PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

October 12, 2020

Mr. Nguyen Quan
Bear Valley Electric Service
Regulatory Affairs Manager
630 E. Foothill Blvd.
San Dimas, CA 91773

Dear Mr. Quan:

On May 14, 2020, Golden State Water Company filed Advice Letter (AL) 388-E, transmitting a Risk Spending Accountability Report (RSAR) on behalf of Bear Valley Electric Company (BVES), pursuant to Decision (D.)19-08-027 and D.19-04-020. AL 388-E was filed as a Tier 1 Information Only AL and is considered effective on the filing date of March 30, 2020. The CPUC's Energy Division (ED) prepared the enclosed review of BVES's 2019 RSAR and provides recommendations for the utility to consider for its upcoming 2020 RSAR to be filed in 2021.

In D.19-04-020, the CPUC affirmed that ED's review of RSARs serves to raise concerns and seek understanding of the data and "does not constitute a reasonableness [review] of the utility's proposed risk mitigation budgets or programs as required in Public Utilities Code Section 451."[1] Reasonableness review of the utility's spending is accomplished in the general rate case (GRC) process.[2] In addition, review and verification of the utility's risk and management activities and spending that took place during the reporting period are part of Safety Performance Metrics reporting.[3] Therefore, ED's review of BVES's RSAR in this letter is limited to the reporting on and highlighting of information and does not make any findings regarding the reasonableness of the utility's spending.

CONCLUSIONS

Energy Division reviewed the BVES's report and finds that the utility has complied with D. 19-08-027 and D.19-04-020. In the 2019 RSAR, BVES presented information on authorized and actual spending on safety, reliability, and maintenance programs and provided explanations for spending variance exceeding 20%.

Overall, BVES slightly underspent its authorized amounts in programs associated with safety, reliability, and maintenance activities in 2019 (-1%). BVES spent less than its authorized amounts for operating and maintenance programs (-28%) while overspending in capital programs (+21%).

RECOMMENDATIONS

In August 2019, the CPUC issued D.19-08-027, adopting 2018 through 2022 revenue requirements for BVES. The decision also adopted reporting requirements and specified a list of programs for

[1] D.19-04-020, pp. 39-40.
[2] Ibid.
[3] Ibid, p. 40.

BVES to report on in its annual RSARs.[4] ED recommends that BVES continue to provide a report on spending in all safety, reliability, and maintenance programs adopted in D.19-08-027. In the attached staff analysis, ED provides some recommendations for BVES to consider incorporating into the 2020 RSAR.

The 2020 RSAR should be filed and made available to the CPUC's Safety and Enforcement Division, Safety Policy Division, and Public Advocates Office. BVES should also provide the 2020 RSAR to ED's Tariff Unit by emailing the report to edtariffunit@cpuc.ca.gov.

If you have any questions or comments, please contact Jenny Au, Senior Utilities Engineer, at (213) 620-6502 or jenny.au@cpuc.ca.gov

Sincerely,

(for)

Edward Randolph
Deputy Executive Director for Energy and Climate Policy/
Director, Energy Division

Enclosure

cc: Dorothy Duda,
Branch Manager
Market Structure, Costs and Natural Gas Branch

Service Lists for A.17-05-004

[4] D.19-08-027, Section 7 Reporting Requirements Pursuant to D.19-04-020 and Section 591, pp. 46-49.

Energy Division Review of the
2019 Risk Spending Accountability Report of
Bear Valley Electric Services

The California Public Utilities Commission's (CPUC) Energy Division (ED) reviewed Bear Valley Electric Service's (BVES) Risk Spending Accountability Report (RSAR), filed on May 14, 2020. ED conducted the review to provide the CPUC and BVES with information that may be useful in future proceedings. The review verifies compliance with D.19-08-027 and the guidance provided by Energy Division in a letter, dated April 28, 2020.

BACKGROUND

In December 2014, the CPUC issued D.14-12-025, *Decision Incorporating a Risk-Based Decision-Making Framework into the Rate Case Plan and Modifying Appendix A of D.07-07-004*, and directed only the large investor-owned utilities (not small multi-jurisdictional utilities (SMJUs) such as Bear Valley) under its jurisdiction to prepare and submit to the CPUC annual RSARs that would compare authorized and actual spending on risk mitigation projects.

In an August 31, 2018, ruling in A.15-05-002 (*Safety Model Assessment Proceedings*), the assigned ALJ included a "General Guidance for the Small and Multi-Jurisdictional Utilities on the Risk Spending Accountability Report"[5] (*General Guidance*). The *General Guidance* suggested that SMJUs should file interim annual RSARs beginning on June 30, 2019 for the 2018 record year and provided six principles that the SMJUs should adhere to when filing interim RSARs.[6]

In April 2019, the CPUC issued D.19-04-020, *Phase Two Decision Adopting Risk Spending Accountability Report Requirements and Safety Performance Metrics for Investor-Owned Utilities and Adopting a Safety Model Approach for Small and Multi-Jurisdictional Utilities*, and directed SMJUs to file annual RSARs, starting in June 2020 for the 2019 recorded year.

In August 2019, the CPUC issued D.19-08-027, *Resolving 2018 General Rate Case Application for Golden State Water Company, on Behalf of its Bear Valley Electric Service Division*. The Decision adopted additional reporting requirements for BVES and adopted a new filing schedule for BVES's RSARs.

On May 14, 2020, BVES filed Advice Letter 388-E, providing information on recorded expenditures and authorized budgets for programs pertaining to safety, reliability, and maintenance as specified by D.19-08-027. The information provided in AL 388-E meets the *General Guidance* and requirements for Risk Spending Accountability Reporting, as specified in D.19-04-020 and D.19-08-027.

REPORTING REQUIREMENTS

While D.19-04-020 adopted a "general, simplified approach for the SMJUs to follow" to report risk spending, the CPUC directed SMJUs to follow the general RSAR procedures outlined in the

[5] A.15-05-002 SMAP, Energy Division Guidance for the Standardized Reporting and Outline of the Risk Spending Accountability Report, ALJ Ruling dated August 31, 2018. Attachment B - *General Guidance* for the Small and Multi-Jurisdictional Utilities on the Risk Spending Accountability Report.
[6] Ibid.

Voluntary Agreement between the Safety Enforcement Division and SMJUs.[7] The *General Guidance* provided SMJUs with six guiding principles for preparing RSARs similar to those required of large investor own utilities. The guiding principles include direction to provide a comparison of actual spending to authorized amounts for programs with activities relating to safety, reliability, and maintenance and an explanation of spending variance. In addition to grouping, capital and expense programs separately along general lines of business, SMJUS should provide a discussion on balancing accounts and memorandum accounts cost recovery.[8]

In addition, D.19-04-020, Attachment 2, Section IX requires SMJUs to file and serve RSARs on the prior GRC service list until the next GRC proceeding is opened.

Furthermore, the CPUC adopted a list of programs that are associated with safety, reliability, and maintenance in D. 19-08-027 and required BVES to include them in BVES's annual RSARs.[9] The decision also requires BVES to file annual RSARs by March 31 of the following year with reporting along specific program lines for capital and expense spending.

STAFF ANALYSIS

In its 2019 RSAR, BVES provided authorized and actual operating and maintenance (O&M) expenses and capital expenditures for programs associated with safety, reliability, and maintenance. While BVES reported a total underspending of $1.38 million in capital and $0.79 million in O&M expense in 2019,[10] ED's estimate shows an overspend in capital programs and a higher amount of underspending in O&M expense than BVES's report. Table 1 below provides a summary of BVES's spending information based on ED's assessment.

Table 1: Summary of BVES 2018 Spending Variance

Budget	Authorized Budget ($000)	Recorded Budget ($000)	Variance ($000)	Variance (%)
Total Capital Programs	6,060	7,308	1,248	21%
Total O&M Expense	4,879	3,531	(1,349)	-28%
Total - company wide	**10,939**	**10,839**	**(100)**	**-1%**

O&M Expense Reporting

[7] D.19-04-020, p. 50. It should be noted that the Voluntary Agreement did not specify requirements or recommendations for accountability reporting (Voluntary Agreement, p. 2).
[8] A.15-05-002 SMAP, Energy Division Guidance for the Standardized Reporting and Outline of the Risk Spending Accountability Report, ALJ Ruling dated August 31, 2018. Attachment B - General Guidance for the Small and Multi-Jurisdictional Utilities on the Risk Spending Accountability Report.
[9] D.19-08-027, p. 48.
[10] BVES AL 388-E, Attachment A, p.1.

In 2019, BVES recorded O&M Expense included $902,447 for vegetation management activities. D.19-08-027 authorized a base rate revenue requirement of $338,793 for vegetation management and allowed BVES to track incremental costs in the Fire Hazard Prevention Memorandum Accounts (FHPMA). As a result, BVES FHPMA has a balance of $563,654. The utility has not yet filed for cost recovery of this amount.[11]

The primary purpose of risk spending accountability reporting is to provide a comparison of "GRC projected spending for approved risk mitigation projects with the actual spending on those projects."[12] Since the incremental cost are associated with activities that are beyond BVES's authorized 2019 budget and BVES has an opportunity to seek recovery of cost recorded in its FHPMA at a later date, ED recommends that BVES remove the recorded cost of activities that are tracked in memorandum and balancing accounts when comparing recorded amount against authorized amount. When $563,654 FHPMA balance is removed BVES's 2019 recorded O&M Expense, BVES actually spent approximately $1.35 million less than its authorized O&M budget.

2019 Authorized Capital Budget

BVES's 2019 authorized amount for Capital Expenditures included the budget for projects that are proposed for years 2020 and 2021. **Table 2** below provides a list of four projects that were not included in the authorized budget for 2019 with a total authorized budget of $2.7 million.

Table 2: Capital Projects Authorized for 2020 and 2021[13]

Program	Authorized Budget ($000)	Recorded Budget ($000)	Variance ($000)	Proposed Year
BVPP – Oil Filter Conversion and Cylinder Upgrades	888	-	(888)	2021
Safety and Technical Upgrades of Palomino Substation	1,552	-	(1,552)	2020
Replacement of Baldwin Conductors	185	-	(185)	2021
Wire Upgrade and Relocation Project	80	79	(1)	2020
Total	**2,704**	**79**	**(2,625)**	

Including the authorized budget for projects that were proposed for other years would result in an artificially inflated 2019 authorized budget especially when BVES has not initiated the projects in 2019.[14] Removing approximately $2.7 from the 2019 authorized capital budget resulted in BVES over-spending on capital projects of $1.25 million or 21% of its authorized capital budget.

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[11] BVES Response to ED Data Request #1, Question 1.
[12] D.14-12-025, p. 11.
[13] BVES AL 388-E, Attachment A, p.2. BVES's explanation for the lack of spending on non-2019 projects stated that the projects were proposed for 2020 or 2021 and "CAPEX expense was made in 2019 for this project." BVES also indicated in its Response to ED's Data Request #1, Questions 2 and 3 that the amounts shown represent the total project budget and are not annual amount.
[14] BVES AL 388-E, Attachment A, p.2.

ED recommends that BVES should only include the budget for projects authorized in the reporting year, as discussed above.

Spending Variance Explanation

A significant portion of BVES overspending is attributed to the Pole Loading Assessment and Remediation Program and Replacing the Summit Conductors, totaling $2.8 million.[15] The utility explained that it ramped up activities in its Pole Loading Program to mitigate fire risks considering it spent less than the annual authorized amount for 2018.[16] According to BVES, it was necessary for the utility to overspend its authorized budget for the Summit Conductor Project because the number of poles requiring replacement exceeded the original estimate.

While BVES spent more than the authorized amounts for pole assessment and replacement, the utility did not complete two projects authorized for 2019 with a combined budget of $1.1 million.[17] While BVES did not install the BVPP engine system monitor in 2019, the utility indicated that the project is in progress as of September 2020.[18]

While ED finds BVES's spending variance explanation sufficient, ED recommends that BVES include a section in future reports to provide a description of the programs included in the annual RSAR.

[15] BVES AL 388-E, Attachment A, p.2. Pole Loading Assessment and Remediation Program's variance is shown as $2.65 million and the Summit Conductor Replacement variance is $203,000. $2.65 mil + $0.2 mil = $2.8 mil.
[16] BVES AL 388-E, Attachment A, p.2. BVES's variance explanation stated that D.19-08-027 authorized a total budget of $12.2 million for years 2018-2022 (or $2.44 million per year). In 2018, BVES spent $1.47 million which is below the authorized annual amount of $2.44 million.
[17] BVES AL 388-E, Attachment A, p.2 BVPP Project's authorized budget is $915,961 plus Fawnskin Conductor Project's authorized budget of $182,890 = $1.1 mil.
[18] BVES Response to ED Data Request #1, Question 4.