

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric  
Company (U902M) for Review of its Safety  
Model Assessment Proceeding Pursuant to  
Decision 14-12-025.

And Related Matters.

Application 15-05-002  
(Filed May 1, 2015)

Application 15-05-003  
Application 15-05-004  
Application 15-05-005

**OFFICE OF RATEPAYER ADVOCATES' REPLY COMMENTS ON  
SAFETY AND ENFORCEMENT DIVISION'S EVALUATION REPORT ON THE  
RISK EVALUATION MODELS AND RISK-BASED DECISION FRAMEWORKS**

**NILS STANNIK**  
Utilities Engineer  
The Office of Ratepayer Advocates

California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Phone: (415) 703-1889  
E-mail: [ns4@cpuc.ca.gov](mailto:ns4@cpuc.ca.gov)

**TRACI BONE**  
Attorney  
The Office of Ratepayer Advocates

California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Phone: (415) 703-2048  
E-mail: [tbo@cpuc.ca.gov](mailto:tbo@cpuc.ca.gov)

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## **I. INTRODUCTION**

Pursuant to Administrative Law Judge (ALJ) Kersten’s March 22, 2016 Email Ruling requesting comments on the Safety and Enforcement Division’s (SED) Staff Evaluation Report on Risk Evaluation Models and Risk-Based Decision Frameworks, the Office of Ratepayer Advocates (ORA) submits its Reply Comments on the SED Report<sup>1</sup> (hereafter, “Report” or “SED Report”). Lack of discussion herein does not represent agreement or disagreement with SED’s or any party’s comments.

## **II. SUMMARY**

ORA appreciates parties’ comments, suggestions, and concerns regarding the current Safety Model Assessment Proceeding (SMAP) process and the goals and form of future SMAP filings as discussed in the SED report.

All parties appear to agree that the SMAP process should continue to develop and that further work is needed, albeit with disagreements regarding exactly what form future developments should take, and under what timeframe. In light of this fact, the upcoming SMAP decision should prioritize (but not necessarily limit itself to) developing specific goals, a process, and a timeline for gathering further data; improving frameworks or transitioning to a new framework; and continuing to build on the progress made in this proceeding.

Shareholder financial considerations should be removed from the risk assessment and mitigation frameworks. Although complete distinction between ratepayer and shareholder financial impacts may be challenging, the Investor-Owned Utilities (IOUs) bear the burden of showing where such distinction is impossible or unreasonable.

## **III. DISCUSSION**

### **A. The Current SMAP Decision Should Prioritize a Process, a Timeline, and Ultimate Goals to Continue Progress and Discussions**

Parties appear to agree that significant progress has been made in the current SMAP proceeding and that the process should continue in order to resolve significant remaining differences and disagreements. However, parties disagree on the form, the pace, and the goals that should be addressed going forward.

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<sup>1</sup> Safety and Enforcement Division Evaluation Report on Risk Evaluation Models and Risk-based Decision Frameworks in A.15-05-002, et al. (SED Report).

Given the apparent consensus<sup>2</sup> that the process should continue in some form, but disagreements about specific next steps, the Commission's decision in the current SMAP proceeding should provide guidance to the parties by identifying the Commission's priorities and ultimate goals, and then establishing a process and timeline for moving towards those goals. Such a clear statement is needed to build on the momentum of the current proceeding and to move all parties towards common goals.

As outlined in its opening comments on the Intervenor Whitepaper, ORA supports transitioning to a more quantitative risk assessment and mitigation model by the third SMAP cycle (within approximately 5 years), while focusing on gathering the necessary data to inform such a model starting immediately.<sup>3</sup> An SED-led working group (as described in ORA's Reply Comments on the Intervenor Whitepaper<sup>4</sup>) could bring parties together to determine what data is needed, how this data will be gathered, and what timeframes are appropriate for this work. Such a working group could also focus on gathering more data to inform risk-reduction-per-dollar-spent calculations.<sup>5</sup>

As noted in the SED report,<sup>6</sup> and echoed in ORA's Opening Comments,<sup>7</sup> the IOUs appear unlikely to move towards common or more-quantitative methodologies without specific Commission direction to do so. Consequently, it is critical that the Commission's decision explicitly establish high level goals and a schedule to meet them. With clear high-level direction, the working group could continue to focus on more narrow technical or otherwise specific issues, including, for example, where data gathering should initially be focused to facilitate the move towards a more data-based methodology.<sup>8</sup> Such a process will reduce the risk

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<sup>2</sup> See Joint Utilities' Opening Comments, pp. 2-4; CUE Opening Comments, p. 5; UCAN Opening Comments, pp. 14-16; MGRA Opening Comments, p. 3; ORA Opening Comments, p. 8; and Opening Comments of the Energy Producers and Users Coalition, The Indicated Shippers, and The Utility Reform Network on the Staff Evaluation Report (Joint Intervenor Opening Comments), pp. 7-9, all filed April 11, 2016.

<sup>3</sup> ORA Opening Comments on the Joint Intervenor Whitepaper, filed February 12, 2016, pp. 4-5.

<sup>4</sup> ORA Reply Comments on the Joint Intervenor Whitepaper, filed February 25, 2016, p. 2.

<sup>5</sup> Joint Intervenor Opening Comments, p. 2.

<sup>6</sup> SED Report, p. 99.

<sup>7</sup> ORA Opening Comments, p. 7. See also ORA Reply Comments on Joint Intervenor Whitepaper, p. 3.

<sup>8</sup> See ORA Opening Comments, p. 7.

of losing the momentum of the current SMAP proceeding, while encouraging all parties to share their ideas and perspectives.

A Commission decision in the current SMAP proceeding should not necessarily limit itself to providing only a process, schedule, and goals for future proceedings. While some more specific questions and concerns about the utilities' frameworks deserve further consideration and discussion,<sup>2</sup> others (for example, the removal of shareholder financial interests from risk frameworks) are fairly straightforward and can be implemented immediately.

**B. Shareholder Financial Considerations Should Be Removed from Risk Assessment and Mitigation Frameworks**

The SED Report noted that all three utility models included shareholder financial risks or considerations.<sup>10</sup> As stated in its Opening Comments, ORA fully supports SED's recommendation to remove shareholder financial considerations from risk and impact assessments.<sup>11</sup>

CUE's observation "that most analysis and planning is performed by mid-level professionals who simply seek to make utility systems safer and more reliable"<sup>12</sup> does not offer a persuasive argument for including shareholder financial interests in risk and impact assessments. To the extent CUE implies that shareholder financial interests are not being considered, it reinforces the recommendation to take steps to ensure such financial interests are not embedded in the analyses.

ORA acknowledges that shareholder and ratepayer financial interests are not always mutually exclusive;<sup>13</sup> however, in other situations, the two are mutually exclusive (for example, executive bonuses for financial performance or shareholder-funded fines and penalties). With

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<sup>2</sup> For example, there appears to be significant disagreement between parties on the use of a logarithmic scale and whether such a scale inappropriately emphasizes certain risks. See ORA Opening Comments, pp. 3-4 and MGRA Opening Comments, pp. 4-7.

<sup>10</sup> SED Report, p. 59, Table 7.

<sup>11</sup> ORA has made this same observation in its testimony in both the 2015 PG&E Gas Transmission and Storage Application (A.13-12-012) and the 2017 PG&E General Rate Case (A.15-09-001).

<sup>12</sup> Opening Comments of the Coalition of California Utility Employees on SED Evaluation Report on Risk Evaluation Models and Risk-Based Decision Frameworks, filed April 11, 2016, p. 7.

<sup>13</sup> Comments of San Diego Gas & Electric Company, Southern California Gas Company, Pacific Gas and Electric Company, and Southern California Edison Company on Evaluation Report Prepared By Safety and Enforcement Division (Joint Utility Comments), filed April 11, 2016, p. 18.

this distinction in mind, ORA recommends considering ratepayer financial interests on a case-by-case basis and agrees that financial impacts should not be ignored wholesale.<sup>14</sup>

However, the IOUs bear the burden of demonstrating where financial interests are exclusively ratepayer, where they are exclusively shareholder, and where they cannot be reasonably distinguished. The utilities' assertion that they do not know how to undertake such an analysis<sup>15</sup> does not meet this burden.

### **C. Additional ORA Comments on Parties' Comments**

In its report, SED stated that it was "considering a process to use to formally adopt each utility's RAMP filing and application prior to the GRC" and that "this adoption will be informed by SED's evaluation of each RAMP filing."<sup>16</sup> Although it is unclear if a strictly binding RAMP report was being referred to in SED's recommendation, ORA agrees with the Joint Intervenors in opposing "an order that has a binding effect or otherwise has the status of a Commission determination."<sup>17</sup> All parties should be provided the opportunity to comment on SED's recommendations in the RAMP process.

Mussey Grade Road Alliance's (MGRA) discussion on the use of Subject Matter Expert (SME) estimates<sup>18</sup> recommends replacing the text "some areas can move toward these calculations in the short term"<sup>19</sup> with "utilities may use well-founded estimates by subject-matter experts (SMEs) in the interim. Uncertainty ranges in all estimations should also be specified." If the Commission adopts MGRA's proposed change, the term "well-founded" must be clearly defined and limited to address parties' (including ORA's<sup>20</sup>) concerns regarding the use and applicability of SME data.

In opening comments, CUE asserted that "requiring the utilities to abandon their current models in order to adopt a different model will also require time and effort to move to a model which provides very similar output as the IOU models," which would "waste the time and effort

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<sup>14</sup> ORA Opening Comments, p. 6.

<sup>15</sup> Joint Utility Comments, p. 18.

<sup>16</sup> SED Report, p. 81.

<sup>17</sup> Joint Intervenor Opening Comments, p. 25.

<sup>18</sup> Mussey Grade Road Alliance Comments on the Safety and Enforcement Division Evaluation Report, filed April 11, 2016, pp. 7-8.

<sup>19</sup> SED Report, p. 18.

<sup>20</sup> ORA Comments on Intervenor Whitepaper, p. 4, et al.

spent over the last several years.”<sup>21</sup> A shift to a different model will certainly require time and effort; however, there is no indication that outputs would be “very similar” under an alternative model. Even if results were very similar, it is entirely possible that slight differences (or the process of discovering similarities and differences) could lead to better mitigation, saving human lives, enhancing reliability, and saving ratepayers and IOUs millions of dollars. Without a thorough understanding of the alternatives available and the strengths and weaknesses of existing frameworks, assuming that any given framework is optimal is unsupported.

#### **IV. CONCLUSION**

ORA appreciates the opportunity to provide Reply Comments on the SED Report and looks forward to continuing to participate in the SMAP proceeding.

Respectfully submitted,

/s/ TRACI BONE

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TRACI BONE

Attorney for Office of Ratepayer Advocates

California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Phone: (415) 703-2048  
E-mail: [tbo@cpuc.ca.gov](mailto:tbo@cpuc.ca.gov)

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<sup>21</sup> CUE Opening Comments, p. 4.