

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

Order Instituting Rulemaking to Develop a  
Risk-Based Decision-Making Framework to  
Evaluate Safety and Reliability  
Improvements and Revise the General Rate  
Case Plan for Energy Utilities

R.13-11-006

**SOUTHERN CALIFORNIA GENERATION COALITION  
OPENING COMMENT**

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OPENING COMMENT**

In accordance with the Order Instituting Rulemaking (“OIR”) issued on November 22, 2013, in the captioned proceeding, the Southern California Generation Coalition (“SCGC”) submits this opening comment on issues raised in the OIR. SCGC supports continuing the current three year interval between the General Rate Cases (“GRCs”) of energy utilities. SCGC supports lengthening the period between the filing of a GRC application and the proposed effective date for the proposed rate change. SCGC supports considering cost allocation and rate design issues separately from the test year revenue requirement. Lastly, SCGC supports tracking investments in safety and reliability improvements to assure that funding that is approved by the Commission results in actual expenditures on the approved projects.

**I. BACKGROUND.**

The primary purpose of the OIR is to provide the Commission with an opportunity to determine whether the Commission should adopt rules to ensure the effective use of a “risk-based decision-making framework” to evaluate proposals for safety and reliability improvements

in GRC's.<sup>1</sup> The Commission also seeks to make changes in the Rate Case Plan ("RCP") adopted in Decision ("D.") 89-01-040 to "more efficiently manage the complexity and duration of the GRC proceedings."<sup>2</sup>

SCGC supports this very timely OIR. SCGC submits this opening comment on issues of particular concern to SCGC and looks forward to commenting on further proposals as this proceeding unfolds.

## **II. UTILITIES SHOULD CONTINUE TO BE REQUIRED TO SUBMIT GRC APPLICATIONS EVERY THREE YEARS.**

Currently, under D.89-01-040, energy utilities are required to submit GRC applications every three years.<sup>3</sup> The triennial filing requirement should be retained. SCGC strongly opposes lengthening the filing requirement to four or more years for multiple reasons. First, as the Commission correctly notes in the OIR, longer intervals between GRCs would increase the pressure for more Commission review and oversight for utility spending in the intervening years.<sup>4</sup>

Second, a longer period between GRCs would exacerbate the potential for rates to be based upon forecasts that are badly outdated. In a GRC, the utilities project a revenue requirement for a test year. Insofar as the Notice of Intent for a GRC application for a test year must be filed in August seventeen months prior to the test year (for example, in August, 2010, for a GRC for test year 2012), projections are based on recorded costs, as adjusted, for a base year that is three years prior to the test year (for example, 2009 for test year 2012).<sup>5</sup> If rates are approved in a GRC to cover the test year plus a two-year post-test-year period, rates in the

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<sup>1</sup> OIR, p. 1.

<sup>2</sup> *Ibid.*

<sup>3</sup> OIR, p. 13.

<sup>4</sup> *Ibid.*

<sup>5</sup> See, e.g., Southern California Gas Company ("SoCalGas") Application 10-12-006 (December 15, 2010).

second year of the post-test-year period (for example, 2014 if the test year were 2012) would be based upon actual recorded data, as adjusted, for a year that is five years prior to the year in which rates would be charged. (For example, rates approved for 2014 in a test year 2012 GRC would reflect recorded data, as adjusted, from 2009.)

Permitting GRC applications to be filed quadrennially or longer rather than triennially would result in GRC applications for post-test-year rates that could be based upon recorded data, as adjusted, from six or more years in the past. That is too long. Unforeseen events such as the tragic explosion in San Bruno in September, 2010, and the resulting consequences like the increase in emphasis on safety and reliability investments should be reflected in rates through a GRC in a more timely fashion.

Third, permitting the utilities to submit GRC applications outside of the three year sequence required by D. 89-01-040 could result in the Commission and parties having to address two major GRC applications at the same time. The major energy utilities in California are Pacific Gas & Electric Company (“PG&E”), Southern California Edison Company (“SCE”), and the Sempra utilities, SoCalGas and San Diego Gas & Electric Company (“SDG&E”), which file GRC applications jointly. Having staggered GRC applications so that each utility files an application in the year in which the other two utilities are not filing an application levelizes the workload imposed by GRC applications on the Commission and interested parties.

Currently, the applications of the three major utilities are properly sequenced so that no utility files a GRC application in a year in which one of the other two utilities is also filing a GRC application. PG&E filed a test year 2014 GRC application in A.12-11-009 on November 15, 2012. SCE filed a test year 2015 GRC application in A.13-11-003 on November 12, 2013. The Sempra utilities, SoCalGas and SDG&E, are required by the decision in their last GRC to

file a test year 2016 application in 2014 with their Notice of Intent being due in August, 2014.<sup>6</sup> Now that the Commission has the GRC applications of PG&E, SCE, and the Sempra utilities sequenced so that each utility files an application in a year in which the other two utilities are not filing a GRC application, the Commission should continue to apply the triennial filing rule for GRC applications so that the benefits of the current sequencing will be preserved.

### **III. THE UTILITIES SHOULD FILE THEIR GRC APPLICATIONS EARLIER.**

In order to increase the chance of Commission action on a GRC application by the beginning of the test year for which the application was filed, the Commission should require PG&E, SCE, and the Sempra utilities to file their GRC applications in August seventeen months prior to the date on which the new revenue requirement should take effect, January 1 of the test year. Currently, GRCs are, absent settlement, resolved substantially after the beginning of the test year for which GRC applications filed. For example, the Sempra utilities filed their last GRC applications, A.10-12-005 and A.10-12-006, on December 15, 2010, for rates to become effective on January 1, 2012, the beginning of the test year. The case was not submitted for the preparation of a proposed decision until May 1, 2012, four months after the new revenue requirements for test year 2012 was supposed to take effect. The Commission did not issue a decision until May 9, 2013, sixteen months after the date on which new revenue requirements were supposed to become effective.<sup>7</sup>

In order to reduce the gaps between the filing of a GRC application and both the date of submission and the date on which the Commission issues a final decision, the filing of GRC applications should be advanced to, at least, the date on which notices of intent are currently required to be filed, August, seventeen months in advance of the beginning of a test year for

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<sup>6</sup> D.13-05-010, pp. 1000, 1099 (Ordering Paragraph 69).

<sup>7</sup> D.13-05-010 (May 9, 2013).

which the application is filed. Allowing the extra time would lessen the chance that the case would be submitted and a final decision would be issued months after the date on which the new revenue requirement is supposed to become effective.

**IV. THE CURRENT DIVISION OF GRCS BETWEEN “PHASE 1” REGARDING REVENUE REQUIREMENTS AND “PHASE 2” REGARDING COST ALLOCATION AND RATE DESIGN SHOULD BE PRESERVED.**

Currently, GRCS are divided between a “Phase 1” in which the revenue requirement for a test year are considered and a “Phase 2” in which cost allocation and rate design issues are considered. For SoCalGas and SDG&E, gas cost allocation and rate design issues are addressed in a separate Triennial Cost Allocation Proceeding (“TCAP”). The Commission asks in the OIR whether the current division of GRCS between a “Phase 1” and a “Phase 2” or TCAP should be reconsidered.<sup>8</sup> SCGC supports the retention of the division.

If the division between a “Phase 1” for considering revenue requirement issues and a “Phase 2” or TCAP for considering cost allocation and rate design were collapsed into a single proceeding, cost allocation and rate design issues might be given short shrift or even lost entirely in the broad sweep of a GRC for one of California’s major utilities. GRC applications raise a host of issues about the test year revenue requirement. It is burdensome enough for the Commission and the parties to effectively address the broad sweep of revenue requirement issues that are raised by a GRC application without adding cost allocation and rate design issues. For example, the decision in the Sempra utilities’ last GRC in A.10-12-005 and A.10-12-006 resulted in a 1,109 page decision plus attachments. If the cost allocation and rate design issues were to be considered in the same proceeding as the revenue requirement issues, there is a danger that the cost allocation and rate design issues would not receive the full attention that they deserve.

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<sup>8</sup> OIR, p. 16.

**V. A MECHANISM SHOULD BE CONSIDERED TO TRACK EXPENDITURES AT GRC AUTHORIZED LEVELS.**

The Commission should consider a mechanism to track utilities expenditures to determine the extent to which a utility's expenditures match GRC authorized levels. In D.12-04-010, the Commission ordered audits of the gas utilities' implementation of revenue requirements authorized in their GRCs.<sup>9</sup> Specifically, the Commission ordered "financial audits that will include, but not be limited to, the authorized and budgeted safety-related capital investments and operation and maintenance expenditures of PG&E, SDG&E, and SoCalGas for their last two authorized General Rate Case cycles."<sup>10</sup> The Commission explained that the dual purpose for the audits was to ensure that safety projects that are authorized in GRCs are implemented and to determine whether some "procedural or accounting mechanisms" should be considered: "We stress that our purpose with this review is to ensure that authorized safety projects have been implemented and, if not, whether procedural or accounting mechanisms need to be instituted."<sup>11</sup>

The lessons learned as a consequence of the audits undertaken in response to D.12-04-010 should be considered in this proceeding in determining what "procedural or accounting mechanisms" should be adopted to track whether utilities are expending amounts authorized in GRCs. Currently, it appears that the utilities are not tracking expenditures to determine whether expenditures are up to GRC authorized levels. The OIR included a data request to the utilities.<sup>12</sup> The utilities provided responses on December 20, 2013. In its response, SoCalGas stated that it does not track expenditures to determine whether expenditures reach GRC authorized levels: "Therefore the only 'tracking' to the GRC authorized levels is done at an aggregate spending

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<sup>9</sup> D.12-04-010, p. 21 (April 19, 2012).

<sup>10</sup> D.12-04-010, p. 22 (April 19, 2012).

<sup>11</sup> *Ibid.*

<sup>12</sup> OIR, Attachment A.



level as we complete the annual budget process to assess the spending profiles and authorized Revenue Requirement.”<sup>13</sup>

There may be good reason for actual expenditures not to exactly match GRC authorized levels. One reason is that the projections in the GRC proceeding are completed years in advance of when work actually commences. SoCalGas explained in response to the OIR data request: “[The] estimates provided in the GRC proceeding are completed nearly 3 years prior to work commencing and are an aggregate, general estimate of the capital needs in future years.”<sup>14</sup>

Nevertheless, adopting a measure to permit tracking of actual expenditures to projected expenditures would serve to inform the Commission and the public about the extent to which a utility is expending amounts up to authorized levels on, at least, safety and reliability projects. That would be superior to waiting until after-the-fact-audits such as those that were ordered in D.12-04-010.

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<sup>13</sup> Response to SoCalGas to Data Request and Attachment A by Order Instituting Rulemaking 13-11-006, p. 34 (December 20, 2013).

<sup>14</sup> *Ibid.*

**VI. CONCLUSION.**

SCGC urges the Commission to support the recommendations above in considering revisions to the rate case plan for major utility GRCs. SCGC looks forward to further comment and participation in this proceeding after seeing the proposals by utilities and other parties.

Respectfully submitted,

*/s/ Norman A. Pedersen*

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