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Decision 99-12-035 December 16, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company for Approval of Further Guidelines for Evaluation and Reporting Requirements on the Distribution Performance Based Ratemaking (PBR) Mechanism. (U 338-E)	Application 99-03-020 (Filed March 1, 1999)

OPINION ARISING FROM THE MIDTERM REVIEW OF THE PERFORMANCE-BASED RATEMAKING MECHANISM USED BY SOUTHERN CALIFORNIA EDISON COMPANY

Summary

In this decision, we consider whether Southern California Edison Company (Edison) has complied with the directives in Decision (D.) 96-09-092, D.98-07-077, and D.98-08-015 regarding submissions and actions to be taken by March, 1999, the time for a midterm review of its performance-based ratemaking (PBR) mechanism. In the scoping memo issued on May 27, 1999, Assigned Commissioner Bilas indicated his belief that hearings were probably unnecessary because the review would focus on what further reporting guidelines and data gathering would be helpful prior to the next PBR application. Workshops and written submissions supplanted hearings.

Based on the transcripts of the workshops and the written submissions received, we are not fully satisfied with Edison's responses to the required submissions and actions. Nevertheless, we determine that the PBR mechanism should not be adjusted at this time, but that further reporting guidelines are necessary, further studies should be made and further data gathering should take place. We direct Edison, in the next application proceeding regarding its

PBR mechanism, to submit certain exhibits regarding price indexes and to include objective measures of customer satisfaction or face rejection of the application.

Background

In D.96-09-092, the Commission adopted a PBR mechanism for Edison for recovery of its transmission and distribution or nongeneration base rate revenue requirements.[1] This PBR was authorized to extend through December 31, 2001. In simple terms, the PBR mechanism replaces yearly proceedings to adjust rates. The PBR mechanism includes a rate indexing formula,[2] a revenue sharing mechanism,[3] a cost of capital change or trigger mechanism,[4] service quality performance incentives,[5] a method to mitigate exogenous deleterious factors

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[1] In 1998, the PBR became applicable only to electric distribution.

[2] The Edison PBR mechanism began with the rates developed in Edison's 1996 test year GRC (D.96-01-011). Under the PBR system, Edison applies a rate-indexing formula each year through 2001. Currently, that formula is the Consumer Price Index (CPI) minus X (a productivity factor that increases slightly each year of the term). Certain programs are not subject to application of this "update rule."

[3] This mechanism provides for customers to share in the net revenues when they are above a certain number of basis points around the benchmark return on equity.

[4] Replacing the annual Cost of Capital proceeding to adjust Edison's authorized rate of return on equity is a Cost of Capital Trigger Mechanism. Edison's return on equity changes by half the change in the 12-month average, ending in September, of Moody's Long-Term Corporate Bond Yield Averages, Average Public Utility Aa, but only when this average shows a cumulative change of 100 basis points from its base value.

[5] The incentives relate to three areas of reliability: (1) the duration and frequency of interruptions, (2) customer satisfaction as measured by a customer survey; and (3) health and safety for its employees as measured by the total number of accidents and illnesses per 200,000 hours worked or per 100 employees.

affecting revenues, and a schedule for filing for adjustments, for filing reports and for evaluation. Although this PBR was approved, the Commission had many concerns about its components and their interaction. Throughout D.96-09-092, the Commission refers to a midterm review, and ultimately explains in the "Implementation" section that:

> "Edison will file an interim report on March 1, 1999. Edison shall submit the reports described in this decision as part of the midterm review with this interim report. The Commission will review the report and perform a midterm evaluation of the operation of the PBR between March and December 1999, and will issue a midterm decision by December 1999. The midterm decision will set further guidelines for remaining evaluation and reporting." (*Id.*, slip op. at pp. 56-57.)

We directed Edison to make the following filings with the interim report:

1. A study that defines an industry-specific price index [as opposed to the Consumer Price Index] and proposes such an index, which was to include at least three aggregate inputs – capital, labor and materials. As part of the index, Edison was to present its proposal for a current opportunity cost of capital. As part of the study, Edison was to show the difference in application of [this proposed] price index to all capital related costs, to its proposed opportunity cost of capital and only to those capital costs not subject to long-term commitment at the beginning of this PBR. (*Id.*, slip op. at p. 27.)

2. A showing that the joint effect of the Trigger Mechanism and the CPI provides appropriate compensation for Edison's return on equity. (*Id.*, slip op. at p. 41.)

3. A study showing the value, over a range of reliability values, of Edison's service to customers, using a representative sample survey that controls for customer characteristics. (*Id.*, slip op. at p. 47.)

4. A summary description of a component database that provides detail to the distribution circuit level, including the date of installation for the component. Also, for the years with such data, a log showing the date of all subsequent repair, replacement or renewal activity along with the reason for each such activity (*Id.*, slip op. at p. 47.)

5. An examination of the interaction between the reliability incentives, particularly the duration mechanism, and the net revenue sharing mechanism. (*Id.*, slip op. at p. 49.)

6. A more objective measure of customer satisfaction than the customer survey, such as response time, problem resolution and customer comparison with similar service contacts, and that ensures that Edison's internal and external measures of performance are consistent. (*Id.*, slip op. at p. 54.)

7. A review of the health and safety mechanism with regard to whether it should weigh accidents by the severity of their impact and whether disputes are arising in deciding whether to attribute the cause of an illness to the workplace. (*Id.*, slip op. at p. 54.)

Additionally, other decisions referred matters to this midterm review. In D.98-07-077, slip op. at p. 18, Ordering Paragraph (OP) 2, the Commission also ordered that "specific and objective measures of customer satisfaction shall be instituted during the midterm review process." The Commission held it was reasonable to hold Edison to its corporate goals regarding telephone response standards and to require that 75% of calls be answered within 50 seconds, for 90% of the weeks during the year. (*Id.* at p. 13.) A review of business office closure procedures was also directed to this proceeding. In D.98-08-015, slip op. at p. 6, the Commission directed the Energy Division to convene workshops to analyze data on distribution component failure rates for components listed in General Order (GO) 165 and cable connections as part of the midterm review and to discuss the possibility for new, more specific, PBR proposals on maintenance, repair, and replacement (MR&R).

Procedural History

Edison filed this application on March 1, 1999. The application included the requisite reports as interpreted by Edison and a statement of Edison's position that no hearings were needed nor was there any need for additional evaluation and reporting requirements. Resolution ALJ 176-3012, passed March 18, 1999, preliminarily designated this as a ratesetting case in need of a hearing. The application was protested by The Utility Reform Network (TURN) and the Office of Ratepayer Advocates (ORA) on April 19, 1999. Edison replied to the protests on April 29, 1999. Prehearing conference statements or listing of issues were filed by the parties; additionally San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company jointly filed a prehearing conference statement. Edison provided additional information requested by Administrative Law Judge Biren. A May 10, 1999 prehearing conference followed. Edison requested a final decision by December in order to facilitate its application for its PBR in 2001.

The Assigned Commissioner, President Bilas, issued a ruling (ACR) establishing the scope and category of the matter on May 27, 1999. The Scoping Memo indicated that hearings were not expected to be necessary following all-party workshops, but provided a mid-workshop deadline by which evidentiary hearings had to be requested. While the ACR did not completely preclude the possibility that some midterm change would be made in the PBR mechanism as a result of the review, it focussed the workshops on whether there was a need for further reporting guidelines and data gathering prior to the next application for a PBR. The Scoping Memo affirmed that this is a ratesetting proceeding.

Workshops facilitated by the Commission's Energy Division ensued, following pre-workshop statements of position. Participants included representatives from Edison, ORA, TURN, Sempra Energy representing particularly SDG&E, and the California Farm Bureau Federation. The Workshops lasted from June 15, 1999 to June 17, 1999. No party requested evidentiary hearings. On July 2, 1999, Edison sent the Energy Division a document detailing agreements made with TURN regarding reporting guidelines and data gathering commitments. The Commission's Energy Division issued its Workshop Report on July 16, 1999. An initial round of Comments on the Workshop Report was filed on August 6, 1999. The parties replied to the Comments on August 20, 1999.

We affirm the assigned Commissioner's ruling that an evidentiary hearing is not required in this proceeding and, therefore, we change that preliminary determination of ALJ 176-3012. This proceeding is submitted upon reply comments to the workshop report. The draft decision was timely issued on November 16, 1999.

Discussion

The parties engaged in a useful information exchange and workshop exploration of the many issues raised for review at the midterm of the first Performance Based Ratemaking mechanism approved for Edison. As a result of these workshops,[6] the parties remaining by the end of the workshops (Edison, ORA and TURN) all agreed that certain changes in reporting guidelines and data

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[6] Through the Energy Division facilitator at the workshops, we informed the parties that it was our intent to base this decision on the documents filed in this matter, and the transcripts from the workshops. The parties had no objection.

gathering should be made so that more and better information would be available for the hearing on Edison's next PBR application. Additionally, the parties were able to air their views on a number of issues on which they disagreed, so that each party might use the intervening time to move toward a mutually acceptable method of, for instance, indexing the rate. Although some of these issues were originally raised as potential midterm changes, the parties ultimately agreed that Commission consideration of these changes could wait until the next PBR application.

Here, we discuss only the issues that were specifically referred to this midterm review and look forward to a more complete examination of potential changes to the mechanism in the context of the next PBR application.

Industry-Specific Price Index and the Opportunity Cost of Capital

In D.96-09-092, the Commission adopted the current rate-indexing formula for annually updating the distribution rate charged by Edison. This formula, also known as the "update rule," is the CPI minus a productivity factor (X). Using the CPI as a proxy for the impact of inflation on its costs had been Edison's request, but the Commission had been unconvinced that the CPI was the best proxy in a utility context. However, no party had presented an industry-specific price index or evidence on the amount of any necessary adjustment to the CPI. Although adopting the CPI-X formula, the Commission ordered Edison:

> "to complete a study which defines an industry-specific price index, which at least proposes an index with three aggregate inputs: capital, labor and materials. As part of this index, Edison will present its proposal for [a] current opportunity cost of capital. As part of this study, Edison will show the difference in application of a price index to all capital related costs, to its proposed opportunity cost of capital and only to those capital

> costs not subject to long term commitment at the beginning of this PBR." (*Id.*, at p. 27.)

Edison has done so, but prefers to maintain the CPI as the inflation index in use in its PBR mechanism. "Although it seems counterintuitive, the real problem that we have with an industry-specific price index is it doesn't really track our costs. And the reason this is [is] because . . . the industry specific price indexes that have been adopted use a current opportunity cost of capital."[7] Edison explained that the problem is using a <u>fluctuating</u> current opportunity cost of capital. This "rental" type of cost of capital does not comport with the way utility ratebases are calculated - using a <u>fixed</u> original cost of capital assets, largely financed by long-term debt, and adjusted for straight-line depreciation. Thus, Edison posits, the opportunity cost of capital should be applied to the cost of new debt issues rather than the existing stock of corporate debt, otherwise there is the potential for windfall gains or losses.

As a second reason for using the CPI, Edison cited its broad acceptance as an unbiased and accessible escalation measure. The CPI is 'understandable' to the Commission and consumers, Edison argues. Moreover, Edison notes that the Federal Bureau of Labor Statistics calculates the CPI, whereas Data Resource Incorporated, which provides utility-specific price indices and statistics, is a private organization. Edison commented that the PBR mechanism in its entirety was not as Edison had originally proposed, but that the CPI index should be maintained as an "appropriate balance" within the dynamics of the mechanism that the Commission authorized. Edison stated that the issue would be reviewed for the next PBR and, while acknowledging that there are components in the CPI

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[7] Workshop Transcript p. 219.

that do not match Edison's cost structure, believes that the growth of the CPI tracks the growth in its input prices quite closely.

ORA noted at the workshop that the course of Commission PBR policy favors a utility-specific inflation index. Three of the four energy PBRs' currently employ utility-specific price indexes – PacifiCorp, Southern California Gas Company (SoCalGas) and SDG&E. ORA presented its proposal for a utility-specific price index, the Utility-Specific Index (USI). The USI is an output-weighted index derived from data from the Federal Department of Energy and FERC Form 1 on the distribution costs of large utilities per megawatt in a given period. The productivity factor would be removed. ORA criticized the use of the CPI, noting: (1) it overstates actual inflation faced by Edison; (2) it is highly correlated with the world price of oil; and (3) the CPI is quality-adjusted whereas quality is not a big concern in the electric industry. ORA points out that while in the general economy, oil prices have a considerable effect, they do not have such an impact on electric distribution. ORA believes that use of the CPI as an inflation index will have the effect of raising electric rates.

Edison and ORA agreed that ORA's USI proposal lacks the crucial component reflecting capital costs. Edison felt that a dollars-per-output index would discourage demand-side management compared to an output per customer model. Edison voiced other criticisms of ORA's proposal, and ORA expanded upon its criticisms of the CPI.

In order to facilitate an informed presentation on these indices during the hearing of the next PBR application, we will order Edison to collect the data necessary to compare five years of the CPI, the Industry-Specific Price Index filed in Appendix D of Edison's midterm evaluation application or another industry-specific price index it develops, and a currently used industry-specific index like the San Diego Gas and Electric Utility Price Index. This comparison table shall be introduced in the next application hearing as an exhibit. Moreover, we will require each party to consider in advance what type of adjustments could be made to its proposed index to meet the criticisms voiced in the workshops.

Joint Effect of the Trigger Mechanism and the CPI

In D.96-09-092, the Commission adopted a cost of capital trigger mechanism, but had concerns about whether the interaction of the annual update formula and the trigger mechanism would provide an appropriate return on equity (ROE). By requesting a review of the interaction of these two components of the PBR, the Commission was interested in looking into a possible redundancy in the mechanism. The update rule adjusts most of the components of the distribution rates based on annual changes in the CPI minus a productivity factor. The update rule indirectly impacts the return on equity as a component. The trigger mechanism also may adjust the authorized return on equity.[8] Moreover, there may be a link between knowledge of recent inflation, which we know from the CPI, and the formation of expectations about future inflation, which is then reflected in the Aa Utility Bond Rate of the trigger mechanism.

Additionally, in a statement issued June 10, 1999, accompanying the Cost of Capital Decision (D.99-06-057), Commissioner Duque expressed concern that a change in Edison's ROE had not been triggered during the term of its PBR, since there had been a general downward movement in market interest rates.

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[8] The trigger mechanism, based on a 12-month trailing average of the Moody's Long-Term Corporate Bond Yield Averages (average Public Utility Aa) operates on the initial 1996 starting point of 7.5% with a deadband of 100 basis points, reviewed in September annually. For the mechanism to trigger, the 12-month trailing average would either exceed the lower-bound of 6.5%, or upper-bound of 8.5%, at which point, the ROE is adjusted by half the percentage change in the Aa bond rate.

Commissioner Duque requested that the effectiveness of the trigger mechanism be addressed in the midterm review.

Edison asserts that both the CPI and the trigger mechanism need to be included in the PBR to address separate inflation and interest rate effects on the ROE. Edison differentiated the two components by explaining that while the update formula functions as a gradual adjustment downward or upward to reflect changes in cost due to inflation on operations and new capital items, the cost of capital trigger addresses interest rate effects, that is, investor expectations of equity earnings on the existing asset base. Moreover, the causal link between the CPI and the Aa bond rate, while present, has only a small effect, according to Edison.

ORA expresses concern about the potential redundancy in generalized price changes (CPI) and interest rates (Aa bond rate) as well, but does not categorically deny Edison's assertions. ORA also noted that the initial authorized rate of return adopted already incorporated assumptions about expected trended changes in CPI and bond rates. Because the true size and impact of any causal relationship between the trigger and the CPI are unknown, ORA proposed a joint on-line study between ORA, Edison, and interested parties focusing on four areas pertaining to the interaction between the CPI and the trigger mechanism. The four areas to be examined were: (1) the CPI-cost of capital trigger interrelationship and the PBR structure; (2) static and dynamic efficiency; (3) horizontal inequity among the other Utility Distribution Companies (UDCs); and (4) risk allocation among ratepayers and shareholders. Edison did not agree to this study.

To address Commissioner Duque's concern regarding the operation of the cost of capital trigger mechanism and whether it should have been triggered, Edison presented a chart that depicted the performance of the Aa utility bond rate during the period from September 1996 through May 1999, against the lower and upper bounds of the 100 basis point range needed to trigger a change. The chart shows that the rate has not exceeded either limit of the range since the beginning of the PBR term in January 1997. (See Attachment A to this decision.)

We note that while the chart offered by Edison shows why the trigger mechanism has not resulted in a rate change, it begs the question whether the requisite cumulative change of 100 basis points from base value in order to trigger a change is too large. This is the question obviously underlying Commissioner Duque's concern. We put the parties on notice that this question will be addressed in the next PBR application hearing. Additionally, we need to have evidence on the magnitude of the causal link between the CPI and the Aa bond rate.

Value of Service Study

The Commission believes that the value of service to Edison's customers should equal or exceed the incentive reward in Edison's PBR, which, in turn, should equal or exceed the cost of providing the service. Yet in the initial PBR ratemaking hearing, no party presented a value of service study to support the size of its recommended reward or penalty incentive. While accepting the values for each incentive reward recommended by the parties, the Commission, in D.96-09-092, required Edison to present as part of the midterm review a value of service study over a range of reliability values using a representative sample survey that controls for customer characteristics. In the instant application, Edison submitted a 1989 value of service study adjusted for inflation and updated using a '95 appliance saturation survey and '97-'98 billing data in place of a new study.

The current PBR reliability penalty/reward structure uses two measures--duration of service outage and the frequency of outages. Outside of a deadband range, the duration incentive is set at the level of one million dollars per minute of average customer minutes of interruption (ACMI) and one million dollars per 183 circuit interruptions for the frequency incentive. Edison called attention to Exhibit A-3 in the midterm application in pointing out that the value of service (VOS) study found a range of $276,000 - $7,239,000 VOS per Interrupted Customer Minute. The values for the VOS per Interrupted Customer Minute were derived from customer class-specific willingness-to-accept (WTA) and willingness-to-pay (WTP) values developed from different outage scenarios, summarized in Exhibits A-1 and A-2. Edison believed that the Commission had a credible concern in discussing whether current reliability PBR incentives accurately reflected true customer value of service. Edison stated that based on the results of the VOS Study, they concluded that the frequency and duration measures and their corresponding financial incentives in the current PBR were "within the ballpark."

TURN indicated that it did not have a significant position on the issue, but singled out as an area of concern that the study was ten years old. TURN remarked, as an example, that although factors such as home-based business and home-schooling have increased in the last ten years, the variables in the study did not seem to reflect such changes from 1989 to 1998, contributing to a possible under-valuation by the study.

We remain concerned about the use of a 1989 value of service study, even updated for inflation and certain other factors. The range of value reflected in the study ($276,000 - $7,239,000 VOS per Interrupted Customer Minute) does nothing to assuage our concern. We expected a new study to be conducted for the midterm review. We now order a new study, not an updated old study, over a range of reliability values using a representative sample survey that controls for customer characteristics. We have no quarrel with the methods used to correct for customers indicating zero value of service and to insure that a genuine value is given. However, we do ask Edison to retain the raw responses so that other methods can be applied to the responses, should the other methods be shown to be superior.

Interaction of Reliability Incentives with Net-Revenue Sharing Mechanism

The Commission, in D.96-09-092, wished to examine the interaction between the reliability incentives, particularly the duration mechanism, and the net revenue sharing mechanism at the midterm review. Edison states that it opposes including reliability incentive rewards or penalties in the sum subject to the net revenue sharing calculation. Edison believes that having to share any reward or penalty because of inclusion in net revenues would decrease the value of the incentive. Furthermore, combining the reliability incentives with the net revenue sharing mechanism would distort Edison's forecast of the PBR reward or penalty.[9]

Neither ORA nor TURN opposed Edison's position on the issue. While the incentives themselves may not have an unsatisfactory interaction with net revenue sharing when kept separate, we remain concerned that the existence or size of the deadband may decrease the effectiveness of the incentive. We will re-examine whether the deadband should be narrowed or another level of shared

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[9] Edison also clarified that incentive rewards and penalties and net revenue sharing are not included in its annual earnings calculation.

rewards and penalties should be inserted, in addition to any other suggested changes in the mechanism, in the next Edison PBR application hearing.

Customer Satisfaction

In D.96-09-092, the Commission adopted a performance incentive based on the historic 64% simple average of customers rating themselves as "completely satisfied" or "delighted" with Edison's service across four service areas. But the Commission was concerned that this standard is entirely subjective, and conditioned any reward on no more than 10% of customer responses being in the bottom two of six ratings. Moreover, for the midterm review, the Commission ordered "Edison to develop a more objective measure of customer satisfaction which includes such aspects as response time, problem resolution and customer comparison with similar service contracts, and which ensures that Edison's internal and external measures of performance are consistent." (*Id.*, slip op. at 54.)

In D.98-07-077, slip op. at pp.12-13, we reiterated our lack of confidence in the customer satisfaction PBR, and stated that we would consider more specific objective measures of service quality during the midterm review, instead of the customer satisfaction survey. In the same decision, at OP 2, slip op. at p. 18, we also ordered Edison to <u>institute</u> specific and objective measures of customer satisfaction during the midterm review. Meanwhile, we also stated, at p. 16, that we would hold Edison to its internal corporate goals for telephone response standards, i.e., 75% of calls answered within 50 seconds for 90% of the weeks of the year. Moreover, this decision made it clear that adjustments to the PBR mechanism approved in the decision were subject to review at the midterm review.

Edison filed a Report on Measures of Customer Satisfaction, Appendix A of its application. Edison interpreted the language in D.96-09-092 as giving it options for the content of its submission and did not include the comparison to similar service contracts. Edison stated that while it does measure initial outcomes, it believes that it should focus on measuring the final outcome of customer satisfaction. Edison considers final outcome a superior and more flexible measure of customer satisfaction to interim measurements. Edison concluded that the additional measures of customer satisfaction presented in its report are not as comprehensive or as accurate a measure of customer satisfaction as the current Commission approved mechanism. Edison did not institute objective measurements of customer satisfaction into this segment of its PBR mechanism. It does not advocate a method for accountability or the institution of rewards and penalties linked to its internal goals for telephone response standards.

ORA maintained its position throughout the proceedings that the survey needs to be modified to increase its objectivity[10] and that the 64% performance standard for customer satisfaction was inappropriately low in a competitive environment in which utility customers should be able to expect a high level of service quality. ORA also supported mandatory service guarantee programs, as opposed to the voluntary programs now in place.

TURN presented its own proposal and analysis supporting a set of concrete indicators and data gathering commitments at the June 15, 1999 workshop, and Edison responded with a modified proposal at the June 17, 1999

[10] ORA identified objective telephone center performance standards akin to those adopted in the SDG&E PBR (80% of calls answered in 60 seconds).

workshop. The proposal consists of gathering and reporting data relative to a busy signal telephone standard, a streetlight repair standard, a complaint resolution standard, and service guarantee performance. On July 2, TURN and Edison finalized the following agreement.[11]

A. Data Reporting

1. Edison will report the following data during the remaining term of Edison's current PBR through December 31, 2001.[12] The data will be reported annually, in Edison's annual PBR performance report advice letter filing:

> a. For each month in the PBR annual reporting period, Edison will report the percentage of time all primary inbound customer trunk lines at Edison's call centers are busy.

[It was TURN's opinion that measurements of telephone service commonly used, such as average seconds to answer or speed of answer time, were incomplete indicators as to the efficiency of response in that calls could be 'busied out' to shorten the queue. Thus, the telephone service could be meeting the answer time standard yet still provide poor service because of the high number of busy signals.[13] TURN also argues that the customer satisfaction

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[11] For explanatory purposes only, TURN's arguments for each segment of the agreement are indicated in the text in brackets.

[12] We note that Edison has already provided much of its available historical data in response to discovery requests in this proceeding.

[13] TURN was concerned about Edison's filing for non-discriminatory access to customer communications center in Application (A.) 99-04-045. TURN feared that in allowing customer service representatives to sell products through the call center, busy signal occurrences and 'busy out' practices would potentially increase.

survey does not capture customers who receive busy signals and do not get through to the call center.]

2. On an annual basis, Edison will report street light outage and repair information as follows:

a. For street light outages not caused by a source energy feed problem *(e.g.*, broken cable), the percentage of streetlights repaired within three working days and the percentage repaired within five working days.

b. For street light outages caused by a source energy feed problem *(e.g.*, broken cable), the percentage of streetlights repaired within 17 working days.

[TURN argued that the streetlight measure should be implemented on a safety basis, and to limit liability. TURN also referenced seven utilities in the United States that have implemented similar street light standards.]

3. On an annual basis, Edison will report information related to its shareholder-funded service guarantee program as follows:

a. The number of qualifying service guarantee commitments that were not met by Edison separately for the three service guarantees.

b. The amount paid by Edison for qualifying service guarantee commitments that were not met by Edison.

[TURN strongly believes that the three voluntary shareholder-funded service guarantees contribute to the service quality for customers. The "new installations" service guarantee credits customers $50 if Edison fails to meet set appointments for new meter installations or for service to be turned on. The second guarantee requires Edison to respond within a four-hour time-frame to calls regarding non-storm service disruptions, or failing to meet this criteria, credit the customer $50. The third guarantee also grants a $50 credit should Edison have problems restoring service in a non-serious emergency situation.]

4. On an annual basis, Edison will report information regarding customers whose electric service has been disconnected in error as follows:

a. The number of occurrences in which a customer's service was erroneously disconnected.

b. The percentage of erroneous disconnects as a percentage of total disconnects.

[TURN also proposed a new voluntary service guarantee that would provide customers with a hundred-dollar credit when Edison erroneously disconnects them. TURN argued that the infrequent occurrence of erroneous disconnects did not reflect the degree of inconvenience to the affected individuals. TURN also stated that its proposal is based on an increase in erroneous disconnects by Edison. Whereas there were 400 reported incidents of erroneous disconnects in 1994, 1,430 occurrences were reported in 1998.]

B. Data Gathering Commitments

Edison will begin to gather the following data and will continue gathering such data for the remainder of Edison's current PBR mechanism:

1. The percentage of Turn-On orders completed on the scheduled date.
2. The percentage of Turn-Off orders completed on the scheduled date.
3. The percentage of Turn-On orders completed within one day of the scheduled date

4. The data from a survey question that measures customer satisfaction with resolving the customer's concerns on the first contact with Edison's Telephone Center.

5. The average time Edison takes to respond to customer billing inquiries (excluding billing inquiries handled at the customer call center).

6. The data to determine the average speed of resolution of (1) informal complaints from the CPUC; and (2) complaints that do not come from the CPUC.[14]

7. The raw data showing service order capacity and number of service orders worked.

The parties agreed that no PBR reward or penalty mechanism is to be applied to Edison's performance related to the data reported or gathered as described above for the term of Edison's current PBR mechanism, i.e., through December 31, 2001.

We are troubled by the failure of the parties to grapple with any problems in the interim order in D.98-07-077[15] and by the failure of Edison to

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[14] [Edison has already provided the average speed of resolution of informal complaints from the CPUC and complaints that do not come from the CPUC for the historical period 1995 - 1998 in response to TURN's Question 8.c., dated May 13, 1999. TURN's position is that Edison's existing customer satisfaction survey lacks a tracking mechanism for complaint responses over time. Referencing Edison's response to TURN's data request number 8 (a), TURN pointed out that Edison averaged 46 days to resolve PUC complaints for certain years, while non-PUC complaints were resolved on the average within 5.4 days for two of the past four years.]

[15] For instance, Edison used 1992 customer service transactions in four areas as representative of current transactions, while at the same time admitting that it really did not offer some services through its now primary live customer contact point, authorized payment agencies (APAs). On an interim basis, we allowed Edison to double count some telephone center transactions as if they took place at the APAs too. While this may be necessary for parallelism with a 1992 survey, it is a highly questionable substitution that can skew the results. We expect Edison to devise and start to use an up-to-date survey of customer satisfaction that accurately reflects the way Edison does business, so that we have a new baseline in the next PBR application.

institute specific and objective measures of customer satisfaction with service quality during the midterm review process, as we explicitly directed in D.98-07-077, OP 2, slip op. at p. 18. We understand that Edison has initial outcome measures, but prefers a "final outcome" measure in its PBR for a number of different reasons. Edison has made its arguments on why its customer satisfaction PBR, without such objective measures, is adequate on three occasions now; we have expressed our disagreement as many times. We put Edison on notice that its next PBR application <u>must</u> include objective measurements, in addition to or instead of a "final outcome" subjective measurement, or it will be rejected. Furthermore, if Edison wishes to use a "final outcome" subjective measurement, we expect Edison to update its customer satisfaction survey altogether so that it reflects the transactions that actually occur in the places they actually occur and to present evidence on an appropriate percentage of satisfaction.[16]

We have no hesitation in adopting the parties' agreements for further reporting and data gathering in an effort to help Edison and the other parties craft useful objective measurements of customer satisfaction.

C. Business Closures

Edison stated that its intent is to comply with the business closure procedures ordered by the Commission in D.98-07-077, similar to those in place for PG&E and SoCalGas. In that case, we found that business office closure procedures should be re-evaluated during the midterm review to ensure that Edison is providing adequate notice and ensuring that local service alternatives are available and accessible prior to closing a business office. Edison stated that

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[16] The historic 64% benchmark is not necessarily appropriate on a going-forward basis.

it has not closed any offices since the order; hence, there is nothing to evaluate. ORA essentially agreed. Thus, at this time, there is no reason to change the business office closure procedures adopted in D.98-07-077.

Severity Measure in Health & Safety Index and Dispute Resolution Mechanism

In D.96-09-092, the Commission ordered Edison to review whether the health and safety index should weigh accidents by the severity of their impact (e.g., in terms of lost workdays) and how to deal with disputes arising about attribution of the cause of an illness (workplace or not).

Edison believes that the existing health and safety incentive mechanism, based on a total number of accidents, should not be adjusted to reflect a severity-weighted incentive. Edison pointed out that emphasizing the severe accidents creates an incentive to bring workers back to work prematurely or to distort reporting. However, focussing safety practices to avoid less severe accidents will consequently eliminate the more severe incidents too. Edison also noted the concurrence of the California Coalition of Union Employees, with whom Edison cooperated in designing the current health and safety mechanism. SDG&E also uses a total accidents measurement.

Edison uses Department of Labor criteria in determining whether the cause of an illness should be attributed to the workplace.

The other parties had no comments on Edison's responses to these issues. We see no reason to require further reporting or data gathering on this subject at this time.

Maintenance, Repair and Replacement

In D.98-08-015, at p. 6, the Commission directed the Energy Division to convene workshops to do an analysis of data on distribution component failure rates for components listed in GO 165 as well as for cable connections. The analysis was to be part of this midterm review and include discussion of the possibility for new more specific PBR proposals on maintenance, repair and replacement (MR&R).[17] In addition, in D.96-09-092, the Commission had ordered Edison to setup a distribution circuit database to facilitate the establishment of a measure of the effect of deferred maintenance on the deterioration of long-lived circuit components.

With its application, Edison filed a summary of the failure rate database from 1993 through 1998 (Appendix C). This data summarizes the number of failures for the distribution facilities listed in GO 165 that resulted in circuit interruptions during the period 1993 through 1998. Edison also states that in August 1998, it implemented new procedures to more precisely define causes of equipment failure, and that it would take several years to assess and assemble sufficient data to establish a valid baseline for distribution facility failure rates as reported under the new system.

Edison claimed that the existing data pool might exhibit variability because of weather and geographical climate in addition to the variability that may exist from using a small sample of historical data. Finally, citing what was called a "small number of failures and a big universe" problem, Edison said that using the number of failures as the benchmark measurement may not yield very significant data, as in the example of wood poles, of which 14 failures were recorded relative to 1.4 million existing poles in 1998. Edison also noted that some types of MR&R incentives may be counterproductive. For example, if a

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[17] Although Edison is not compelled to propose a PBR mechanism with balanced reward and penalties at this time for MR&R, since D.96-11-021, in which the utilities were ordered to propose such mechanisms, we have indicated our desire to see such proposals. This order was later rescinded for Edison in D.97-04-067.

balanced penalty/incentive mechanism is adopted for inspections, Edison will have an incentive to increase inspections beyond the target level.

Edison's position is that the current ACMI duration and frequency standards suffice as a 'work penalty mechanism' until it has established sufficient historical data to yield more meaningful information about maintenance, replacement, and repair standards. Edison also stated that a similar problem existed in establishing the circuit distribution database, in terms of reconciling the database data in a way that addresses the maintenance issues.

ORA suggested a number of other possible ways to address the MR&R mechanism, and commented that it supports consistency in PBR proposals among utilities. TURN does not share Edison's opinion that the existing reliability incentives are sufficient, as they do not capture the deferred maintenance issue, and believes that steps towards developing a MR&R mechanism are needed for this reason.

The parties agreed that the data from the Distribution Circuit Report reported in Table B-1 in Appendix B of the midterm application is not useful in terms of tracking deferred maintenance for a potential MR&R PBR mechanism, however this data may be potentially useful in other reports related to GO 165.

While any MR&R PBR mechanism may have potentially counterproductive incentives, we remain convinced that the search for one that works should not end here.[18] If it becomes apparent in the next Edison PBR

[18] In D.96-09-045, the Commission explicitly pointed out that system-wide reliability standards and measures may mask more localized problems, where the utility may have acted unreasonably with respect to maintenance and replacement of some portion of the system. (*Id.*, slip op. at p. 11.) This has been a long-standing concern that must be addressed sooner rather than later.

hearing that Commission regulation through enforcement and penalty only, rather than through incentives, is necessary to diminish deferral of maintenance, we will incorporate that in the next decision. We once again urge the parties to create a mechanism that they think will work in lieu of traditional regulation. Additionally, we urge Edison to consider what type of data might be collected that would be of use in the PBR, if the data thus far collected is not of use.

Although the Energy Division recommends that Edison be required to continue to collect and report failure rate data because it may be useful for monitoring trends in utility compliance with GO 165, we will not make such an order. However, we will expect Edison to do as it states it will do in its comments, that is, continue to maintain this data in a form that is relatively easily collected and reported when it is requested.

Conclusion

We have reviewed the reports attached to the application filed by Edison, the transcripts of the workshops, and all the other filed documents. Based on the record before us, we conclude that there is no reason to proceed to evidentiary hearings, or to amend the PBR mechanism at this time. However, many of the concerns voiced in the initial PBR decision have not been assuaged, and indeed, we do not feel completely satisfied by some of the studies provided at midterm. As a result, we order a number of measures to collect information that we hope will aid in the crafting of a PBR mechanism that eliminates our concerns and meets the criticism of other parties. Additionally, we provide Edison with more direction on what we want to see in its next application. This proceeding should be closed.

Comments on Draft Decision

The ALJ's draft decision in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g) and Rule 77.1 of the Rules of Practice and Procedure. Comments on the draft decision were received from Edison asking for a number of changes; TURN replied that nothing should be changed. Edison's counsel upsets himself unduly by viewing the use of the conditional "if" in the decision as negative in tone. What was meant as fair notice of our concerns, he interprets as prejudgment. We reassure him that we will, of course, judge the next PBR application on its own merits and in its entirety. Moreover, we welcome innovation. Nevertheless, there are certain proposals and studies that we do want presented for consideration. Accordingly, the wording of the draft decision is not changed as SCE requests. However, some findings of fact and conclusions of law are added to parallel the discussion section more completely.

Findings of Fact

1. The Commission has evaluated Edison's responses to its orders in D.96-09-092, D.98-07-077 and D.98-08-015 concerning the midterm review of Edison's PBR.

2. The parties have agreed that no change needs to be made during the term of the current PBR mechanism.

3. The functioning of the PBR mechanism through the midterm review does not impel us to make a change in the PBR at this time.

4. In the initial PBR decision, and now, we note that there was and is a paucity of evidence on some crucial issues, such as the magnitude of the causal link between the fluctuation of the CPI and the Aa Utility bond rate.

5. It remains unclear what the most appropriate index of inflation for a utility PBR mechanism is, but we are unconvinced that the CPI should be used in the next PBR. If the proposals made thus for are pursued, adaptations are needed.

6. In order to aid in a decision regarding the most appropriate index of inflation for a PBR mechanism, a five-year comparison needs to be made between the CPI, the Industry-Specific Index filed in Appendix D of Edison's application or another industry specific price index developed by Edison, and the SDG&E Utility Price Index.

7. A legitimate concern has been raised regarding whether the requirement of 100 basis points of cumulative change from base value is too much in the context of the trigger mechanism.

8. The value of service study presented by Edison in this midterm review does not assuage our concerns regarding the appropriateness of the deadband, rewards and penalties currently meant to provide incentive for improved reliability.

9. While the value of service study presented is adequate for the midterm review, it is out of date. The next PBR application will require a measurement of customer value of reliability that is current and more finely tuned to present day uses of electricity than that presented in this proceeding.

10. The interaction of reliability incentives with the net-revenue sharing mechanism does not call for a change at this time. The size of the deadband may decrease the effectiveness of the incentive.

11. More objective measurements of customer satisfaction are absolutely necessary for any new Edison PBR.

12. In order to craft more objective measurements of customer satisfaction for the next Edison PBR, more information needs to be gathered. Edison needs to determine and report how often customers get a busy signal when calling the

telephone center, how long it takes to repair one of Edison's streetlights, how long it takes to resolve complaint from various sources, how often and in what amounts Edison pays pursuant to its voluntary service guarantees, and how many erroneous disconnects occur.

13. Additionally, Edison needs to determine and report its statistics on promptness of completion of turn-on and turn-off orders, the satisfaction with the first contact with the telephone center, the average time for response to customer billing inquiries, the average speed of resolution of different types of complaints, and service order capacity and number of service orders worked.

14. There are problems with the customer satisfaction survey used by Edison and given interim approval by this Commission regarding the allocation of interactions to locations and the weighting of responses.

15. It is not clear that the historic 64% benchmark is appropriate for the next PBR.

16. There is no reason to change the business office closure procedures adopted in D.98-07-077 at this time.

17. There is no need for further reporting or data gathering with regard to the Health and Safety standard in use in the current PBR at this time.

18. We remain concerned about deferred maintenance.

19. Both direct regulation and a Maintenance, Repair and Replacement performance standard within a PBR mechanism will be considered in the context of Edison's next PBR application.

20. There is no need to provide an updated Table B-1 for the next Edison PBR application.

21. Based on the record before us, there is no need for an evidentiary hearing on this application.

22. Edison has requested a final decision in December in order to facilitate its next application.

Conclusions of Law

1. Edison has for the most part complied with the orders in D.96-09-092, D.98-07-077 and D.98-08-015 concerning the midterm review of its PBR.

2. No midterm corrections to Edison's PBR mechanism should be made.

3. More information should be gathered to aid in any decision regarding the next Edison PBR application.

4. Specifically, a five-year comparison should be made between the CPI, the Industry-Specific Index filed in Appendix D of Edison's application or another industry-specific index developed by Edison, and a currently used industry-specific index like the San Diego Gas and Electric Utility Price Index and the comparison shall be introduced as an exhibit in the next Edison PBR application hearing.

5. Additionally, information should be gathered that might help determine whether there is a causal link between the inflation factor announced in the CPI and the Aa Utility bond rate.

6. The parties should develop more evidence supporting their positions on the various concerns and criticisms of both the current PBR and the proposals made by the participants in the workshops. The parties should consider what adaptations of their proposals might meet other parties' criticisms.

7. Edison should present a new and current study of customer value of service for reliability in the next PBR application and should retain the new responses for discovery.

8. The size of the deadband for reliability incentives should be re-examined in the next PBR application hearing.

9. The customer-satisfaction-related reporting and data gathering commitments agreed upon between TURN and Edison should be adopted as part of this decision.

10. The next Edison PBR application should include specific and objective measures of customer satisfaction, not just a "final outcome" subjective measurement.

11. If Edison wishes to present a "final outcome" subjective measurement based on its customer satisfaction survey, that survey should be updated to reflect actual transactions where they actually occur and the new survey should be used prior to the next PBR.

12. Evidence should be presented regarding the 64% benchmark.

13. The distribution circuit database should be maintained, but in its current form is not useful for tracking deferred maintenance and need not be the subject of further reporting relating to deferred maintenance.

14. A method to diminish deferred maintenance should be considered in the next PBR application hearing.

15. We should not proceed to evidentiary hearings in this matter.

16. This application should be closed and made final effective immediately.

O R D E R

IT IS ORDERED that:

1. All parties planning to participate in the next Southern California Edison Company (Edison) performance-based ratemaking (PBR) application shall develop more evidence supporting their positions and shall attempt to adapt their proposals to meet the criticisms voiced in the workshop.

2. Edison shall collect the data necessary to compare five years of the Consumer Price Index (CPI), the Industry-Specific Index filed in Appendix D of Edison's midterm evaluation application or another industry specific price index it develops, and a currently used industry-specific index like the San Diego Gas and Electric Utility Price Index, and shall introduce the comparison table in the next application hearing as an Exhibit.

3. Edison and the Office of Ratepayer Advocates (ORA) shall develop evidence on the magnitude of the causal link between the CPI inflation factor and the Aa bond rate.

4. Edison shall design and carry out a new value of service study, not an updated old study, over a range of reliability values using a representative sample survey that controls for customer characteristics and shall retain the new responses.

5. Edison shall add the following data to its annual PBR performance report advice letter filing through December 31, 2001, to the extent not already provided to the Commission:

a. For each month in the PBR annual reporting period, the percentage of time all primary inbound customer trunk lines at Edison's call centers are busy.

b. On an annual basis, for the street light outages <u>not</u> caused by a source energy feed problem (*e.g.*, broken cable), the percentage of streetlights repaired within three working days and the percentage repaired within five working days.

c. On an annual basis, for street light outages caused by a source energy feed problem (*e.g.*, broken cable), the percentage of streetlights repaired within 17 working days.

d. On an annual basis, the number of qualifying service guarantee commitments that were not met by Edison separately for the three service guarantees.

e. On an annual basis, the amount paid by Edison for qualifying service guarantee commitments that were not met by Edison.

f. On an annual basis, the number of occurrences in which a customer's service was erroneously disconnected.

g. On an annual basis, the percentage of erroneous disconnects as a percentage of total disconnects.

6. Edison shall gather the following data and will continue gathering such data for the remainder of Edison's current PBR mechanism:

a. The percentage of Turn-On orders completed on the scheduled date.

b. The percentage of Turn-Off orders completed on the scheduled date.

c. The percentage of Turn-On orders completed within one day of the scheduled date.

d. The data from a survey question that measures customer satisfaction with resolving the customer's concerns on the first contact with Edison's Telephone Center.

e. The average time Edison takes to respond to customer billing inquiries (excluding billing inquiries handled at the customer call center).

f. The data to determine the average speed of resolution of: (1) informal complaints from the CPUC; and (2) complaints which do not come from the CPUC.

g. The raw data showing service order capacity and number of service orders worked.

7. Edison shall include specific and objective measures of customer satisfaction as part of its next PBR application, not just a "final outcome" measurement.

8. Edison shall update its customer satisfaction survey to reflect actual transactions where they actually occur, and shall use the survey prior to the next PBR, if Edison wishes to present a "final outcome" subjective measurement based on a customer satisfaction survey in that PBR.

9. Edison shall present evidence on the appropriate benchmark for customer satisfaction.

10. Edison shall develop proposals for a method to diminish deferred maintenance.

11. The preliminary determination in Resolution ALJ 176-3012 that a hearing is necessary is modified.

12. No hearing is needed.

13. This proceeding is closed.

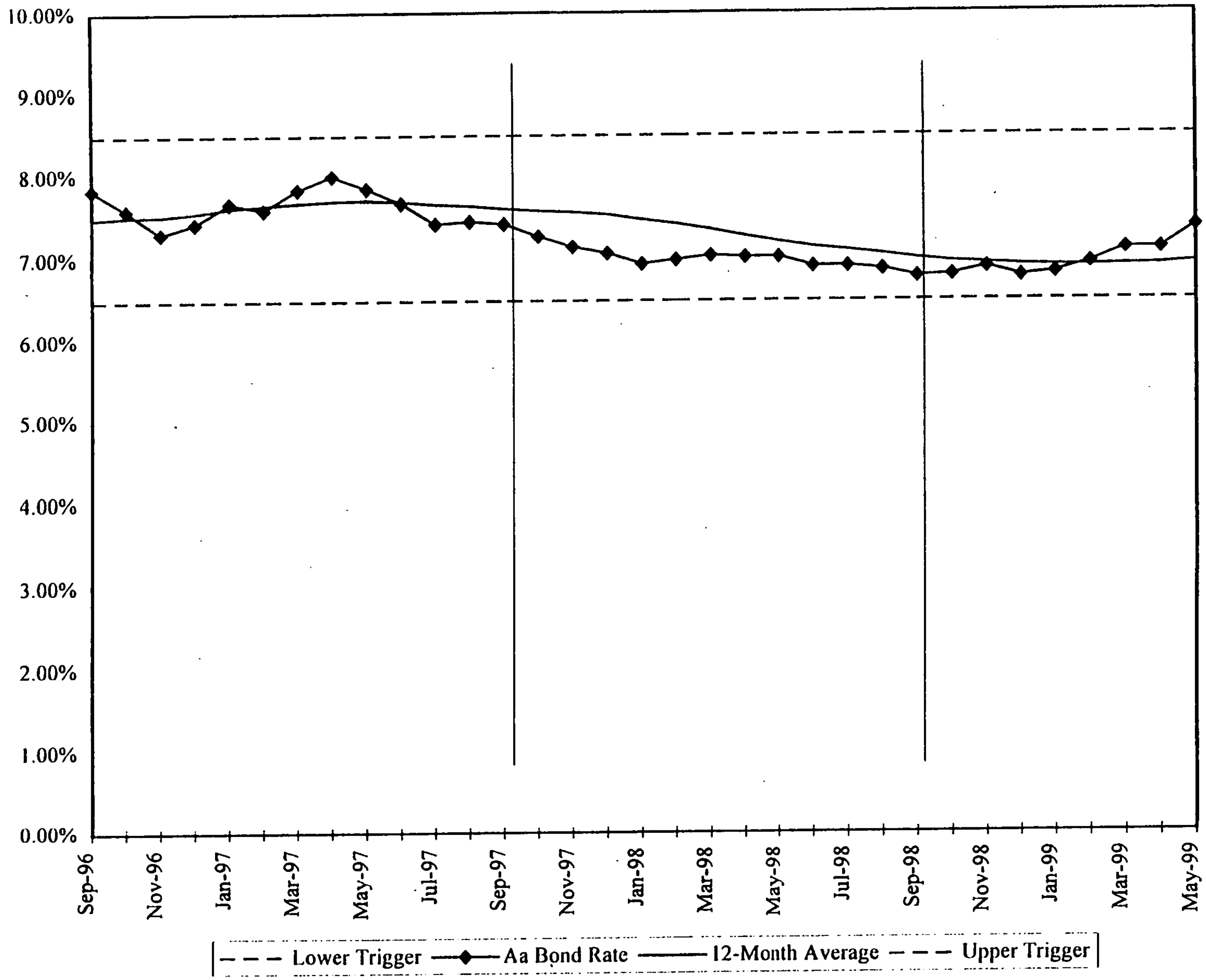
This order is effective today.

Dated December 16, 1999, at San Francisco, California.

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
CARL W. WOOD
Commissioners

ATTACHMENT A

Operation of SCE PBR Cost of Capital Trigger Mechanism, September 1996 through March 1999



(END OF ATTACHMENT A)