

From: Cherry, Brian K
Sent: 10/7/2011 11:23:43 AM
To: Marzia Zafar (Zaf@cpuc.ca.gov) (Zaf@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: CPUC Safety and Ratemaking Meeting Summary

Marzia - did this go as expected ?

From: Jacobson, Erik B (RegRel)
Sent: Thursday, October 06, 2011 3:18 PM
To: Thalman, Jon Eric; Sharp, Shelly; Hogenson, Todd (GT&D); Lichtblau, Erich (Law); Marre, Charles; Redacted; Frank, Steven (Law); Redacted; Van Mieghem, Peter (Law); Yura, Jane; Cherry, Brian K; Thalman, Jon Eric; Doll, Laura; Dowdell, Jennifer; Allen, Meredith
Subject: CPUC Safety and Ratemaking Meeting Summary

Shelly, Todd, Chuck, Jon Eric and I participated in an informal brainstorming discussion with the CPUC (Angie Minkin and Marzia Zafar) yesterday about the IRP's recommendations surrounding how safety can better be addressed in ratemaking proceedings. Also attending were Lee Schavrien and Brian Prusnek for Sempra. Angie and Marzia are having similar discussions with other stakeholders, former Commissioners, etc. Angie indicated that they will issue a straw proposal in November and that they are planning to convene a workshop in January to discuss the straw proposal and any other ideas parties have to address this issue.

The major issues we pushed during the meeting were: 1) The need to accelerate the replacement of aging infrastructure, and 2) the Commission should consider expanded use of two-way balancing accounts to ensure accountability and provide utilities with flexibility to augment funding for needed safety initiatives (we touched on the issues of trigger mechanisms, caps, etc.). While the wide-ranging discussion encompassed a wide array of issues, there were five key themes/issues that emerged from our conversation that will likely be addressed in the straw proposal and then discussed at the workshop.

Accountability: Staff wants utilities to be accountable for the safety of their systems. Accountability was also discussed in the context of utilities doing what they say they will do to improve safety (i.e., we spend the money we get on safety and not on something else). There was a lot of discussion about our need for flexibility to re-prioritize our safety related programs and spending plans to address changing circumstances. Angie asked for our reaction to the idea of the Commission requiring IOU CEOs to certify that their utility systems are safe --- something akin to the Sarbanes Oxley certification requirement of company financial reports. We expressed significant doubt about the viability of such a proposal --- one concern being the lack of specificity of what constitutes a "safe" system and how it would be very difficult to certify something with a large range of

uncertainty and ambiguity about what is "safe". The Commission is clearly looking for some mechanism to institutionalize the importance of safety and to make utilities accountable for maintaining safe systems.

Safety Standards: We discussed the possibility the Commission adopting safety standards and metrics.

CPSD Role: Should CPSD be a party and advocate for safety in GRCs? There was some debate on this issue. Another option discussed is for the Commission to hire an outside consultant to review utility safety programs/proposals --- my guess is that this is the direction the Commission will take on this issue. There was discussion about DRA's lack of focus on safety and their historical opposition to utility requests to fund safety programs.

Analysis for Safety Related Cost Recovery: Staff stated that there is a need for rigorous analysis to support safety related cost recovery requests. What kind of showing should utilities make to justify their safety expenditures? How do we define safety and what level of safety are we striving for (analogy of building a Mercedes vs. Camry)? How should the Commission evaluate the costs and benefits of different levels of safety related investments? There was discussion about integrity management and the role that it will play in assessing these questions. We also briefly discussed factors that go into utility safety risk assessments.

Rate Case Plan: Staff is considering potential modifications to the rate case plan --- new procedures to get more focus on safety and integrity management in rate setting cases.

These are the highlights I have in my notes. Shelly, Todd, Chuck, and Jon Eric should chime in if they have anything to add.

I will set up a meeting for the core team to discuss these issues further internally and identify next steps for us to prepare for the workshop and influence the outcome of the staff's consideration of these matters.

Erik

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