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

Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Update its Electric and Gas Revenue Requirement and Base Rates Effective on January 1, 2019.	Application No. 17-10-007 (Filed October 6, 2017)
And Related Matter.	Application No. 17-10-008 (Filed October 6, 2017)

COMMENTS OF THE UTILITY REFORM NETWORK ON THE 2019 RISK SPENDING ACCOUNTABILITY REPORT OF THE SEMPRA UTILITIES

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Pursuant to D.19-04-020 (p. 47) and the April 10, 2020 letter from Edward Randolph,[1] The Utility Reform Network (TURN) submits these comments on the 2019 Risk Spending Accountability Report (RSAR) for San Diego Gas and Electric Company (SDG&E) and Southern California Gas Company (SoCalGas)(collectively "the Sempra Utilities"), submitted on March 31, 2020.

I. THE 2019 RSAR SHOWS SIGNIFICANT UNDERSPENDING BY THE SEMPRA UTILITIES ON SAFETY AND RELIABILITY ACTIVITIES

The RSAR shows significant underspending by both SDG&E and SoCalGas in 2019 for both Operations and Maintenance (O&M) spending and capital expenditures on safety and reliability activities, compared to authorized levels. The Sempra Utilities' summary results for applicable safety, reliability and maintenance programs, other than balancing account programs, are shown in the following table:

Actual 2019 Spending Compare to Authorized[2]

	Expense	**Capital**
SDG&E	(9%)	(41%)
SCG	(17%)	(23%)

The results are similar when reported based on RAMP programs:

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[1] The April 10, 2020 letter from Mr. Randolph sets May 10, 2020 as the due date for these comments. Pursuant to Rule 1.15 of the CPUC Rules of Practice and Procedure, because May 10, 2020 was a Sunday, the due date is extended to May 11, 2020.

[2] Sempra Utilities' 2019 RSAR Report, pp. 17-18.

Actual 2019 Spending for RAMP Programs Compare to Authorized[3]

	Expense	**Capital**
SDG&E	(12%)	(38%)
SCG	(19%)	(26%)

These results show that the Sempra Utilities needed far less funding than they forecast and the Commission authorized for 2019 in order to meet the utilities' assessment of the funding needed to provide safe and reliable service. These results are consistent with TURN's concern that the Commission's 2019 GRC decision, D.19-09-051, was extraordinarily deferential and unduly generous to the Sempra Utilities, at the expense of ratepayers.[4]

The Sempra Utilities highlight the fact that their 2019 GRC decision was not issued until late September 2019 and state that they were "managing their business under their previously authorized levels" from their test year 2016 GRC.[5] TURN does not find this explanation credible as a justification for their significant underspending. Particularly when it comes to safety and reliability, utilities are required to spend the amounts necessary to meet their current needs, regardless of the level of authorized spending. If the Sempra Utilities were able to underspend so significantly for safety and

[3] Sempra Utilities' 2019 RSAR Report, pp. 18-25.

[4] TURN filed an Application for Rehearing of D.19-09-051 on October 31, 2019, in which it identified numerous legal errors in that decision, including the fact that the decision improperly shifted the burden of proof away from the Sempra Utilities and onto intervenors.

[5] Sempra Utilities' 2019 RSAR Report, p. 12.

reliability work, one wonders how much more they underspent for other less essential work. The fact that the Sempra Utilities were able to carry out needed activities in 2019 at significantly lower cost than they claimed was necessary raises troubling questions about the credibility of their 2019 GRC forecast.

Moreover, when Southern California Edison's (SCE) 2018 test year GRC decision was delayed a year and five months (as compared to approximately 10 months for the Sempra Utilities), SCE's overall spending on safety and reliability activities for the 2018 test year was not below the ultimately authorized levels. Instead, SCE reported that it overspent authorized amounts for O&M by 4.5% and for capital by 2.4%.[6] Notably, unlike the Sempra Utilities, SCE did not claim that, in the absence of a 2018 test year GRC decision, it was managing to the levels set by its previous rate case decision.

The Sempra Utilities state that "some programs may have been slow to start" and that they intend to "manage" such programs over the 2019 GRC cycle.[7] It remains to be seen whether the 2019 underspending will be offset in future years. However, as discussed in the next section below, the 2019 underspending is not an isolated occurrence. Indeed, there is a pattern of significant underspending by the Sempra Utilities.

[6] SCE Interim Risk Spending Accountability Report for 2018, July 23, 2019, Attachment A to Advice Letter 4042-E, pp. 4-7.

[7] Sempra Utilities' 2019 RSAR Report, p. 12.

II. THE SEMPRA UTILITIES' 2019 UNDERSPENDING IS CONSISTENT WITH A PATTERN OF OVEREARNING AND UNDERSPENDING ON O&M SAFETY AND RELIABILITY WORK

The Sempra Utilities' underspending on safety and reliability work in 2019 is consistent with a prior pattern of overearning by SDG&E in four or the prior five years, as shown in the table below from the CPUC's website.[8]

Return on Equity (ROE) (%)

SCE	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
SCE Authorized	11.60	11.60	11.50	11.50	11.50	11.50	11.50	10.45	10.45	10.45	10.45	10.45	10.30	10.30	10.30
SCE Actual	10.94	11.91	9.40	12.69	11.47	10.90	13.64	12.25	13.50	11.00	11.30	7.88	-3.21		
PG&E															
PGE Authorized	11.35	11.35	11.35	11.35	11.35	11.35	11.35	10.40	10.40	10.40	10.40	10.40	10.25	10.25	10.25
PGE Actual	11.80	12.37	12.16	11.18	11.19	9.52	7.29	6.92	9.51	8.67	11.41	10.00	-35.38		
SDG&E															
SDGE Authorized	10.70	10.70	11.10	11.10	11.10	11.10	11.10	10.30	10.30	10.30	10.30	10.30	10.20	10.20	10.20
SDGE Actual	11.98	10.18	11.54	12.52	12.50	10.93	10.41	11.56	12.57	11.80	11.27	6.38	11.75		

Source: Energy Division Data Requests.

As shown, SDG&E overearned by a significant margin in each of 2013, 2014, 2015, 2016 and 2018. From 2013 through 2018, the only year in which SDG&E did not earn above its authorized ROE was 2017, the year in which the Commission denied recovery of $379 million of liability costs for the 2007 wildfires in D.17-11-033.

In addition, in its review of the Sempra Utilities' interim RSARs for 2017 and 2018, the CPUC's Energy Division found:

> The data for the 2017-2018 reports show a pattern of overspending for many capital projects and underspending in most operations and maintenance projects. Overspending on capital allows the utility to grow its rate base and earn a higher rate of return. Underspending on operations and maintenance raises the concern

[8] Source: https://www.cpuc.ca.gov/General.aspx?id=12094. The CPUC's website does not provide this information for SoCalGas.

> that a utility is not adequately maintaining its system and is pocketing the savings from this underspending.[9]

The Energy Division's analysis showed the following underspending on O&M safety and reliability work for 2017 and 2018:

Actual 2017-2018 O&M Spending Compare to Authorized[10]

	2017	**2018**
SDG&E	(18%)	(20%)
SCG	(14%)	(15%)

As a result, the underspending for 2019 by both utilities is <u>the third year in a row</u> of such underspending on O&M safety and reliability programs. And the level of underspending has been considerable, averaging over 15% for both utilities over the 2017-2019 period. These consistent results should raise concerns for the Commission. Either the Commission is placing too much credence in the Sempra Utilities' GRC forecasts and being overly generous in its GRC decisions,[11] or the utilities are failing to spend adequately for safety and reliability O&M work. Either conclusion is troubling.

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[9] Letter from Edward Randolph to Dan Skopec, April 28, 2020, p. 1.

[10] *Id.*, Attachment A, p. 3.

[11] Support for this conclusion, at least with respect to SDG&E, can be found in the fact that SDG&E's system average rate significantly exceeds those of SCE and PG&E. *See* CPUC's 2019 Senate Bill 695 Report, Figure 2, p. 13, found at: https://www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/About_Us/Organization/Divisions/Office_of_Governmental_Affairs/Legislation/2019/SB%20695%20Report_May%202019_FINAL.pdf

This report does not have comparable comparative information regarding gas rates.

III. CONCLUSION

The results of the Sempra Utilities' 2019 RSAR, coupled with the prior results for 2017 and 2018, show a need for deeper regulatory scrutiny of the Sempra Utilities' and increased skepticism of their claimed spending needs. These results further highlight the value of the RSAR reports as a way to monitor trends and recognize where greater Commission attention is warranted.

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Respectfully Submitted

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