific terms of the Settlement Agreement approved by this decision. Consistent with the terms of the settlement, the initial revenue requirement (*i.e.*, through April 2021) will be put into rates as soon as practicable and shall be amortized over a period of not less than 12 months.

This proceeding remains open.

1. Background

On July 22, 2021, Southern California Edison Company (SCE) filed Application (A.) 21-07-009 for authorization to recover in rates the costs tracked in its Customer Service Re-Platform Memorandum Account (CSRPMA).¹ The CSRPMA tracks costs associated with SCE's Customer Service Re-Platform (CSRP) project, which replaced SCE's legacy Customer Service System in April 2021 with a new enterprise customer relationship and billing system to perform core customer service-related functions, such as generating customer bills, processing payments, enabling customer account management, and providing customer access to SCE rates and programs.²

On July 22, 2021, SCE also served a copy of an independent audit report conducted by TMG Consulting on SCE's Track 1 request, entitled "Opinion on Costs of Southern California Edison's Customer Service Re-Platform Project," dated July 2021.

On July 27, 2021, SCE filed a motion seeking authorization to modify Preliminary Statement Part N.56 of the CSRPMA.

On August 23, 2021, The Utility Reform Network (TURN) and the California Choice Energy Authority and Clean Power Alliance of Southern California (SoCal CCAs) filed a protest and a response to the Application, respectively. On September 2, 2021, SCE filed a reply to the protest and response.

A prehearing conference (PHC) was held on October 1, 2021, to determine parties and discuss the scope, schedule, and other procedural matters. During the PHC, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) requested and was granted party status in the proceeding.

¹ The Commission authorized the establishment of the CSRPMA in Decision (D.) 19-05-020. (See D.19-05-020 at 159-161.)

² SCE Application at 1-2.

On November 5, 2021, SCE served an errata to its direct testimony to adjust the CSRPMA by reducing operations and maintenance (O&M) expenses that were found to be non-incremental.

On November 5, 2021, the assigned Commissioner issued a Scoping Memo and Ruling (Scoping Memo) dividing the proceeding schedule into two tracks. Track 1, which is the subject of this decision, includes the costs and benefits recorded in the CSRPMA from January 2017 through April 2021, as well as SCE's proposed process to recover the revenue requirement associated with these costs.

Track 2 includes the costs and benefits recorded in the CSRPMA from May 2021 through project closure in December 2021, as well as SCE's proposed process to recover the revenue requirement associated with these costs. In addition, Track 2 will consider SCE's proposals for review and recovery of forecast incremental O&M expenses and benefits for ongoing CSRP system support and maintenance, covering January 2022 until SCE's next general rate case (GRC).

The Scoping Memo also addressed SCE's July 27, 2021 motion to modify the CSRPMA, and directed SCE to serve supplemental Track 1 testimony. In compliance with the Scoping Memo, SCE served supplemental Track 1 testimony on December 10, 2021.

On March 17, 2022, TURN served its prepared Track 1 direct testimony. No other intervenor submitted prepared testimony. SCE served its Track 1 rebuttal testimony on April 19, 2022. On May 6, 2022, SCE served an errata to its Track 1 rebuttal testimony.

On May 20, 2022, SCE, on behalf of itself and TURN (Settling Parties), served notice of a settlement in principle and requested that evidentiary hearings in Track 1 of the proceeding be suspended. On May 23, 2022, the assigned Administrative Law Judge (ALJ) issued an email ruling cancelling the scheduled evidentiary hearings and suspending the Track 1 procedural schedule.

On May 23, 2022, pursuant to Rule 12.1(b) of the Commission's Rules of Practice and Procedure (Rules), SCE provided notice of its intent to conduct an all-party settlement conference. In its notice, SCE indicated that all parties stipulated to waiving the seven-day notice requirement. The all-party settlement conference was held on May 26, 2022.

On June 16, 2022, SCE, on behalf of the Settling Parties, filed a joint motion for approval of the Track 1 Settlement Agreement (Joint Motion for Approval of Settlement Agreement). The Track 1 Settlement Agreement (Settlement Agreement) is included as Attachment B to this decision. On June 16, 2022, SCE concurrently filed a joint motion on behalf of the Settling Parties to offer Track 1 prepared testimony into evidence.

2. Litigation Positions

SCE's Track 1 request sought two forms of relief: First, SCE asked the Commission to deem as just and reasonable the total incremental costs recorded in the CSRPMA from project inception in January 2017 through the deployment of the new CSRP system in April 2021. SCE's recorded Track 1 costs and benefits correspond with the first five phases of the CSRP project,³ totaling approximately \$482.6 million in direct capital expenditures, \$33.1 million in O&M expenses, and \$2.7 million in reimbursable CSRP O&M benefits.⁴

Second, SCE requested authorization to recover approximately \$378.490 million in revenue requirements associated with the incremental Track 1 CSRP costs, consisting of a \$45.298 million credit to customers for the revenue requirement through April 30, 2021, and \$423.788 million for the forecast on-going revenue requirement from May 2021 through December 2024 (until the CSRP-related expenditures can be included in a GRC revenue requirement, which for SCE is anticipated to occur with its Test Year

³ Including (1) Plan and Analyze, (2) Design, (3) Build, (4) Test, and (5) Deploy. (See Ex. SCE-01 at 1-2.)

⁴ Ex. SCE-01, Table I-1 at 3 and 79-80; Ex. SCE-01E at 88E.

2025 GRC).⁵ SCE proposed to include the initial revenue requirement in its next consolidated rate change following a final Commission decision in Track 1. SCE further proposed to transfer the balance recorded in the CSRPMA for the ongoing Track 1 capital-related revenue requirement to the distribution sub-account of the Base Revenue Requirement Balancing Account (BRRBA), where it would be reviewed annually as part of SCE's Energy Resource Recovery Account (ERRA) Review application until the approval and implementation of SCE's Test Year 2025 GRC.⁶

TURN provided three recommendations in its direct testimony: First, TURN recommended that SCE be directed to remove \$34.3 million⁷ of capital investments from rate base associated with investments to SCE's legacy Customer Service System (CSS), which TURN argued became "stranded" through SCE's decision to replace CSS.⁸

Second, TURN recommended a \$238 million disallowance to SCE's Track 1 request corresponding to a 12-month extension of the CSRP project in late 2019. TURN contended that this extension and budget increase were caused by SCE's imprudent management of the CSRP project. In support of this contention, TURN: (1) highlighted that HCL, a key vendor and lead system integrator for the CSRP project, had underperformed on the project since 2018 but was not replaced by SCE until December 2019; (2) pointed to internal SCE documents concerning delays due to solution gaps and complexities encountered; (3) contended that the \$238 million budget increase was not cost-effective; and (4) argued that TMG Consulting's opinion, which found SCE's CSRP costs to be reasonable, was biased and not credible.⁹

Finally, TURN recommended that SCE be directed to account for CSRP

⁵ Ex. SCE-04E1 at 32E-33E.

⁶ Ex. SCE-01 at 98-99.

⁷ Based on capital investments for CSS that were still in rate base in 2017 or later. (See Ex. TURN at 3-4.)

⁸ Ex. TURN-02 at 1-4.

⁹ *Id.* At 4-13.

cloud-based software costs as expenses, rather than capitalizing these costs as proposed by SCE. While acknowledging that the Financial Accounting Standards Board (FASB) updated its accounting guidance in 2018 to allow companies to capitalize certain cloud-hosted software costs, TURN argued that: (1) the Commission should not be compelled to comply with the updated FASB guidance, which would unnecessarily increase ratepayer costs over the long term; (2) capitalization of cloud-based hosted software was not universally agreed upon by all of the FASB members, and SCE's proposed ratemaking treatments lacked Commission precedent; and (3) SCE had not provided sufficient descriptions to justify its capitalization of certain identified cost categories.¹⁰

TURN did not submit testimony concerning SCE's proposed process for recovering the initial and ongoing Track 1 revenue requirement.

In rebuttal, SCE asserted it did not make any investments in CSS that were stranded, or that were not otherwise necessary to provide core customer service and billing functionalities and to meet new regulatory mandates. SCE further explained that, while CSS no longer functioned as SCE's core customer service and billing system, the CSS mainframe would continue to run in "read only" mode and act as data storage for other systems until its decommissioning, scheduled year-end 2022.¹¹

Concerning TURN's proposed \$238 million disallowance, SCE contended, among other things, that: (1) the CSRP project challenges encountered were not the result of SCE mismanagement; (2) SCE acted reasonably in response to the project challenges encountered, including HCL's underperformance, which was primarily caused by HCL resource turnover issues outside of SCE's control; (3) TURN's focus on the cost-effectiveness of the CSRP ignored SCE's 2018 GRC decision and the Scoping Memo for

¹⁰ Ex. TURN-01 at 4-17.

¹¹ Ex. SCE-04 at 18-20.

this proceeding, the technology obsolescence of SCE's legacy CSS, and the nature of the additional costs incurred; (4) TURN's criticisms of TMG Consulting were without merit, and largely ignored the substance of TMG's testimony; and (5) TURN's use of the 2019 CSRP forecast budget increase was not an appropriate basis for disallowing an equivalent amount of recorded costs, failed to correspond to individual components which may have been avoided absent SCE's purported imprudence, and included costs for the Stabilize phase of the CSRP project which are at issue in Track 2 of this proceeding.¹²

Finally, SCE explained that the core CSRP software is on-premise, internal-use software; only the front-office customer-relationship management solution is cloud-hosted. SCE further clarified that it only capitalized software implementation costs, and not cloud software licensing costs, which were recorded as O&M expenses. Because FASB accounting guidance allows for the capitalization of implementation costs associated with internal use software, SCE contended that it was appropriate to capitalize all implementation costs for the core CSRP software under generally accepted accounting principles (GAAP), including the costs to develop and integrate the cloud-based front-office solution. Further, even if there was a basis to assess the implementation of the cloud-based front-office solution differently, SCE contended that GAAP would still allow for the capitalization of cloud-based software implementation costs under the updated 2018 FASB guidance cited by TURN. Lastly, SCE walked through the specific cost categories identified by TURN and contended it had appropriately capitalized each category pursuant to GAAP and the Federal Energy Regulatory Commission Uniform System of Accounts.¹³

¹² *Id.* at 4-17.

¹³ *Id.* at 21-28.

3. Settlement Agreement

3.1. SCE's Track 1 CSRP Capital Expenditures, O&M Expenses, and Reimbursable Benefits

The Settlement Agreement stipulates to the recovery of \$435.6 million in capital expenditures (*i.e.*, a \$47 million reduction to SCE's full request of \$482.6 million),¹⁴ \$33.1 million in O&M (*i.e.*, SCE's full request), and \$2.7 million in reimbursable O&M benefits (*i.e.*, SCE's full request). Additionally, the Settlement Agreement requires SCE to accelerate recovery of \$38 million of the total \$435.6 million stipulated to in capital expenditures, which would result in this \$38 million being excluded from rate base.¹⁵

3.2. Track 1 Revenue Requirement

Based on the terms above, the resulting revenue requirement is \$388.330 million, consisting of \$12.851 million for the revenue requirement through April 30, 2021 (*i.e.*, the initial revenue requirement) and approximately \$375.479 million for the on-going revenue requirement from May 2021 through December 2024 (*i.e.*, until the revenue requirement is included in SCE's Test Year 2025 GRC).¹⁶ Since recovery of the \$38 million excluded from rate base is accelerated in the initial period, and since there are fewer tax benefits flowing to customers from the capital reduction, the revenue requirement under the terms of the Track 1 Settlement Agreement is higher than SCE's full request through 2024;¹⁷ however, the total revenue requirement is expected to be

¹⁴ As part of the Track 1 Settlement Agreement, SCE agrees "to permanently exclude \$47 million of Track 1 CSRP capital expenditures from rate base and agrees that it will not seek recovery from customers for these capital expenditures or their associated revenue requirements." (*See* Settlement Agreement, Section 4.A.1.)

¹⁵ Settlement Agreement, Section 4.A.

¹⁶ *Id.* Section 4.B.

¹⁷ Accounting for all errata and corrections, SCE's requested Track 1 revenue requirement was \$378.490 million, consisting of a \$45.298 million credit for the initial revenue requirement through April 20, 2021, and \$423.788 million for the forecast on-going revenue requirement from May 2021 through December 2024. (*See* Ex. SCE-4E at 32E-33E.)

reduced, as compared to SCE's full request, by approximately \$53 million (nominal) over the life of the assets, from 2021-2028.¹⁸

The Settling Parties agree that SCE's proposed process to recover the initial revenue requirement and ongoing Track 1 revenue requirement are reasonable. The Settling Parties also agree that SCE shall not remove from rate base any capital investments associated with SCE's legacy CSS.¹⁹

3.3. Resolution of All Issues

The Settling Parties agree that the Settlement Agreement would fully resolve all issues raised by TURN in Track 1. Further, given the scope of TURN's disallowance proposal in Track 1, which included costs for the Stabilize phase that are at issue in Track 2, as part of the settlement TURN agrees not to contest or challenge in Track 2 the recorded capital expenditures incurred during the Stabilize phase of the CSRP project.²⁰

4. Standard of Review

Pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure,²¹ the Commission will not approve a settlement, whether contested or uncontested, unless it is "reasonable in light of the whole record, consistent with law, and in the public interest." As a matter of policy, the Commission generally favors settlements of disputes if they are fair and reasonable in light of the record.²² This policy supports many goals, including reducing the expense of litigation, conserving limited

¹⁸ Joint Motion for Approval of Track 1 Settlement Agreement at 10.

¹⁹ Settlement Agreement, Sections 4.B-4.C.

²⁰ *Id.* Section 4.D.

²¹ Unless otherwise specified, all references to a Rule or Rules are to the Commission's Rules of Practice and Procedure.

²² D.14-12-040 at 15; D.11-12-053 at 72.

Commission resources, and allowing parties to reduce the risk that litigation will produce an unacceptable result.

5. Discussion and Analysis

SCE and TURN are the only active parties in Track 1 of this proceeding, and the Settlement Agreement is unopposed. For the reasons discussed below, we find the Settlement Agreement to be reasonable in light of the whole record, consistent with law, and in the public interest, as required pursuant to Rule 12.1(d). Therefore, the Settlement Agreement is approved without modification. Consistent with the terms of the settlement, the initial revenue requirement (*i.e.*, through April 2021) will be put into rates as soon as practicable and shall be amortized over a period of not less than 12 months.

5.1. Reasonableness in Light of the Whole Record

The Settling Parties assert that the Settlement Agreement, which was reached only after discovery and investigation, preparation of testimony exhibits, and careful arm's length negotiations, represents a reasonable resolution that balances the range of Track 1 litigation positions and various interests affected in this proceeding.²³

Based on our review of this record, we find the Settlement Agreement is reasonable in light of the whole record. The Settlement Agreement reflects a compromise among the range of material issues addressed in SCE's and TURN's direct and rebuttal testimony, and errata thereto, and falls within a reasonable range of outcomes that might have been reached had SCE's Track 1 request been fully litigated.

²³ Joint Motion for Approval of Track 1 Settlement Agreement at 12-13.

5.2. Consistency with the Law

The Settling Parties assert the terms of the settlement agreement comply with all applicable statutes, rules, prior Commission decisions, and interpretations thereof.²⁴

We agree the Settlement Agreement is consistent with the law. SCE recorded the incremental CSRP project costs and benefits, and filed the immediate application requesting their review and rate recovery, consistent with D.19-05-020 and D.21-08-036.²⁵ Further, SCE provided notice to customers affected by the potential Track 1 rate changes pursuant to Rule 3.2(d),²⁶ and the process for conducting the Track 1 settlement was made in accordance with Article 12 of the Commission's Rules of Practice and Procedure.

5.3. In the Public Interest

The Settling Parties assert that the signatories to the Settlement Agreement, SCE and TURN, make up the only two active parties in Track 1 of this proceeding; that the interests of residential and small commercial customers have been represented through TURN's participation; and that the Settlement Agreement, if adopted by the Commission, would reduce the expense and risks of continued litigation, and provide more certainty to customers regarding their present and future costs.²⁷

Generally, a utility rate request may only be approved if it is found to be "just and reasonable."²⁸ In this instance, and as detailed in the Scoping Memo

²⁴ *Ibid.*

²⁵ See D.19-05-020 at 159-161; D.21-08-036 at 377-378.

²⁶ See SCE's September 16, 2021, proof Rule 3.2 compliance filing in A.21-07-009.

²⁷ Joint Motion for Approval of Track 1 Settlement Agreement at 13-14.

²⁸ See Public Utilities Code § 451.

for this proceeding, the Commission previously determined that the CSRP project is anticipated to be beneficial to customers, that SCE should continue with the CSRP as planned, and that the CSRPMA should be established for SCE to track the costs and benefits of the project.²⁹

With this context in mind, and considering the filings, testimony, and exhibits in this proceeding, we conclude the CSRP project is justified, and find the total Track 1 revenue requirement, as provided in the Settlement Agreement, to be both reasonable and in the public interest. The agreed-upon revenue requirement represents a significant reduction to SCE's full request and proposed level of capital expenditures to be recovered from rate base, resulting in an expected ratepayer savings of approximately \$53 million (nominal) over the life of the CSRP assets. Further, the Settlement Agreement is consistent with the Commission's well-established policy of supporting the resolution of disputed matters through settlement, and avoids the time, expense, and uncertainty of evidentiary hearings and further litigation.

6. Joint Motion Offering Track 1 Prepared Testimony into Evidence

Concurrent with the Joint Motion for Approval of Track 1 Settlement Agreement, on June 16, 2022, SCE, on behalf the Settling Parties, filed a Joint Motion to Offer Track 1 Prepared Testimony into Evidence. SCE's motion is uncontested and is granted. The exhibits entered into evidence are identified and admitted as set forth in Attachment A to this decision.

7. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. Code and

²⁹ See D.19-05-020 at 148 and 160-161; also, Scoping Memo at 5.

Rule 14.6I(2), the otherwise applicable 30-day period for public review and comment is waived.

8. Assignment of Proceeding

Genevieve Shiroma is the assigned Commissioner and Ehren D. Seybert is the assigned ALJ in this proceeding.

Findings of Fact

1. In D.19-05-020, the Commission determined that the CSRP project is anticipated to be beneficial to customers, that SCE should continue with the CSRP as planned, and that the CSRPMA should be established for SCE to track the costs and benefits of the project.

2. SCE recorded the costs and benefits of the CSRP project to the CSRPMA and filed A.21-07-009 for Commission review of those costs and benefits and for authorization to recover the associated revenue requirements in rates.

3. The June 16, 2022 Joint Motion for Approval of the Track 1 Settlement Agreement is uncontested.

4. SCE provided notice to customers affected by the potential Track 1 rate changes, consistent with Rule 3.2(d), and the process for conducting the Track 1 settlement was made in accordance with Article 12 of the Rules of Practice and Procedure.

5. The Settlement Agreement reflects a reasonable compromise of the parties' respective litigation positions on material issues.

6. The Settlement Agreement is expected to result in a total revenue requirement reduction of \$53 million (nominal) over the life of the CSRP assets, from 2021-2028, as compared to SCE's request in rebuttal testimony (including all errata and corrections).

7. The June 16, 2022 Joint Motion to Offer Track 1 Prepared Testimony into Evidence is uncontested.

Conclusions of Law

1. The Settlement Agreement is reasonable in light of the whole record.
2. The Settlement Agreement is consistent with the law.
3. The Settlement Agreement is in the public interest.
4. The June 16, 2022 Joint Motion to offer Track 1 Prepared Testimony into Evidence should be granted.

IT IS ORDERED that:

1. The Settlement Agreement between Southern California Edison Company and The Utility Reform Network, attached to this decision as Attachment B, is approved.
2. Southern California Edison Company shall file a Tier 1 Advice Letter within 30 days of the effective date of this decision to implement the specific terms of the Settlement Agreement approved in this decision.
3. The June 16, 2022 Joint Motion of Southern California Edison Company and The Utility Reform Network to Offer Track 1 Prepared Testimony into Evidence is granted.
4. Application 21-07-009 remains open.

This order is effective today.

Dated September 15, 2022, at Clovis, California.

ALICE REYNOLDS

President

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

DARCIE L. HOUCK

JOHN REYNOLDS

Commissioners

Attachment A

SCE CSRPMA Track 1 Exhibit List, A.21-07-009

Exhibit No.	Title	Party	Date Served
SCE-01	Direct Testimony in Support of Southern California Edison Company's Request for Authorization to Recover Costs Recorded in its Customer Service Re-Platform Memorandum Account – Track 1 (Costs Through April 2021)	SCE	7/22/2021
SCE-01E	Errata – Direct Testimony in Support of Southern California Edison Company's Request for Authorization to Recover Costs Recorded in its Customer Service Re-Platform Memorandum Account – Track 1 (Costs Through April 2021)	SCE	11/5/2021
SCE-01E2	2 nd Errata – Direct Testimony in Support of Southern California Edison Company's Request for Authorization to Recover Costs Recorded in its Customer Service Re-Platform Memorandum Account – Track 1 (Costs Through April 2021)	SCE	4/8/2022
SCE-02	TMG Consulting Opinion on Costs of Southern California Edison Company's Customer Service Re-Platform Project	SCE	7/22/2021
SCE-03	Supplemental Testimony in Support of Southern California Edison's Application for Authorization to Recover Costs Recorded in its Customer Service Re-Platform Memorandum Account – Track 1 (Costs Through April 2021)	SCE	12/10/2021
SCE-04	Southern California Edison Company's Rebuttal Testimony in Support of its Request for Authorization to Recover Costs Recorded in its Customer Service Re-Platform Memorandum Account – Track 1 (Costs Through April 2021)	SCE	4/19/2022
SCE-04E	Errata – Southern California Edison Company's Rebuttal Testimony in Support of its Request for Authorization to Recover Costs Recorded in its Customer Service Re-Platform Memorandum Account – Track 1 (Costs Through April 2021)	SCE	5/6/2022

TURN-01	Prepared Testimony of Jennifer Dowdell Addressing Southern California Edison's Recovery and Proposed Ratemaking for Customer System Replacement Project (CSRP) Costs Recorded in the CSRP Memorandum Account	TURN	3/17/2022
TURN-02	Prepared Testimony of David Cheng Addressing Southern California Edison's Request to Recover Costs Recorded in its Customer Service Re-Platform Memorandum Account (Public Version)	TURN	3/17/2022

(END OF ATTACHMENT A)

Attachment B
Settlement Agreement