

A Focus on System Safety & Security

Straw Proposal

OVERVIEW, OBJECTIVE, AND SCOPE

Background: The California Public Utilities Commission (CPUC) is working on multiple fronts to consider the recommendations of the Independent Review Panel and the National Transportation Safety Board following the PG&E gas pipeline rupture in San Bruno in 2010. We are bringing change to our way of thinking, our ratemaking processes, and our culture to ensure that we do not experience another devastating safety tragedy.

As part of this effort, CPUC Executive Director Paul Clanon assigned Administrative Law Judge Angela Minkin and Marzia Zafar to establish a stakeholder process to solicit ideas and proposals to reform the way safety is considered in the CPUC's ratemaking procedures. In particular, we seek to consider the barriers to the CPUC's handling safety effectively

In order to begin this process, we offer a straw proposal that discusses various approaches to improving the CPUC's ratemaking process to prioritize safety initiatives. Based on informal interviews with several stakeholders, we believe that an obstacle in the ratemaking process to-date is a lack of a qualitative review of safety investments. Thus far, the CPUC, ratepayer advocates, and other intervenors have generally focused on the costs of various capital investments and operations and maintenance expenditures. While this type of quantitative review is necessary to consider the impact of rate increases, a qualitative review of safety initiatives is also required. We note that there is no intervenor who currently advocates solely for safety, and CPUC safety staff has not traditionally participated in ratemaking processes.

We have scheduled a workshop on January 11, 2012, to identify potential solutions to such obstacles. This straw proposal is the product of informal interviews of Commissioners, ratepayer advocates (i.e. DRA, UCAN, TURN, etc.), and other outside stakeholders. We offer the straw proposal as a way to begin the discussion. We look forward to hearing your ideas and proposals.

Objective: The purpose of this paper is to propose improvements to our current ratemaking processes and elevate and prioritize regulated utilities' system safety. The goal is to discuss these proposals and brainstorm other suggested approaches at a stakeholder workshop in January 2012.

Proposed Scope: The proposed solutions are intended to cover both gas and electric systems. Recent legislation has emphasized the need for increased safety procedures (e.g., SB705, AB56); however, these recently adopted laws only focus on the gas side. Our proposal takes this opportunity to proactively raise the bar for both electric and gas system safety and security.

RATE CASE PROCEEDING RECOMMENDATIONS

- Rationale:
 - Accountability is critical.
 - The CPUC needs rigorous analysis and justification of utilities' proposed revenue requirements. The utility should be required to justify increased revenue requirements based on overall spending, prior allocations, and explain with specificity how safety investments are prioritized.
 - SB 705 (Ch. 522, Stats. 2011) adds §§ 961 and 963 to the Pub. Util. Code and requires each gas corporation to develop a plan for safe and reliable operation of its gas pipeline facilities. It requires the CPUC to accept, modify, or reject the plan by year-end 2012, and to allow sufficient flexibility for gas corporations to respond to safety requirements. Most importantly, this bill states, "it is the policy of the state to place safety of the public and gas corporation employees as the top priority and require the commission to require that the distribution rate of a gas corporation include sufficient revenues and employee staffing to provide for prompt provision of service to the public consistent with this policy."
- **Require** an exhibit from each utility that ***details the authorized expenditure from the last General Rate Case (GRC) versus the actual expenditures*** during that period. The exhibit should provide detailed explanations for the revised budgets and should provide accompanying work papers.
- **Require** an independent audit of the utility's expenditures included in the exhibit. (Potentially require utility to reimburse CPUC for hiring an independent consultant.)
- **Require testimony in the GRC** to detail the ***technical state*** of the utility system.
 - For example, each utility should give a risk assessment of their physical system as well as an assessment of their risk tolerance.
 - They should provide testimony to identify and prioritize areas of risk and include underlying rationale for their assessments, as well as explain the metrics underlying their analysis.
- **Require** that the ***Chief Operating Officer of each utility, along with other relevant employees (including engineers, accountants, internal auditors, etc.), submit testimony*** detailing the overall policy of the utility's safety and security measures.
 - The testimony should encompass how safety is incorporated into corporate policies, goals, and culture, and the efforts being made to bolster system safety and security.
 - The structure for employee and management bonuses and how such bonuses are assessed and calculated, with details as to how bonuses relate to various ratemaking categories.
- **Solicit testimony from DRA** and other consumer advocates to address not only the cost advocacy aspect of a GRC, but also a ***qualitative review of utility proposals for capital expenditure and ongoing operations and maintenance expenditures to increase system safety.***
- **Require** the utility to file an independent audit evaluating the utility's system in terms of implementation of best practices (and the associated metrics) of the security and safety of their electric grid and gas pipelines.

- **Require** the utility undergo and file an independent management audit that assesses the role that safety plays in the overall culture of the utility, including the use of incentives provided to employees and managers.
- **Consider role of settlements** – Settlements should be explicit and provide clear, account-by-account delineation of proposed revenue requirements. Sufficient detail should be provided to allow full review of a proposed settlement, including an assessment of amounts to be spent on safety-related infrastructure and other capital spending, rather than “black box”. As set forth in the Rules of Practice and Procedure, the CPUC evaluates settlements based on Article 12. Specifically, Rule 12.1(d) states: The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. In order to properly assess safety-related settlements, parties should explicitly discuss how the settlement enhances the utility’s system safety as part of the consideration of whether the settlement is in the public interest.

SAFETY AND RELIABILITY REVIEWS: ANNUAL OR BI-ANNUAL SAFETY EN BANC PROPOSAL

Purpose: The purpose of such an en banc would be to keep system safety and security as a top priority for both the CPUC as well as utilities.

Recommendations for En Banc Agenda:

- The CEOs of each utility will inform the CPUC of their respective company’s culture and operation in terms of system safety and security.
- **Best Practices** - Independent experts will discuss the latest issues surrounding utility system safety and security.
- The CPUC’s Risk Assessment group will represent the CPUC staff’s perspective.
- Consumer Advocates will bring their “qualitative” perspective of utility proposals for system safety and security projects.
- Union representatives will give their perspective of on the field operations.

SAFETY AND RELIABILITY REVIEWS: ANNUAL OR BI-ANNUAL SAFETY ADJUSTMENT PROCEEDING

Purpose: Increased accountability by convening a mid-point review with enough data to assess progress and concerns in prioritizing safety.

Recommendations for Adjustment Proceeding:

- Require audits of utilities' prioritized list of maintenance and construction projects as planned and funded in the GRC and determine whether or not projects were completed.
- If not completed, did other projects receive priority and have such decisions been justified.
- Have amounts allocated for safety expenditures remained within that general "bucket".
- Reprioritization should be allowed but should be justified and approved by the CPUC.

CULTURE CHANGE AT THE CPUC

- Need a thorough understanding of best practices in industry.
 - Best practice/standard practice papers and manuals
 - Increased training – in-house and external
 - Explore other states and federal approaches
- Consider how to best deploy staff resources and break down silos in staffing.
 - Institutionalize the CPUC's Consumer Protection and Safety Division's (CPSD) role in ratemaking proceedings
 - Ensure that CPSD and DRA share information effectively
 - Engineers and trained auditors to work closely together to track dollars spent, projects implemented, and prioritization of these projects within overall safety/risk management assessment