

ALJ/ANG/jva

Decision 98-08-015 August 6, 1998

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ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Edison Company (U 338-E) To Adopt Incentive Based Ratemaking Mechanisms Specified in D.96-09-045 and D.96-11-021.

Application 97-12-047
(Filed December 31, 1997)

**FINAL DECISION REGARDING
SOUTHERN CALIFORNIA EDISON COMPANY'S DISTRIBUTION
PERFORMANCE-BASED RATEMAKING MECHANISM**

Summary

In this decision, we consider whether Southern California Edison Company's (Edison) application and proposed maintenance, repair, and replacement (MR&R) performance-based ratemaking (PBR) mechanism is in compliance with the requirements of Decision (D.) 96-11-021 in terms of performance standards for maintenance, replacement, and repair of major distribution facilities. In addition, we address whether the \$10 million maximum incentive that D.96-11-021 allowed on the level of rewards or penalties associated with these performance standards supersedes the \$18 million limit provided for the duration and frequency incentives adopted in D.96-09-092, or whether this is an additional incentive.

Background and Procedural History

In D.96-11-021, we made certain determinations regarding reliability standards and adopted prescriptive standards for distribution system inspection. We stated that prescriptive standards for distribution system maintenance, repair, or replacement were subsumed by the enforceable systemwide reliability measures adopted in D.96-09-045 and determined that PBR standards for

maintenance, repair, and replacement of major electric distribution facilities should be adopted:

Section 364 requires that we adopt standards for the maintenance and replacement of utility facilities. Section 364 provides that standards for maintenance and replacement should reflect cost, local geography and weather, applicable codes, national electric industry practices, sound engineering judgment, and experience. Our investigation thus far reveals no prescriptive standard that can be readily acknowledged as a sound industry practice and would adequately balance these other criteria. Additionally, among the statutory criteria, we would weight experience as a major factor in determining upon inspection whether further maintenance or replacement was warranted. . .

. . . We will adopt PBR (performance-based ratemaking) standards in rate proceedings for maintenance, repair, replacement of major distribution facilities. In designing PBRs utilities should note our preliminary opinion that experienced inspection is best able to make decisions concerning the serviceability of a facility. Utilities are strongly encouraged to design PBRs that place the incentive (balanced reward-penalty) at the level of inspection. (D.96-11-021, mimeo. at p. 15.)

We ordered the major California electric utilities to propose PBR mechanisms that included proposed performance standards for maintaining, repairing, and replacing distribution facilities no later than July 1, 1998. On December 31, 1997, Edison filed Application (A.) 97-12-047, and asserted that no changes to its existing PBR mechanisms were necessary in order to comply with D.96-11-021.

After a prehearing conference was held on February 23, 1998, the Assigned Commissioner issued an Assigned Commissioner Ruling (ACR), including the scoping memo, dated March 11, 1998. In the scoping memo, Edison was ordered to serve supplemental testimony on April 3, 1998 which developed a separate PBR mechanism for maintenance, repair, and replacement of major distribution facilities. Other parties were provided an opportunity to serve comments on and

develop alternates to Edison's alternate PBR proposal, on April 24, 1998. The Utility Reform Network (TURN), the Office of Ratepayer Advocates (ORA), and the Coalition of California Utility Employees (CUE) filed comments, but only TURN proposed an alternative PBR.

The Commissioner ordered the Energy Division to convene workshops on May 7 and May 8, 1998 with the following objectives:

- a. to explore whether Edison's application is in compliance with the requirements of D.96-11-021;
- b. to explore whether alternative PBR proposals can be formulated which more specifically address performance standards associated with maintenance, repair, and replacement of major distribution facilities;
- c. if such proposals can be developed, to determine how these PBR mechanisms should be structured in terms of specific recommendations on how to measure the risks and rewards associated with such performance standards;
- d. to consider specific recommendations as to how to assess the ratepayer benefits accruing from such a PBR; and
- e. to develop possible joint testimony regarding the need for a new approach to PBR or recommending Edison's approach is adequate.

The ACR also directed the Energy Division to issue a workshop report for comment on June 12, 1998. Edison and CUE filed comments on June 26. No reply comments were filed. On July 10, Commissioner Duque issued an ACR determining that hearings are not necessary in this proceeding. This finding was confirmed by the Commission at its regular business meeting on July 23.

PBR Proposals

Edison's existing PBR covers facilities that are controlled by the Independent System Operator and those that are under this Commission's jurisdiction. Edison's proposed MR&R PBR would cover facilities under this Commission's jurisdiction, establish historical failure rates for major types of

distribution facilities, and use this historical performance as a basis for developing a reward-penalty incentive mechanism. Thus, Edison proposes to report performance information during the term of the existing PBR without a reward-penalty structure for the MR&R PBR mechanism. This reporting of historical performance would then allow Edison to compile the data on which the baseline for the MR&R PBR mechanism would be designed. Edison proposes to go forward with a specific maintenance, repair, and replacement PBR mechanism at the start of the next PBR cycle in 2002.

These types of distribution facilities would be subject to inspection pursuant to General Order (G.O.) 165 where appropriate. In addition to the major equipment noted in G.O. 165, the workshop participants agreed that failure rates for cable connections should also be added to the major distribution facilities that require inspection. According to Pacific Gas and Electric Company (PG&E), a workshop participant, cable connections are one of the major causes of failure of their distribution circuits.

Edison's distribution system maintenance schedule is intended to provide flexibility for dealing with system maintenance issues. The maintenance schedule is adjusted by field personnel based on field inspections, maintenance personnel's judgment regarding system needs and experience with new equipment reliability. Edison's main objective is to remain flexible and to match maintenance needs with available resources.

When asked by TURN to explain the result of failure testing, Edison answered by saying that data on equipment failure is not available because Edison does not utilize a 'reliability centered' approach. A reliability centered approach requires a historical data base of component failure statistics. Edison currently uses a 'condition based' maintenance program. This type of program

relies on field inspections and depends on the experience of maintenance personnel with various equipment to assess system maintenance needs.

Edison said that it is necessary to find a "balance point" to properly focus Edison's attention on providing reliable electric service at low cost and, in accordance with D.96-09-092 will conduct a value of service study to determine the value of electric reliability to ratepayers in order to properly structure a PBR. Edison will present these findings at the midterm review and stressed that the ultimate goal of any reliability PBR should be to provide the proper incentives to maintain and improve the reliability of service to customers. Edison also believes that the PBR should allow the utility flexibility to innovate and to use its judgment on how best to improve reliability of service.

TURN's proposal focused more on insuring compliance with G.O. 165. TURN proposed two possible mechanisms in its comments filed April 24, 1998. The first mechanism (the "TURN 1 proposal") provides for penalties if Edison fails to perform inspections required by G.O. 165. According to the second mechanism (TURN 2), if after inspections required under G.O. 165 are conducted, Edison failed to perform MR&R activities recommended by inspections according to their level of urgency within a certain period of time, penalties would be assessed. Thus, TURN proposes that the MR&R indicators be subject to penalties only, while acknowledging that D.96-11-021 called for a "balanced reward/penalty mechanism."

Workshop Agreements

The workshop participants agreed that Edison's supplemental proposal complies with the requirements of D.96-11-021, despite some reservations as to whether or not it was the best PBR proposal. Parties reached a general consensus that there was no need for joint testimony or hearings at this time on the MR&R PBR due to lack of essential distribution equipment failure rate data. There was a

general consensus that Edison should begin gathering data on major distribution equipment failure rates for the system components listed in G.O. 165 and cable connections and that Edison should make this data available in its March 1, 1999 PBR performance review report. TURN agreed to the proposed plan to gather data at this time, but reserved the right to propose either this or another proposal at future workshops. Finally, parties agreed that the Energy Division should host another workshop in May 1999, to allow parties to review the data collected and discuss the possibility for an appropriate MR&R PBR.

Discussion

As stated in the July 10 ACR, there is no need for hearings in this proceeding. We commend the Energy Division staff for their effective facilitation of the workshop. We are pleased that parties reached general consensus that Edison's proposal is in compliance with D.96-11-021. We find that Edison's alternate MR&R PBR proposal complies with D.96-11-021 on an interim basis. We agree that Edison should begin gathering data on failure rates, and should make the data available in its March 1, 1999 performance review report. Edison should include this information in the application to be filed on March 1, 1999, as directed in D.98-07-077. Once that application is filed, we will direct the Energy Division to convene workshops to allow parties to analyze the data and discuss the possibility for new more specific PBR proposals.

Maximum Incentive Amounts

We must also determine whether the \$10 million maximum on the level of rewards and penalties associated with performance standards for maintenance, replacement, and repair of distribution facilities supersedes the \$18 million limit provided for the duration and frequency incentives, respectively, in D.96-09-092, or whether such an incentive is in addition to the duration and frequency incentives. After reviewing D.96-09-092 and D.96-11-021, as well as the transcript

of the prehearing conference in this matter, we conclude that maximum incentive for maintenance, replacement, and repair of distribution facilities is an additional incentive. At this time, Edison proposes to report performance information during the term of the existing PBR without a reward-penalty structure for the MR&R PBR mechanism, and we have accepted this proposal. Therefore, no incentive dollars can be earned until a specific maintenance, repair, and replacement PBR mechanism is adopted.

Findings of Fact

1. Edison's alternate MR&R PBR proposal, as discussed in Exhibit SCE-2 and Energy Division's Workshop Report of June 12, 1998, complies with D.96-11-021 on an interim basis.
2. Edison should begin gathering data on failure rates for equipment listed in G.O 165 and on cable connections, and should make the data available in its March 1, 1999 performance review report.
3. Once Edison files its application initiating the midterm review, we will issue a ruling ordering workshops convened by the Energy Division to address the data gathered by Edison and to allow parties to explore whether new PBR proposals are appropriate.
4. The \$10 million maximum incentive level for a maintenance, replacement, and repair PBR, as discussed in D.96-11-021, is in addition to the \$18 million maximum incentives for the duration and frequency PBR mechanisms adopted in D.96-09-092.
5. No rewards or penalties will be applicable to the MR&R PBR mechanism until a specific maintenance, repair, and replacement PBR mechanism is adopted, after consideration of the failure rates and other factors, which will occur during the midterm review.

Conclusions of Law

1. It is reasonable to conclude that Edison's alternate MR&R PBR proposal complies with the requirements of D.96-11-021 on an interim basis.

2. It is reasonable to require Edison to gather data on failure rates on distribution facilities listed in G.O. 165 and on cable connections, and that this data be analyzed to determine whether a new specific PBR mechanism should be considered in the 1999 midterm review.

3. It is reasonable to require Edison to report performance information during the term of the existing PBR without a reward-penalty structure for the MR&R PBR mechanism.

4. This order should be effective today so that all necessary procedures may be implemented expeditiously.

5. This application should be closed.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company's (Edison) alternate maintenance, repair, and replacement performance-based ratemaking (MR&R PBR) mechanism shall be deemed to comply with the requirements of Decision (D.) 96-11-021, on an interim basis.

2. Edison shall report performance information during the term of the existing PBR mechanism without a reward-penalty structure for the MR&R PBR mechanism.

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3. Edison shall begin gathering data on equipment failure rates for specific utility distribution facilities included in General Order 165 and on cable connections, and shall provide a report to be included in its March 1, 1999 application to initiate the midterm review process, as ordered in D.98-07-077.

4. Application 97-12-047 is closed.

This order is effective today.

Dated August 6, 1998, at San Francisco, California.

RICHARD A. BILAS

President

P. GREGORY CONLON

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners