

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
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September 15, 2020

Ms. Laura Genao
Managing Director, State Regulatory Affairs
Southern California Edison
1515 Walnut Grove Avenue, 3-B
Rosemead, CA 91770

SUBJECT: Review of the 2019 Interim Risk Spending Accountability Report of Southern California Edison Company (SCE's Advice Letter 4220-E)

Dear Ms. Genao:

The California Public Utilities Commission (CPUC) received the 2019 Interim Risk Spending Accountability Report (2019 iRSAR) of Southern California Edison Company (SCE) that was filed on June 1, 2020 as Advice Letter 4220-E. AL 4220-E is filed as a Tier 1 Information Only AL and is considered effective June 1, 2020. The CPUC's Energy Division (ED) prepared the enclosed review of this report and provides recommendations for SCE to consider for future RSARs.

In D.19-04-020, the CPUC affirmed that ED's review of RSARs serves to raise concerns and seek understanding of the data and "does not constitute a reasonableness [review] of the utility's proposed risk mitigation budgets or programs as required in Public Utilities Code Section 451."¹ Reasonableness review of utilities spending is accomplished in the general rate case (GRC) process.² In addition, review and verification of the utility's risk and management activities and spending that took place during the reporting period are part of Safety Performance Metrics reporting.³ Therefore, ED's review of SCE's iRSAR in this letter is limited to the reporting on and highlighting of information and does not make any findings regarding the reasonableness of the utility's spending.

CONCLUSIONS

Energy Division reviewed the utility's report and finds SCE has complied with guidance provided in its letters dated January 3, 2019 and April 10, 2020. In the 2019 iRSAR, SCE presented authorized and actual spending for its spending on safety, reliability, and maintenance programs and provided explanations for those programs meeting the selection criteria outlined in Decision (D.)19-04-020 (the S-MAP Decision, see A.15-05-002 et al). The utility also provided information on work units where available, separated authorized general rate case (GRC) spending from those recorded in balancing and memorandum accounts, and a summary of new projects and cancelled/deferred projects.

¹ D.19-04-020, pp. 39-40.

² Ibid.

³ Ibid, p. 40.

Overall, SCE reported spending less than its authorized amounts in programs associated with safety, reliability, and maintenance activities in 2019. However, SCE recorded higher balances in its balancing and memorandum accounts compared to 2018.

RECOMMENDATIONS

While the new RSAR reporting framework adopted in D.19-04-020, Ordering Paragraph 10 does not apply to SCE until TY 2021, ED recommends that SCE continue to use this format for year 2020 RSAR preparation and submission. In the attached staff analysis, ED provides a summary of SCE's spending activities in 2019 with an emphasis on SCE's spending patterns and explored some of the spending variance explanations.

The 2020 RSAR should be filed and served to parties on the service lists for Proceedings A.16-09-001, A.19-08-013, and I.18-11-006, and made available to the CPUC's Safety Policy Division, Safety Enforcement Division, and the Public Advocates Office. SCE should also provide the 2020 RSAR to the ED Tariff Unit by emailing the report to edtariffunit@cpuc.ca.gov.

If you have any questions or comments, please contact Jenny Au, Senior Utilities Engineer, at (213) 620-6502 or jenny.au@cpuc.ca.gov.

Sincerely,

Handwritten signature of Edward Randolph in black ink, followed by the initials "(for)" in parentheses.

Edward Randolph
Deputy Executive Director for Energy and Climate Policy/
Director, Energy Division

Enclosure

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Service Lists for A.16-09-001, A.19-08-013, and I.18-11-006

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Energy Division Review of the 2019 Interim Risk Spending Accountability Report of the Southern California Edison Company

The California Public Utilities Commission's (CPUC) Energy Division (ED) reviewed the 2019 Interim Risk Spending Accountability Report (2019 iRSAR) of Southern California Edison Company (SCE) that was filed with ED as Advice Letter 4220-E on June 1, 2020. ED conducted a review to provide the CPUC and parties to the SCE 2021 Test Year (TY) General Rate Case (GRC), Application (A.) 19-08-013, with information that may be useful in the proceeding. The review verifies compliance with the guidance provided by the Energy Division in its letter dated January 3, 2019 and serves as a precursor to the review of RSARs required by CPUC Decision (D.) 19-04-020.

BACKGROUND

In December 2014, the CPUC issued D.14-12-025, which directed the investor-owned utilities under its jurisdiction to prepare annual reports comparing authorized and actual spending on risk mitigation projects and explain any discrepancies. In April 2019, the CPUC issued D.19-04-020, *Phase Two Decision Adopting Risk Spending Accountability Report Requirements and Safety Performance Metrics for Investor-Owned Utilities and Adopting a Safety Model Approach for Small and Multi-Jurisdictional Utilities*, and provided the utilities with specific direction in complying with the reporting requirements of the new risk-based decision-making framework. SCE is scheduled to meet these requirements beginning with the 2021 TY GRC.

In a letter dated January 3, 2019, ED directed SCE to file and serve annual "interim" RSARs for 2016 through 2020 in the applicable RAMP or GRC proceeding. SCE has previously provided the 2016-2017 iRSAR and the 2018 iRSAR on March 14, 2019, and July 23, 2019, respectively. SCE's 2019 iRSAR follows the reporting framework set forth in D.19-04-020.

REPORTING REQUIREMENTS

D.19-04-020 directed utilities to provide descriptions and explanations of spending and unit variances based upon a set of criteria.⁴ This direction includes identifying programs with activities relating to safety, reliability or maintenance, providing a comparison of authorized and actual spending and the difference in dollars and percent, and a detailed explanation of significant differences.⁵ In addition, the utilities are required to group capital and expense programs by general lines of business and discuss balancing account and memorandum account cost recovery.⁶

STAFF ANALYSIS

⁴ D.19-04-020, p. 43, Table 4. Selection Criteria for Narrative Explanation of Spending Variance.

⁵ D.19-04-020, pp. 36-37.

⁶ Ibid.

In the 2019 iRSAR, SCE provided authorized and recorded operating and maintenance (O&M) expenses and capital expenditures for programs that impact safety, reliability, and maintenance. SCE stated that the 2019 authorized amounts were derived by escalating the adopted 2018 amounts in accordance to a Post-Test Year Ratemaking (PTYR) mechanism adopted in D.19-05-020.⁷

1) Company-wide Expenditures

Tables 1, 2 and 3 below provide a summary of SCE's programs and associated spending information.

Table 1: SCE 2019 O&M Expense Spending Variance⁸

Category/Function	Recorded Amount (\$000)	Authorized Amount (\$000)	Variance (\$000)	% Variance
Distribution	332,689	314,738	17,951	5.7%
Transmission	118,843	103,588	15,255	14.7%
Generation	148,104	167,399	(19,295)	-11.5%
Other (IT, Customer Support, Emergency Preparedness, Business Planning, etc.)	439,472	453,626	(14,154)	-3.1%
Expense - Total	1,039,107	1,039,350	(243)	-0.0%

Table 2: SCE 2019 Capital Spending Variance⁹

Category/Function	Recorded Amount (\$000)	Authorized Amount (\$000)	Variance (\$000)	% Variance
Distribution	1,751,326	1,774,611	(23,285)	-1.3%
Transmission	798,731	1,081,401	(282,669)	-26.1%
Generation	91,914	107,134	(15,220)	-14.2%
Other (IT, Facility Mgmt, Grid Mgmt, etc.)	468,299	496,234	(27,935)	-5.6%
Capital - Total	3,110,271	3,459,380	(349,109)	-10.1%

⁷ SCE 2019 iRSAR, p. 18.

⁸ SCE 2019 iRSAR, p. 9, Table III-1.

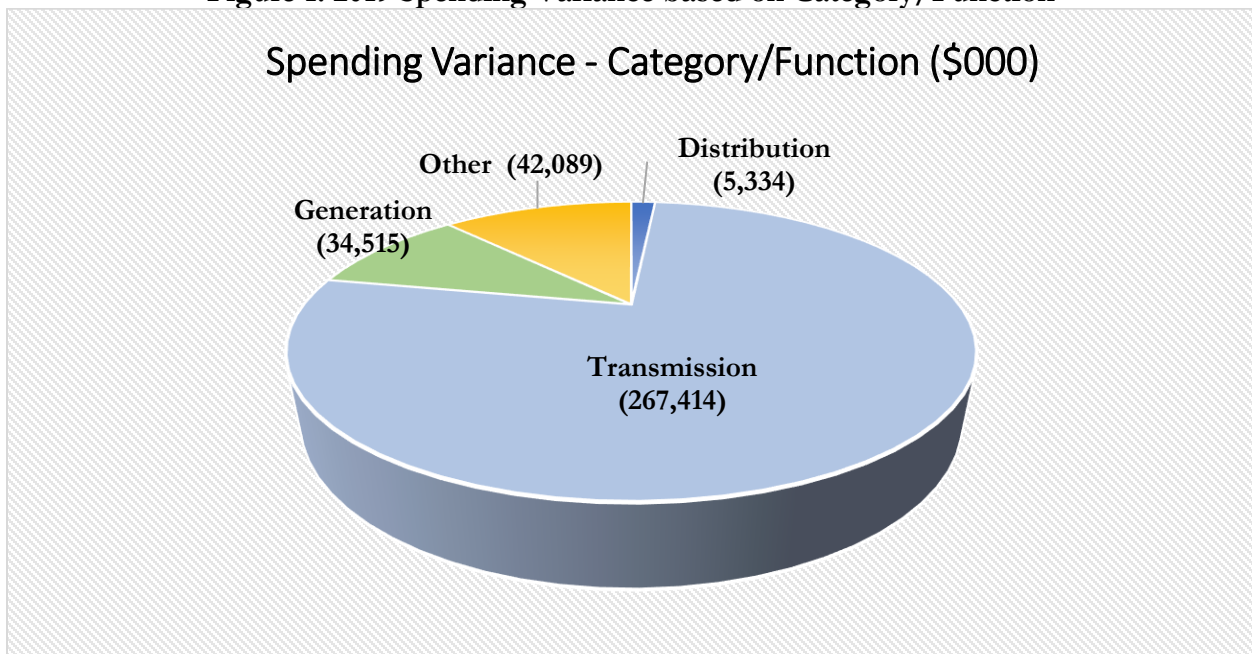
⁹ SCE 2019 iRSAR, p. 13, Table III-2.

Table 3: SCE 2019 Company-wide Spending Variance¹⁰

Category/Functions	Recorded Amount (\$000)	Authorized Amount (\$000)	Variance (\$000)	% Variance
Distribution	2,084,015	2,089,349	(5,334)	-0.3%
Transmission	917,574	1,184,988	(267,414)	-22.6%
Generation	240,018	274,533	(34,515)	-12.6%
Other (IT, Customer Services, Emergency Preparedness, Business Planning, Facility Mgmt, etc.)	907,771	949,860	(42,089)	-4.4%
Total	4,149,378	4,498,731	(349,352)	-7.8%

Generally, in 2019 SCE spent \$349 million less (-8%) than its authorized budget on safety, reliability, and maintenance programs for utility operations with a greater level of underspending in capital investments. On a company wide basis, SCE under-spent in all categories of operations with the highest level of under-spending in Transmission programs.

Figure 1: 2019 Spending Variance based on Category/Function



2) High Level of Under-Spending in Transmission Programs

While SCE slightly over-spent its authorized amount in O&M Transmission program, capital spending for Transmission related projects is significantly underspent. SCE highlighted the Transmission programs with the highest level of under-spending in the 2019 iRSAR.¹¹ Programs in the Transmission category with over \$50 million of under-spending include Grid Reliability Projects (\$86 million), Transmission Line Rating Remediation (TLRR - \$50 million), and Transmission Substation Plan (\$153 million).¹² SCE explained that the primary reason for the under-spending in

¹⁰ O&M Expenses and Capital Expenditures from Table 1 and Table 2.

¹¹ SCE 2019 iRSAR, p. 13.

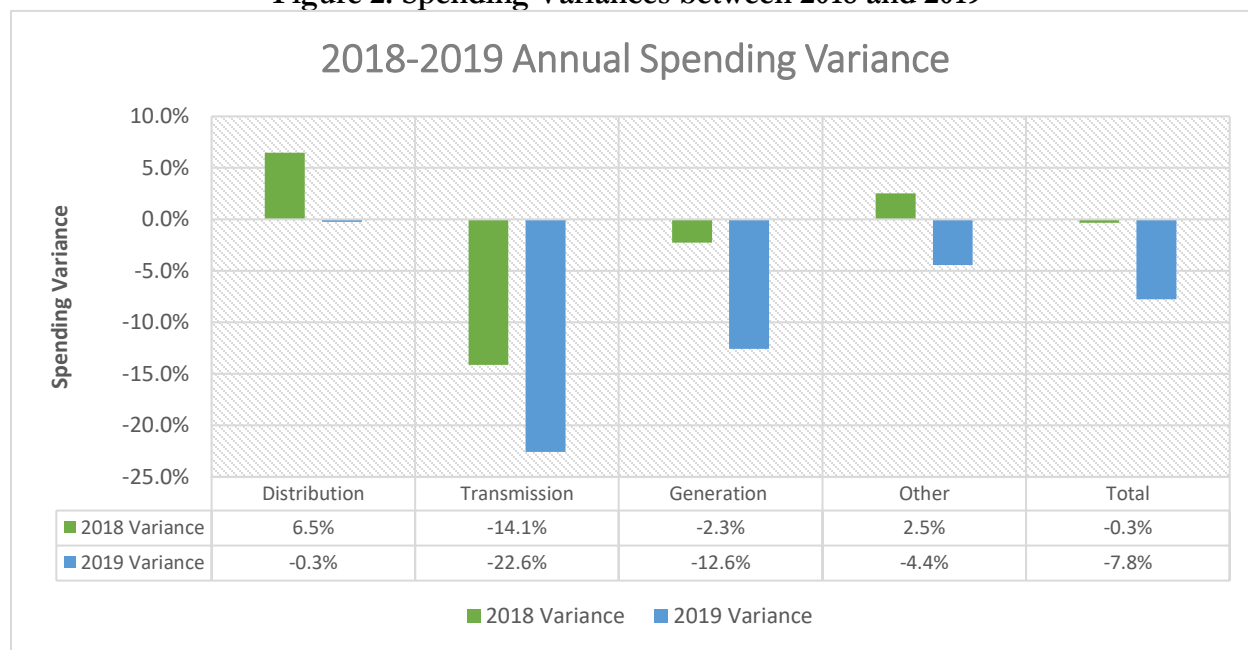
¹² SCE 2019 iRSAR, p. 54, Table VIII-13.

Transmission projects involves construction delays or interruption due to issues such as licensing, weather, geotechnical design, scope changes, lower load growth, and ecological concerns.¹³ While the root causes of SCE’s under-spending may be beyond the utility’s control, the dollar amounts associated with these projects are high. For example, a \$50 million under-spend in the TLRR program is mainly due to a construction interruption associated with the Devers Red Bluff project caused by bird nesting activity. Therefore, projects with a high construction budget should be evaluated for construction potential or delay risks prior to budget authorization to better align the spending level with the authorized budget. Projects with high construction costs and low tolerance for construction interruption could be approved for cost recovery through an alternate process such as the advice letter process.

3) 2019 vs. 2018 Spending Variances

SCE attributed its inability to spend the 2019 authorized amounts on a delayed Test Year 2018 GRC decision and a heightened focus of resources on wildfire mitigation programs.¹⁴ SCE’s total 2019 authorized budget exceeded its 2018 authorized budget by \$155 million, while SCE’s 2019 GRC spending decreased by \$179 million from 2018 levels.¹⁵ Notably, the levels of 2019 spending variances exceed 2018 spending variance levels in most categories. The chart below compares SCE’s spending variances from authorized amounts in each category/function between years 2018 and 2019.

Figure 2: Spending Variances between 2018 and 2019¹⁶



With the exception of Distribution, SCE’s 2019 spending yields a high degree of variances or under-spending for all other categories/functions. SCE’s incremental spending on wildfire mitigation activities in 2019 are recorded in memorandum and balancing accounts, which are discussed below.

¹³ SCE 2019 iRSAR, p. 56, Table VIII-14.

¹⁴ SCE 2019 iRSAR, p. 15.

¹⁵ SCE’s 2018 total spending \$4.33 billion with an authorized amount of \$4.34 billion (SCE AL 4042-E, pp. 4 & 6).

¹⁶ 2018 Data from SCE AL 4042-E.

4) Memorandum Accounts and Balancing Accounts

In 2019, SCE recorded wildfire mitigation related costs in five memorandum and/or balancing accounts and recorded non-wildfire costs in two other memorandum accounts. At the end of 2019, SCE has a \$580 million total balance for O&M expenses and \$720 million total balance for capital expenditures.¹⁷ Non-wildfire activities accounts for approximately \$60 million¹⁸ of capital expenditure balance while the remaining balances of approximately \$1.2 billion are associated with wildfire mitigation activities.¹⁹

In 2019, SCE tracked wildfire spending in memorandum accounts including, Grid Safety and Resiliency Program, Wildfire Mitigation Plan, Fire Hazard Prevention, and Fire Risk Mitigation. The 2019 capital and O&M expense balances described above represent a significant increase from SCE’s 2018 balancing and memorandum account balances. In 2018, SCE showed a \$163 million balance in the Pole Loading and Deteriorated Pole Program Balancing Accounts²⁰ and \$65 million expense balance²¹ in other memorandum accounts for wildfire related activities.

SCE’s 2019 memorandum account balances indicate a greater level of investment in wildfire mitigation activities, which diverted resources from traditional GRC spending as discussed below.

5) Programs with Labor Resource Limitations

SCE’s focus on Wildfire Prevention Programs has impacted capital spending primarily in the Distribution category. SCE explained that the utility “faces severe [internal] labor resource constraints due to the concurrent need for wildfire resiliency engineering, planning, and deployment activities”, requiring SCE to “reprioritize [labor] resources toward those time-critical safety-related efforts.”²² **Table 4** below provides a summary of the projects where SCE indicated the need to shift resources has contributed to the high level of spending variances. The combined impact is an underspending of \$234 million in these programs as shown in the Table 4 below.

Table 4: Programs with Spending Impacted by Wildfire Activities²³

Category	GRC Activity	Variance (\$000)	% Variance
Distribution	4 kV Cutovers	(33,632)	-37%
Distribution	4 kV Cutovers - Load Growth Driven	(18,374)	-49%
Distribution	Automatic Reclosers Replacement Program	(958)	-39%
Distribution	Automation	(33,973)	-43%
Distribution	Cable Life Extension (CLE) Program	(13,543)	-55%

¹⁷ SCE’s 2019 iRSAR, p.7 and p. 11.

¹⁸ SCE’s 2019 iRSAR, p.99 - \$45 million associated with Mobile Home Park Meter Conversion and p. 104 - \$25 million associated with Storm Response.

¹⁹ SCE 2019 iRSAR, p. 3.

²⁰ SCE’s 2018 iRSAR, AL 4042-E, p. 14, Table VII-3.

²¹ SCE’s 2018 iRSAR, AL 4042-E, Appendix 1-Page 6.

²² SCE’s Response to ED Data Request ED-SCE-001 Q.02a.

²³ SCE 2019 iRSAR, pp. 38, 39, 41, 42, and 56.

Distribution	Cable-in-Conduit (CIC) Replacement Program	(23,036)	-54%
Distribution	Distribution Volt VAR Control and Capacitor Automation Program	(2,536)	-56%
Distribution	Underground Structure Replacements	(26,870)	-36%
Distribution	Underground Switch Replacements	(4,524)	-34%
Distribution	Worst Circuit Rehabilitation (WCR)	(55,116)	-42%
Transmission	Relays, Protection and Control Replacements	(21,140)	-37%
	Total	(233,702)	

SCE expressed optimism that the labor resource limitation issue is expected to be short-term and temporary, which “should alleviate to a degree as the pressure from wildfire resiliency activities subsides.”²⁴ In addition, SCE stated that the utility plans to increase its workforce in 2021 through additional hiring of employees and contractors if needed.²⁵

While the need to focus on wildfire mitigation activities may have impacted SCE’s under-spending in the above listed activities, SCE’s total spending in the Distribution category is limited to \$23 million of underspending (**Table 2**). This is due to an overspending in other activities within the Distribution category. Moreover, SCE has a higher degree of under-spending in its Transmission category, which is discussed in Item 2 above. The reasons provided for the underspending in many programs within the Transmission category are unrelated to limited labor resources or wildfire activities. Therefore, it is important to evaluate whether additional workforce will resolve SCE’s under-spending.

6) Programs with Unit Variances

In the 2019 iRSAR, SCE provided information on the number of work units for a limited number of reported GRC activities. **Table 5** below provides a summary of projects where the level of work bears little relation to the level of spending.

Table 5: Programs with Higher Spending and Lower Level of Work²⁶

GRC Activity	Spending Variance (\$000)	% Spending Variance	Unit Variance	% Unit Variance
Distribution Deteriorated Pole Replacement	\$33,065	20%	-1,553	-14%
Distribution Pole Loading Program Pole Replacement	\$43,260	38%	-150	-2%
Overhead Conductor Program (OCP)	\$24,505	24%	-369	-37%
Streetlight Maintenance and LED Conversions	\$1,190	2%	-27,593	-27%

²⁴ SCE’s Response to ED Data Request ED-SCE-001 Q.02b.

²⁵ SCE’s Response to ED Data Request ED-SCE-001 Q.02c.

²⁶ SCE’s 2019 iRSAR, AL 4220-E, pp. 36-37 Table VII-7, pp. 54-55 Table VIII-13.

Transmission Deteriorated Pole Replacement	\$27,378	45%	598	23%
Transmission Pole Loading Program Replacement	\$18,001	77%	238	24%

As shown above, SCE spent an additional \$33 million more than its authorized amount on Distribution Deteriorated Pole Replacement but replaced 1,553 less deteriorated poles than proposed in the GRC. The level of overspending outpaced the amount of work that SCE was able to accomplish. SCE’s simple explanation for the lack of correlations between spending levels and work completed is that the cost to complete the work has increased from the estimated amount presented in the GRC application. For example, in the Overhead Conductor Program, the unit cost has increased by 97% from the estimated cost.²⁷ While this is a plausible explanation, it is difficult if not impossible to assess spending accountability without establishing a reasonable level of expectation.

7) Distribution Preventive and Breakdown Capital Maintenance Program

In 2019, SCE spent approximately \$364 million to remove and replace failed distribution equipment, exceeding its authorized amount by 29% or \$81 million.²⁸ SCE explained that it was necessary to increase spending in 2019 to complete work that was deferred from 2018.²⁹ In addition, SCE’s systems reported approximately 41,677 equipment failures in 2019 compared to 24,218 in 2018.³⁰ For this program, SCE uses “contractor resources that operated under time and expense structures rather than unit price-based work.”³¹ SCE explained that under these type of contracts, the utility pays for work performed based on labor hours and equipment used.³² SCE generally uses time and equipment rate contract for activities that have a constrained timeline such as emergency and storm response to restore power.³³ While SCE showed a higher number of equipment failures in 2019 than 2018, it is unclear how many failures were addressed in each year because a large amount of reported failures do not require immediate attention.³⁴ ED recommends that SCE include information on program units to aid parties and the CPUC in the review of spending in this program.

²⁷ Data from SCE 2019 RSAR, pp. 36-37 Table VII-7: Authorized Unit Cost = \$100,523,000/1005 = \$100,023; Actual Unit Cost = \$125,029,000/636 = \$196,586. % Increase = (\$196,586/\$100,023)-1 = 97%

²⁸ SCE 2019 RSAR, p. 36 Table VII-7.

²⁹ SCE 2019 RSAR, p. 39.

³⁰ SCE’s Response to ED Data Request ED-SCE-001 Q.01d

³¹ SCE 2019 RSAR, p. 39.

³² SCE’s Response to ED Data Request ED-SCE-001 Q.01a and Q.01b.

³³ SCE’s Response to ED Data Request ED-SCE-001 Q.01c.

³⁴ SCE’s Response to ED Data Request ED-SCE-001 Q.01d. SCE indicated that 25,044 of the 41,677 reported failures are considered Priority 2, which responses can take place up to 36 months

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