GENERAL RATE CASE PLAN WORKSHOP #1 REPORT

Stipulated Terms, Rebuttable Presumptions, Standardized Attrition Year Ratemaking

October 5, 2020

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2 Executive Summary

On September 4, 2020, Energy Division hosted the first in a series of workshops to explore standardizing the organization and format of General Rate Case (GRC) and Risk Assessment Mitigation Phase (RAMP) filings for the large California energy utilities. The workshops were ordered in D.20-01-002, which modified the Commission's rate case plan for energy utilities. The objective of the workshops is to further explore and develop proposals to increase the efficiency of GRC proceedings. The scope of the first workshop was to establish the feasibility of the Commission adopting stipulated terms and/or rebuttable presumptions and whether attrition year ratemaking can be adopted under rebuttable presumptions.

In addition to CPUC staff, identified attendees at the workshop included Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), Pacific Gas & Electric Company (PG&E), Southern California Edison Company (SCE), The Utility Reform Network (TURN), the Public Advocates Office, and Bear Valley Electric Service.

The workshop scope included two main subject areas:

1. Definitions of and proposals for standardizing stipulated terms and rebuttable presumptions
2. Proposals for standardizing attrition year mechanisms under rebuttable presumptions

On behalf of the joint investor-owned utilities (SCE, PG&E, SoCalGas, and SDG&E, collectively "IOUs"), SCE presented proposed definitions for stipulated terms and rebuttable presumptions. TURN presented a proposal for a rebuttable presumption for test year operations and maintenance (O&M) expense forecasts. On behalf of the IOUs, PG&E presented a proposal for rebuttable presumptions for standardizing attrition mechanisms. TURN then presented its proposal for rebuttable presumptions for standardizing attrition mechanisms.

There was discussion on each of the proposals, but no common agreements were reached, and no additional proposals incremental to what was presented by the IOUs and TURN were identified at the workshop.

TURN and the IOUs submitted post-workshop comments. TURN's comments noted areas of alignment and areas of disagreement between TURN's and the IOUs' proposals on the topic of Standardized Attrition Year Ratemaking. The IOUs' comments addressed TURN's Workshop 1 proposals and timing of the IOUs' recommendations on an appropriate vehicle or means to implement any agreed-upon efficiencies that result from all of the RCP workshops.

3 Introduction

On September 4, 2020, the California Public Utilities Commission's (CPUC) Energy Division hosted the first in a series of workshops to explore standardizing the organization and format of GRC and RAMP filings for the large California energy utilities. The workshops were ordered in D.20-01-002, which modified the Commission's rate case plan for energy utilities. The objective of the workshops is to further explore and develop proposals to increase the efficiency of GRC proceedings. The scope of the first workshop was to establish the feasibility of the Commission adopting stipulated terms and/or rebuttable presumptions and whether attrition year ratemaking can be adopted under rebuttable presumptions, such as using a predetermined escalation formula. The workshop was facilitated by Energy Division with support from SoCalGas/SDG&E.

4 Background

On January 16, 2020, the Commission issued Decision (D.)20-01-002 (the "Decision Modifying the Commission's Rate Case Plan for Energy Utilities" in Rulemaking (R.) 13-11-006, RCP Decision). D.20-01-002 adopted changes to the Rate Case Plan for large California energy utilities to enable the Commission to conduct GRC proceedings more efficiently, including modifications to the GRC procedural schedule and extending the GRC cycle for each utility from three years to four years. R.13-11-006 was closed upon CPUC adoption of D.20-01-002.

The RCP Decision also ordered a series of workshops to explore and develop proposals to increase the efficiency of GRC proceedings. CPUC staff identified four workshops and invited parties to provide feedback on the scope of each workshop:

1. Stipulated Terms / Rebuttable Presumptions / Standardized Attrition Year Ratemaking
2. Standardization of GRC Filings
3. Results of Operations (RO) Model Uniformity
4. Standardization of RAMP Filings

The large energy utilities: SoCalGas, SDG&E, PG&E, and SCE are supporting CPUC staff in facilitating the workshops, and a utility has been designated for each workshop. The RCP Decision also requires that no later than 30 days after the conclusion of the workshop, the designated utility shall submit a report to the Directors of the Energy Division and Safety and Enforcement Division with copies served on the service list of R.13-11-006 summarizing the workshop and any agreed-upon proposals.

5 Workshop

Energy Division held the first workshop virtually via a recorded WebEx session on September 4, 2020. Due to the state's public health order in response to the COVID-19 pandemic, there was no in-person attendance. Energy Division sent notice of the workshop to the service list for R.13-11-006. The public workshop notice was posted on the CPUC's Daily Calendar and website. The workshop, scheduled from 12:30 pm – 3:30 pm, included two main agenda topics:

1. Stipulated Terms and Rebuttable Presumptions
2. Standardized Attrition Year Ratemaking

Energy Division staff outlined the workshop objectives and logistics and requested meeting participants to identify their organization's attendance. In addition to CPUC staff, identified attendees at the workshop included SoCalGas, SDG&E, PG&E, SCE, TURN, the Public Advocates Office, and Bear Valley Electric Service.

6 Topic 1: Stipulated Terms and Rebuttable Presumptions

6.1 IOUs' Presentation on Stipulated Terms and Rebuttable Presumptions

On behalf of the IOUs, SCE presented proposed definitions for stipulated terms and rebuttable presumptions. For purposes of utility GRCs, the proposed definitions were:

<u>Stipulated Term</u>:

"Use or application of the Stipulated Term means that such use or application is deemed conclusively to be reasonable and not subject to re-litigation of the Stipulated Term. This definition will not apply if the party challenging the use or application of the Stipulated Term can show by admissible evidence that it is in fact not factually applicable at all, or can show by citation to binding precedent that use or application of the previously-established Stipulated Term is now contrary to law or binding regulatory precedent, so that current use of the Stipulated Term is prohibited."

A stipulated term is conclusive and not subject to re-litigation (other than the noted exceptions.) An example of a stipulated term is the use or application of Commission Standard Practices.

<u>Rebuttable Presumption</u>:

"If the rebuttable presumption is applicable, then the rebuttable presumption operates so that [rebuttable presumption] is assumed to be reasonable, and will be approved, adopted, or acknowledged by the Commission unless it is shown to be unreasonable through admissible evidence or through binding precedent from legislative, judicial, or regulatory authority."

An example of a rebuttable presumption is the use of Commission guidelines on forecasting methodology for test year O&M expense base forecasts. If the Commission's established methodology is used to forecast expense levels, then the forecasts are presumed to be reasonable. The presumption could still be challenged by another party who could provide evidence or citation to authority to overcome the presumption.

Adoption of such a rebuttable presumption would benefit all parties in GRC proceedings by potentially reducing the scope of litigation.

6.2 Discussion on the IOUs' Presentation

TURN generally agreed with the utilities' position that stipulated terms should be binding and difficult to overcome. TURN also agreed with the assertion that Commission forecasting standards have long been in place. Still, TURN noted that the primary disputes between parties in GRC proceedings continue to be related to forecasting methodologies. In TURN's opinion, overcoming a rebuttable presumption should require more than an "any evidence standard."

SCE clarified that it believed the utilities' definition of a rebuttable presumption would carry weight because, if the rebuttable presumption were applicable, the utility would be deemed to have met its burden of proof. SCE also indicated its belief that the example provided in the definition was meant to apply to O&M forecasts.

In response to Commission staff questions about where in GRC proceedings stipulated terms and rebuttable presumptions would apply, SCE noted that if Commission standard practices were applied as stipulated terms or rebuttable presumptions, then they could be applied consistently across utility rate cases. TURN offered as an example that the Commission could utilize a stipulated term to standardize which components of short-term incentive program (STIP) costs the utilities could seek recovery from ratepayers. SCE responded with reasons why it believed TURN's STIP example might not be applicable. TURN indicated that it had only provided an example for discussion purposes and the goal in defining rebuttable presumptions would be to reduce the amount of litigation. Both SCE and TURN noted that discussion had to be limited on this topic because it was a litigated item in SCE's open GRC proceeding. The same is true of at least one Commission Standard Practice, which prevented TURN from addressing the merits of SCE's suggestion that the use or application of Commission Standard Practices would count as a "stipulated term" under the IOUs' proposal.

6.3 TURN's Presentation on Stipulated Terms and Rebuttable Presumptions

TURN stated that its objectives for rebuttable presumptions were primarily to simplify rate case proceedings by reducing the need for extensive discovery and resource-intensive evaluation of routine matters and reducing the potential for asymmetry of information between the utilities and other participants. TURN expressed its belief that use of rebuttable presumptions would permit more time to focus on key policy issues, new programs, and emerging safety and reliability items.

TURN believes GRCs are so resource intensive because of the complexity of using a future test year to forecast GRCs coupled with the complexity of various forecasting methodologies employed to create test year forecasts. Strong rebuttable presumptions would reduce disputes over forecasting methodologies and reduce the need for discovery. CPUC forecasting standards (like those presented by SCE) should inform rebuttable presumptions, and rebuttable presumptions should be strong enough to deter parties from seeking to overcome them for each forecast.

TURN's proposed rebuttable presumption is:

"Base Year (or Last Recorded Year) plus inflation provides a reasonable forecast of Test Year O&M and A&G expense at a broad level with only a limited number of exceptions, subject to adjustments as warranted."

The foundation for TURN's rebuttable presumption assumes major areas of utility costs will, on average, increase at the rate of inflation and customer growth will be offset with productivity. TURN proposed parameters regarding the data and narrative utilities would be required to provide to support their forecasts and noted that parties would still have an opportunity to demonstrate that the rebuttable presumption is unreasonable in the context of specific forecasted expenses. TURN also proposed some possible exceptions where the rebuttable presumption would not apply and specific parameters for when adjustments to forecasts would be permitted. TURN concluded its presentation by suggesting requirements to overcome a rebuttable presumption.

For more detail on TURN's rebuttable presumptions proposal, please see Appendix A – section 9.3

6.4 Discussion on TURN's Presentation

SCE asked for clarifications on the factual basis for TURN's assumptions regarding its rebuttable presumptions and how TURN's proposal relates to the Commission's directive on forecast based ratemaking. TURN responded that it intended to offer a starting point for parties to discuss and explore potential alternatives for rebuttable presumptions. TURN offered that since the Commission has already provided guidance on when to employ forecasting methodologies, its proposed rebuttable presumption was intended to "tighten up" that guidance. SCE responded that it believed the Commission's guidance was appropriate for a base estimate which could then be incremented or decremented to derive a forecast. TURN concurred with SCE's interpretation of Commission guidance as applicable to base forecast and clarified that TURN's proposal addressed parameters around the adjustments to the base forecasts. TURN further offered that the intent of its proposed rebuttable presumption was to focus on the reasonableness of costs at the aggregate level as opposed to a line by line cost analysis.

SoCalGas/SDG&E asked whether TURN's rebuttable presumption assumed a specific inflation mechanism. TURN responded that a particular inflation mechanism was not proposed. SoCalGas/SDG&E also asked for clarification about the level of forecast where TURN's proposed exceptions would apply. SCE asked how TURN's proposal would impact the risk spending accountability reporting requirements given the macro level of forecasting employed in TURN's rebuttable presumption. TURN reiterated that its proposal was an opening position for further discussion and exploration and acknowledged that the issues raised during the workshop would need to be resolved.

Commission staff asked whether TURN's assertion that many GRC disputes are due to differences in forecasting methodology referenced differences between applicant's and intervenors' forecasts or differences between the utilities' forecasting methodologies for similar expense categories. TURN clarified it was a reference to the former. Commission staff also asked whether using "big data" or benchmarking that accounted for industry-wide cost trends has ever been contemplated to support cost forecasting in ratemaking proceedings (and clarified a SoCalGas/SDG&E question that this would be different than the total productivity factor study employed in past GRC proceedings). TURN mentioned awareness of consulting firms that perform cost benchmarking or cost data analysis, but no workshop participant identified significant past or contemplated efforts where big data has been leveraged on a wide scale for forecasting GRC costs. SCE mentioned that it uses IHS Markit data for cost inflation forecasting to normalize costs on a year-over-year basis.

6.5 Post-Workshop Comments on Stipulated Terms and Rebuttable Presumptions

The joint IOU comments are in Appendix B - at pp. 5-7.

7 Topic 2: Standardized Attrition Year Ratemaking

7.1 IOUs' Presentation on Standardized Attrition Year Ratemaking

On behalf of the IOUs, PG&E presented proposed rebuttable presumptions and supporting rationale for standardizing attrition year forecasts. The IOUs' proposals are based on recent rate case proceeding decisions, proposed settlement agreements and stipulations. PG&E stated that attrition mechanisms are intended to provide the utilities a reasonable opportunity to recover the cost of providing safe and reliable service and earn the authorized rate of return in between rate cases.

The proposed rebuttable presumptions are:

- *O&M and capital revenue requirements should have separate and distinct treatment.*
- *Revenue requirements for the attrition years should be implemented through an annual advice letter process.*
- *It is reasonable to authorize a z-factor mechanism for all years of a GRC cycle.*
- *Indices used to determine attrition year escalation should be reflective of the costs incurred by the utilities.*
- *It is reasonable to include in attrition calculations contractual labor rate changes known at the time of a utility's rate case Decision.*
- *Capital additions should be adopted as the capital adjustment in an attrition mechanism.*
- *Parties may propose reasonable adjustments to attrition mechanisms for specific programs that are not fully reflected in the test year.*

PG&E discussed the utilities' supporting rationale for each of the proposed rebuttable presumptions. For more detail on the IOU attrition standardization proposal, please see Appendix A – section 9.4.

7.2 Discussion on the IOUs' Presentation

TURN asked whether the utilities' proposed rebuttable presumption regarding the use of capital additions for the capital adjustments mechanism included specifics on what to use as the basis for capital additions (for example, test year authorized or utility budgets for attrition years). PG&E responded that the utilities do not have a specific proposal on what to use as the basis, but the intent of the rebuttable presumption is that the capital component of an attrition year be based on capital additions vs. other factors.

The Public Advocates Office commented that it generally sees four types of attrition mechanisms proposed in rate cases:

1. Percentage increase of the prior year's revenue requirement
2. Separate capital and O&M escalations
3. Special cases (*e.g.*, health benefits)
4. Budget-based capital proposals – which it believes the Commission has generally not adopted

PG&E indicated that the IOUs' proposal was a combination of Public Advocates Office items two and three. SCE responded that it has provided a budget-based forecast for capital for attrition years in its GRCs to provide visibility to the work that it plans to accomplish in the attrition period, but it has generally not been adopted. SoCalGas/SDG&E responded that they generally do not forecast specific capital additions in attrition years, but Pipeline Safety Enhancement Plan (PSEP) capital projects were an exception in the TY2019 GRC since the Commission ordered PSEP to be included. PG&E explained that it generally provides budgeted attrition year capital forecasts, but it does not base its attrition proposals on those forecasts.

Commission staff asked how capital projects subject to reasonableness review or that are forecasted to be in service in the attrition years of a GRC cycle (such as PSEP) would fit into a proposed attrition year mechanism. The utilities responded that this is generally what was contemplated by the proposed rebuttable presumption regarding reasonable adjustments to attrition mechanisms for specific programs that are not fully reflected in the test year. SoCalGas/SDG&E and TURN both added that PSEP was a considerable amount of work that could not be accounted for in other components of the attrition mechanism and therefore required a specific attrition adjustment mechanism.

7.3 TURN's Presentation on Standardized Attrition Year Ratemaking

TURN stated that it is more difficult to standardize attrition year rebuttable presumptions and there is less benefit from standardization, since there aren't many elements to attrition year proposals. TURN believes that attrition adjustments are intended to help offset inflationary pressures the utility will face, encourage the utility "to stretch to achieve productivity between test years" and "mitigate economic volatility between test years to a reasonable degree so that a well-managed utility can provide safe and reliable service while maintaining financial integrity." TURN also indicated that it believes attrition year adjustments are not intended to cover a utility's cost of service or guarantee a reasonable return during the attrition year, but they should provide a reasonable opportunity to earn a utility's authorized rate of return.

TURN believes the benefit of adopting rebuttable presumptions for a default attrition year mechanism is the potential to reduce litigation, but it would depend on the frequency that parties would seek to overcome the default rebuttable presumptions established for attrition mechanisms.

TURN's proposed rebuttable presumptions for attrition year adjustment mechanisms:

- *The Commission will presume that an attrition adjustment mechanism should be adopted in each GRC that escalates operating expenses by CPI-Urban.*
- *The Commission will presume that an attrition adjustment mechanism should be adopted in each GRC that calculates capital related costs based on historical capital trending. The historical capital trending should include a 7-year average of <u>recorded</u> capital additions, including the 5 years prior to the base year, the base year, and once available, the base year plus 1. Capital additions from each year should be expressed in constant (base year) dollars and may be normalized to the number of customers in each year before averaging.*

TURN believes that there are circumstances under which deviation from their proposed rebuttable presumption capital attrition adjustment mechanism would be warranted. TURN believes that to overcome its proposed rebuttable presumptions, it must be demonstrated that the capital attrition adjustment provided by the proposed mechanism will be grossly inadequate during the attrition years due to particular capital programs or major capital additions. TURN also stated that because of the uncertainty in forecasting attrition years due to the time lag, additional attrition increases over those provided by the default mechanism should be subject to a true-up. Finally, TURN proposes that any party should be able to provide evidence demonstrating that the default attrition adjustment assumes unreasonably high levels of capital additions in the attrition years.

For more detail on TURN's attrition standardization proposal, please see Appendix A – section 9.5.

7.4 Discussion on TURN's Presentation

A concern was once again raised regarding addressing items being litigated in open GRC proceedings, which limited the scope of the discussion. PG&E asked TURN to elaborate on the true-up in TURN's proposed attrition mechanism. TURN clarified that its proposed mechanism was intended to evolve through further discussion, but it foresees that a true-up for authorized adjustments outside the default mechanism could be handled through an annual advice letter process.

Commission staff asked for clarification on how TURN's proposal would change what is currently in place for attrition year mechanisms and what are the mechanisms currently used to determine escalation. TURN responded that its proposal has the potential for reducing litigation because it would raise the bar to overcome the default mechanism. TURN also opined that there is a lot of variation in parties' proposals and variation in what the Commission uses to determine attrition escalation for both O&M and capital.

The Public Advocates Office commented that it believes the utilities can propose whatever attrition year escalation mechanism they wish. Its concern with standardization under rebuttable presumptions is that there could be discontinuity between the escalation mechanism established through a rebuttable presumption and actual events. For example, some recent GRC proposals have included forecasted negative escalation between the test year and attrition year for certain components that might not align with the default mechanism defined in a rebuttable presumption.

7.5 Post-Workshop Comments on Standardized Attrition Year Ratemaking

TURN noted alignment between its proposed standardized approach and that of the IOUs on several issues: (1) separately adjusting O&M and capital revenue requirements; (2) implementing attrition rate adjustments through an annual advice letter process; (3) basing capital revenue requirement adjustments on capital additions; and (4) allowing for additional attrition year adjustments for specific programs under certain circumstances. Differences arise because of TURN's view of the purpose of attrition, which is not intended to cover the utility's cost of service, like a test year analysis, or all potential cost changes, but should encourage the utilities to stretch to achieve productivity. TURN accordingly disagrees with the IOUs' view that attrition year escalation should closely track the costs incurred by the utilities. Similarly, while TURN agrees that capital attrition should, as a general matter, be based on capital additions, TURN supports the use of recorded rather than forecast capital additions.

The joint IOU comments are in Appendix B - at pp. 8-10.

8 Next Steps

Commission staff explained that the workshop reports would reflect discussions and issues raised, and it will be reviewed with Energy Division management, ALJ Division management, and the assigned Commissioner's office (for R.13-11-006) to determine the appropriate next steps.

SoCalGas/SDG&E asked that if the outcome of the workshops would affect parties' rights or obligations in GRC proceedings, the Commission takes that into account when determining the next steps. SoCalGas/SDG&E also requested that if parties' proposals are to be considered further, there should be an opportunity to provide comments on proposals.

Commission staff requested that parties provide comments on proposals discussed in the workshop to be included in the report. Commission staff also noted the second RCP workshop will cover GRC standardization and is scheduled for October 7, 2020.

9 Appendix A – Workshop Presentations

9.1 Energy Division Workshop Introduction

9.2 IOU Presentation on Topic 2 Stipulated Terms and Rebuttable Presumptions (Slides 1-5)

9.3 TURN Presentation on Stipulated Terms and Rebuttable Presumptions (and Supplemental PDF)

9.4 IOU Presentation on Topic 4 Standardizing Attrition Ratemaking (Slides 6-13)

9.5 TURN Presentation on Standardizing Attrition Year Ratemaking

9.1 Energy Division Workshop Introduction

Rate Case Plan (Decision 20-01-002) Workshop #1
Stipulated Terms, Rebuttable Presumptions & Standardized Attrition Year Revenue Requirements

September 4, 2020

California Public Utilities Commission (CPUC)

CPUC Energy Division
Sempra Utilities Lead

Introductions

- CPUC – Energy Division
- Panelists/Presenters
- Organizations – via Chat function

Workshop Agenda

12:30pm – 12:40pm: **Introduction**

12:40pm – 1:45pm: **Stipulated Terms and Rebuttal Presumption**

1:45pm - 1:55pm: **Break**

1:55pm – 3:15pm: **Standardizing Attrition Mechanism**

3:15pm – 3:30pm: **Summary and Wrap up**

Workshop Purpose

- Meet requirements of RCP Decision 20-01-002
- Series of four workshops
- Scope of Workshop #1
- Work Product: Workshop Report

Workshop Goals

- A summary of the workshop discussion will be made available within 30 days following the workshop.
- The CPUC will review the information to determine an appropriate next step.

WebEx and Call-in Information

WebEx:

https://cpuc.webex.com/cpuc/onstage/g.php?MTID=ea4463b3761d63d3f392064a1453726a4

Recommend using audio through your computer if possible.

Call-in: +1-415-655-0002 (please note this number has tolls)

Meeting number (access code): 146 870 4115 Listen-only.

All participants in listen-only mode by default.

Please submit questions/comments via the WebEx chat and/or use the “raise hand” function.

Workshop Logistics

- Today’s Workshop Presentations are available in the meeting invite.
- Please identify yourself and your organization when speaking.
- This Workshop is being recorded.
- Host: Energy Division Staff - Carlos Velasquez and Jenny Au
- Lead: Sempra Utilities
- Panelists: Sempra, SCE, PG&E, and TURN
- Moderator: Evan Goldman

Summary & Wrap Up

Reminder:

All participants are in listen-only mode by default.

Please submit questions/comments via the WebEx chat and/or use the “raise hand” function.

9.2 IOU Presentation on Topic 2 Stipulated Terms and Rebuttable Presumptions (Slides 1-5)

RCP Workshop #1 – Agenda Topic 2 – Definitions of Stipulated Terms and Rebuttable Presumptions

Stipulated Term – Proposed Definition

For purposes of Utility General Rate Cases: "Use or application of the Stipulated Term means that such use or application is deemed conclusively to be reasonable and not subject to re-litigation of the Stipulated Term. This definition will not apply if the party challenging the use or application of the Stipulated Term can show by admissible evidence that it is in fact not factually applicable at all, or can show by citation to binding precedent that use or application of the previously-established Stipulated Term is now contrary to law or binding regulatory precedent, so that current use of the Stipulated Term is prohibited."

Stipulated Term – Example

Use or application of Commission Standard Practices.

Rebuttable Presumption - Proposed Definition

For purposes of Utility GRCs: "If the rebuttable presumption is applicable, then the rebuttable presumption operates so that [rebuttable presumption] is assumed to be reasonable, and will be approved, adopted, or acknowledged by the Commission unless it is shown to be unreasonable through admissible evidence or through binding precedent from legislative, judicial, or regulatory authority."

Rebuttable Presumption - Example

The Commission has established guidelines for forecasting O&M expenses in General Rate Cases. These methodologies are commonly understood and have been used in an unbroken line of rate cases. The Commission-established guidelines for forecasting methodologies were articulated in D.89-12-057, and have been reinforced several times since then.[1] These guidelines explain when the Commission believes it is appropriate to use forecasting methodologies such as Last Recorded Year, Averaging, or Linear Trending.

While the Commission has indicated that these are not meant to be rigidly applied as "firm rules," these forecasting methodologies can be thought of as the equivalent of a presumption that can be rebutted. If an established methodology is used for the forecast, with no variance or additional incremental request, then a rebuttable presumption of reasonableness would apply to the forecast. This will aid judicial economy and efficiency, lower the burden of litigation on the Commission, the GRC Parties, Energy Division Staff, and other stakeholders, and prevent "re-litigation" in an individual utility's rate case of these Commission-established and generally applicable methodologies.

1 See, e.g., D.04-07-022, pp. 15-16; D.06-05-016, pp. 10-11.

9.3 TURN Presentation on Stipulated Terms and Rebuttable Presumptions (and Supplemental PDF)

Using Rebuttable Presumptions In Test Year Forecasting to Reduce Complexity in GRCs

TURN
THE UTILITY REFORM NETWORK
Lower bills. Livable planet.

Rate Case Plan Workshop #1
September 4, 2020

TURN Goals for Rebuttable Presumptions

1. To simplify the rate case and reduce the need for resource-intensive evaluation on routine matters;
2. To reduce disputes around the accuracy of forecasting;
3. To make the rate case more transparent for evaluators;
4. To reduce the potential for gaming and asymmetry of information that benefits utilities;
5. To make it easier to process a case on time, while still providing more time for examining key policy issues such as safety and reliability; and
6. To provide clarity on the meaning of the utility's burden of proof as to the reasonableness of its forecast and past expenditures.

GRCs are extremely resource-intensive

- California's use of a future test year, coupled with the particulars of utility forecasting methodologies, drive this complexity.

- Utility forecasts tend to be granular, data-intensive, and incredibly resource-intensive to evaluate, in part because of the extreme asymmetry of information between the utility, intervenors, and the Commission.

- TURN routinely devotes 3,500 to 6,500 hours to each GRC and sends between 800 and 1,000 data request questions.

Benefits of Using Test Year Forecast Rebuttable Presumptions

- Many GRC disputes boil down to a difference in forecasting methodology.

- Rebuttable presumptions would reduce the need for discovery, minimize disputes around the accuracy of forecasting, and enable a more focused review of new programs and key policy issues such as safety and reliability.

The CPUC's forecasting guidance should inform rebuttable presumptions

Per D.04-07-022 (at pp. 15-17):

- "If recorded expenses in an account have been **relatively stable** for three or more years" → use ***Last Recorded Year*** as base estimate
- "If recorded expenses in an account have shown **a trend** in a certain direction over three or more years, the [last recorded year] level is the most recent point in the trend" → use ***Last Recorded Year*** as base estimate
- "For those accounts which have **significant fluctuations** in recorded expenses from year to year, or which are influenced by weather or other external forces beyond the control of the utility" → use ***Historical Average*** as base estimate
- ***Budget-Based*** forecasts are **disfavored**: "[B]ecause utility spending plans may not always be implemented as intended, budget-based forecasts generally will be given less weight than forecasts based on recorded spending in the absence of a showing supporting the contrary approach."

TURN's Proposed Rebuttable Presumption

Base Year (or Last Recorded Year) plus inflation provides a reasonable forecast of Test Year O&M and A&G expense at a broad level with only a limited number of exceptions, subject to adjustments as warranted.

The following slides cover:

1. Basic Information
2. Exceptions and Special Calculations
3. Adjustments
4. Showing to Overcome the Rebuttable Presumption

TURN’s Proposed Rebuttable Presumption – Basic Information

- Assumption: Some individual routine costs may increase at a rate higher than inflation, while others may increase at a lower rate, but in total the average increase should be something akin to an inflation adjustment applied at a very high level of utility operations, such as electric distribution, gas distribution, electric generation, A&G, etc.
- Assumption: Increases in costs due to customer growth will be offset with productivity under the rebuttable presumption. The “inflation adjustment” should reflect a reasonable level of productivity.
- The utility would continue to provide five years of recorded data at the account level. If the base year varies by the larger of 5% or $100,000 relative to the previous year in real terms, a brief narrative explanation would be provided unless the account falls into one of the exceptions to the rebuttable presumption (in which case the account would be separately forecast).
- The utility and intervenors would have an opportunity to demonstrate that the rebuttable presumption is unreasonable in the context of specific O&M or A&G expenses.

TURN's Proposed Rebuttable Presumption – Exceptions

1. New or expanding programs put in place for safety, reliability, and public policy reasons
2. Costs that should be averaged because they tend to fluctuate (storms, claims, workers' compensation, employee relocation/severance, etc.)
3. Costs that are reasonable to forecast as a percentage of revenue or percentage of other costs (where historical data shows a strong correlation)
   - For items that are a percentage of revenue (franchise fees, etc.) the costs should be averaged as a percent of revenue, rather than as a dollar amount
   - For items affected by the number of employees or labor expenses (benefits, payroll taxes), calculate base year costs on a per-employee or a per-labor dollar basis
4. Certain generation-related costs requiring special accounting (nuclear refueling outage expenses, Long Term Service Agreements for combined cycle plants, generation costs that vary with hours run or kW hours produced)
5. Other operating revenues may require special accounting if driven by number of customers rather than inflation or to capture changes in tariffed charges after the base year.

TURN's Proposed Rebuttable Presumption – Adjustments

1. For "known and measurable" changes in the test year *of more than $1 million* for PG&E, SCE, and SoCalGas and *more than $500,000* for SDG&E -- smaller O&M adjustments are only permitted if related to specific governmental requirements
2. For one-time O&M costs in the base year or test year, but only where there is a significant increase in one-time costs across the utility in aggregate in the base year relative to earlier years or in the test year relative to the base year
3. For capital projects in the test period that reduce O&M expenses – to normalize expense reduction into the test year

Showing to Overcome TURN's Rebuttable Presumption

- General: Any adjustment of any kind that spans more than one account would be identified and discussed in a single place in testimony and the effect of that adjustment on all accounts would be identified in one place, with cross-references to all affected accounts.

- Specific Showings:
  - Known and Measurable Changes – evidence demonstrating that such changes will affect the test year relative to the base year significantly more or less than the rebuttable presumption captures
  - One-Time Costs – evidence demonstrating that base year utility-wide one-time costs are not illustrative of test year one-time costs

Showing to Overcome TURN's Rebuttable Presumption

- Specific Showings: (continued)
  - Customer Growth – evidence establishing that costs cannot be offset by productivity
  - Unit Costs– evidence demonstrating reasonableness of non-standard escalation
  - Vacant Positions – evidence establishing that vacancies utility-wide were unusual in the base year
  - Employee Benefit Programs –evidence of changes in benefits

(more detail in the PDF attachment to TURN's presentation)

TURN Presentation #1

Using Rebuttable Presumptions In Test Year Forecasting to Reduce Complexity in GRCs

I. TURN Goals for Rebuttable Presumptions

- To simplify the rate case and reduce the need for resource-intensive evaluation on routine matters;
- To reduce disputes around the accuracy of forecasting;
- To make the rate case more transparent for evaluators;
- To reduce the potential for gaming and asymmetry of information that benefits utilities;
- To make it easier to process a case on time, while still providing more time for examining key policy issues such as safety and reliability; and
- To provide clarity on the meaning of the utility's burden of proof as to the reasonableness of its forecast and past expenditures.

II. GRCs are extremely resource-intensive

- California's use of a future test year, coupled with the particulars of utility forecasting methodologies, drive this complexity.

- Utility forecasts tend to be granular, data-intensive, and incredibly resource-intensive to evaluate, in part because of the extreme asymmetry of information between the utility, intervenors, and the Commission.

- TURN routinely devotes 3,500 – 6,500 hours to GRCs

    - Variation associated with whether a case is fully litigated or settled, and whether TURN shares issues with UCAN (common in Sempra GRCs)

        - PG&E TY 2020 GRC – 3,600 hours *to-date* (settled before briefs)
        - Sempra TY 2019 GRC – 3,400 hours (litigated, UCAN issue split)
        - SCE TY 2018 GRC – 6,400 hours (litigated)
        - PG&E TY 2017 GRC – 4,800 hours (settled)
        - SCE TY 2015 GRC – 5,300 hours (litigated)
        - PG&E TY 2014 GRC – 5,700 hours (litigated)

- Data Requests propounded by TURN in recent GRCs:

    - SCE TY 2021 GRC (Track 1): 117 data requests with 983 questions
    - PG&E TY 2020 GRC: 103 data requests with 831 questions
    - Sempra TY 2019 GRC (case coverage shared with UCAN): 85 data

requests with 806 questions

III. Benefits of Using Test Year Forecast Rebuttable Presumptions

- Many GRC disputes boil down to a difference in forecasting methodology.
- Rebuttable presumptions would reduce the need for discovery, minimize disputes around the accuracy of forecasting, and enable a more focused review of new programs and key policy issues such as safety and reliability.

IV. The Commission's long-standing forecasting guidance should inform rebuttable presumptions.

- D.04-07-022 (at pp. 15-17) summarizes the four most common methods for forecasting test year costs -- Last Recorded Year, Historical Average, Linear Trending, and Budget-Based – and provides guidance on when to use each.
  - "If recorded expenses in an account have been relatively stable for three or more years" → use ***Last Recorded Year*** as base estimate
  - "If recorded expenses in an account have shown a trend in a certain direction over three or more years, the [last recorded year] level is the most recent point in the trend" → use ***Last Recorded Year*** as base estimate
  - "For those accounts which have significant fluctuations in recorded expenses from year to year, or which are influenced by weather or other external forces beyond the control of the utility" → use ***Historical Average*** as base estimate
  - ***Budget-Based*** forecasts are disfavored: "[B]ecause utility spending plans may not always be implemented as intended, budget-based forecasts generally will be given less weight than forecasts based on recorded spending in the absence of a showing supporting the contrary approach."

V. TURN's Proposed Rebuttable Presumption

Base Year (or Last Recorded Year) plus inflation provides a reasonable forecast of Test Year O&M and A&G expenses at a broad level with only a limited number of exceptions, subject to adjustments.

1. Basic Information

- The rebuttable presumption assumes that some individual routine costs may increase at a rate higher than inflation, while others may increase at a lower rate, but in total the average increase should be something akin to an inflation adjustment applied at a very high level of utility operations, such as electric distribution, gas distribution, electric generation, A&G, etc.

- The rebuttable presumption assumes that increases in costs due to customer growth will be offset with productivity under the rebuttable presumption. The "inflation adjustment" should reflect a reasonable level of productivity.

- The utility would continue to provide five years of recorded data at the account level. If the base year varies by the larger of 5% or $100,000 relative to the previous year in real terms, a brief narrative explanation would be provided unless the account falls into one of the exceptions to the rebuttable presumption (in which case the account would be separately forecast).

- The utility and intervenors would have an opportunity to demonstrate that the rebuttable presumption is unreasonable in the context of specific O&M or A&G expenses.

2. Exceptions to the rebuttable presumption that should be separately forecast

- New or expanding programs put in place for safety, reliability, and public policy reasons

- Costs that should be averaged because they tend to fluctuate (storms, claims, workers' compensation, employee relocation / severance, etc.)

- Costs that are reasonable to forecast as a percentage of revenue or other costs (where historical data shows a strong correlation)

    - For items that are a percentage of revenue (franchise fees, etc.) the costs should be averaged as a percent of revenue, rather than as a dollar amount.
    - For items that are affected by the number of employees or labor expenses (benefits, payroll taxes), the utility should calculate base year costs on a per-employee or a per-labor dollar basis.

- Certain generation-related costs requiring special accounting

    - Nuclear refueling outage expenses calculated on a per-outage basis and allowed for the utility based on actual number of outages.
    - Long Term Service Agreements for combined cycle plants – the future expected costs should be averaged over the rate case cycle.
    - Some generation costs (e.g., consumables, water) may also vary with hours run or kilowatt-hours produced and would therefore require special calculations.

- Other operating revenues may require special accounting if driven by number of customers rather than inflation or to capture changes in tariffed charges after the base year.

3. Adjustments to the forecast resulting from the rebuttable presumption

- For "known and measurable" changes in the test year *of more than $1 million* for PG&E, SCE, and SoCalGas and *more than $500,000* for SDG&E
  - Smaller O&M adjustments are only permitted if related to specific governmental requirements
- For one-time O&M costs in the base year or test year, but only where there is a significant increase in one-time costs across the utility as a whole in the base year relative to earlier years or in the test year relative to the base year
- For capital projects in the test period that reduce O&M expenses – to normalize expense reduction into the test year

4. Showing to overcome the rebuttable presumption

- **General:** Any adjustment of any kind that spans more than one account would be identified and discussed in a single place in testimony and the effect of that adjustment on all accounts would be identified in one place, with cross-references to all affected accounts.
- **Known and Measurable Changes:** Evidence of known and measurable changes that will affect the test year costs relative to the base year (either higher or lower than the rebuttable presumption) should be provided. No single O&M adjustment will be under $1 million, in the case of PG&E SCE, and SoCalGas, or $500,000, for SDG&E, unless based on specific changes in government actions. A programmatic adjustment spanning several accounts may be counted as one adjustment for this purpose.
- **One-time costs:** The rebuttable presumption assumes that aggregate one-time costs in the base year are comparable to one-time costs in the test year. To add one-time costs in the test year, an analysis must be provided that demonstrates that the aggregate of one-time costs in the test year is reasonably expected to exceed the aggregate of one-time costs recorded in the base year. If approved, any excess one-time costs in the future test year above base year levels should be averaged over the rate case cycle (i.e., one-fourth allowed if one-time for a single year in a 4-year cycle). One-time costs should be removed from the base year only if there is a significant increase in one-time costs across the utility as a whole in the base year relative to earlier years. To facilitate consideration of whether adjustments to the rebuttable presumption for one-time costs are appropriate, the utility should identify one-time costs in the base year and previous four years for each account.
- **Customer Growth:** Customer growth adjustments to O&M expenses between base year and test year are specifically included in the rebuttable presumption. The utility has the burden of proof to establish that increased

costs due to customer growth cannot be offset by productivity between the base year and test year.

- **Unit Costs:** Increases above inflation for unit costs of certain items included in non-labor inflation shall fall under the rebuttable presumption. For those items, it shall be assumed that non-labor inflation rates encompass all inflation on a company-wide basis unless shown otherwise. If the utility wishes to request an increase greater than inflation for an item, it should include the item's costs under non-standard escalation, and provide information (a) proving that its request is reasonable and (b) proving that the specific item is not included in the calculation of non-labor inflation for the cost type in question.

- **Vacant Positions:** Adjustments to refill vacant positions or annualize costs of vacant positions filled during the base year are specifically included in the rebuttable presumption, because vacancies in the base year in the aggregate are presumed to be equal to vacancies in the test year on a corporate-wide basis unless proven otherwise. Any such adjustments must be accompanied by an analysis of the company's level of unfilled positions over the base year and four preceding years on a company-wide basis to show that vacancy levels were unusual in the base year. Any such adjustments must also net out corresponding reductions to overtime that would result from filling vacant positions.

- **Employee Benefit Programs:** Adjustments for changes in employee benefit programs that are expected to occur must be justified with supporting evidence.

9.4 IOU Presentation on Topic 4 Standardizing Attrition Ratemaking (Slides 6-13)

RCP Workshop #1 – Agenda
Topic 4 – Standardizing Attrition Mechanisms

Standardizing Attrition Mechanisms - 1

Utilities' Proposed Rebuttable Presumption	Principle / Supporting Rationale
O&M and capital revenue requirements should have separate and distinct treatment.	• O&M expenses and capital expenditures affect revenue requirement differently. • A single escalation factor does not appropriately reflect cost of service.

Standardizing Attrition Mechanisms - 2

Utilities' Proposed Rebuttable Presumption	Principle / Supporting Rationale
Revenue requirements for the attrition years should be implemented through an annual advice letter process.	• Each IOU may have slightly different processes, but share a goal of having authorized rates in place effective January 1st of the applicable year. • This results in more stable customer bills by consolidating revenue changes.

Standardizing Attrition Mechanisms - 3

Utilities' Proposed Rebuttable Presumption	Principle / Supporting Rationale
It is reasonable to authorize a z-factor. mechanism for all years of a GRC cycle.	• A Z-Factor event is unpredictable and occurs after base rates have been set. • A Z-Factor event is as likely to occur in the test year as in the attrition years. • In previous rate case decisions this has been established for certain utilities.

Standardizing Attrition Mechanisms - 4

Utilities' Proposed Rebuttable Presumption	Principle / Supporting Rationale
Indices used to determine attrition year escalation should be reflective of the costs incurred by the utilities.	• Both utilities and ratepayer advocates should have a common interest in ensuring that the indices are accurate. In that way, a clear apples-to-apples comparison can be drawn from year-to-year regarding the rise in real costs exclusive of inflation. • Indices specific to the utility industry more accurately reflects utility inflationary costs. • Broad indices that reflect inflationary pressures for goods and services in general do not accurately reflect the specific basket of goods and services that the utility employs on behalf of its customers. • For medical cost escalation, it is appropriate to use an estimating methodology reflective of medical cost trends and the Utility's medical provider marketplace and plans.

Standardizing Attrition Mechanisms - 5

Utilities' Proposed Rebuttable Presumption	Principle / Supporting Rationale
It is reasonable to include in attrition calculations contractual labor rate changes known at the time of a utility's rate case Decision.	• Given its potential for uncertainty, it is reasonable to update for this cost element.

Standardizing Attrition Mechanisms - 6

Utilities' Proposed Rebuttable Presumption	Principle / Supporting Rationale
Capital additions should be adopted as the capital adjustment in an attrition mechanism.	• Capital additions are representative of the capital-related revenue requirement utilities require in attrition years.

Standardizing Attrition Mechanisms - 7

Utilities’ Proposed Rebuttable Presumption	Principle / Supporting Rationale
Parties may propose reasonable adjustments to attrition mechanisms for specific programs that are not fully reflected in the test year.	• Large programs/projects may have one-time events or lumpy spending patterns. • Because the Commission has adopted a four-year GRC cycle, the utility is projecting from two to six years ahead when it develops its forecasts for its application. • The further out one goes, the greater the chances that re-prioritization, new or changing system needs, technological developments, and other emergent factors may cause the utility’s actual spend to differ from what was forecast or what was authorized. Utility leadership must have some degree of flexibility to meet these changed circumstances.

9.5 TURN Presentation on Standardizing Attrition Year Ratemaking

Standardizing Attrition Year Revenue Requirement Adjustments

TURN
THE UTILITY REFORM NETWORK
Lower bills. Livable planet.

Rate Case Plan Workshop #1
September 4, 2020

The Purpose of Attrition Year Adjustments

Attrition year adjustments **are**:

- Intended to help offset inflationary pressures the utility will face

- Intended to encourage the utility "to stretch to achieve productivity between test years"

- Intended to "mitigate economic volatility between test years to a reasonable degree so that a well-managed utility can provide safe and reliable service while maintaining financial integrity"

Attrition year adjustments **are not**:

- An “entitlement” for utilities
- Intended “to insulate the company from the economic pressures which all businesses experience”
- Intended to cover the utility’s cost of service, like a test year analysis, or “all potential cost changes”
- Intended “to guarantee the utility’s rate of return during the attrition years”

(Source: D.20-01-002, D.19-05-020, D.17-05-013, and D.14-08-032)

Benefits of Adopting a Default Attrition Year Adjustment Mechanism

- Attrition year adjustments are highly contested in GRCs
- Disputes are generally around the mechanism used to calculate adjustments
- Adopting a default adjustment mechanism could reduce litigation

TURN's Proposed Default Attrition Year Adjustment Mechanism

- The Commission will presume that an attrition adjustment mechanism should be adopted in each GRC that escalates operating expenses by CPI-Urban.
- The Commission will presume that an attrition adjustment mechanism should be adopted in each GRC that calculates capital related costs based on historical capital trending. The historical capital trending should include a 7-year average of <u>recorded</u> capital additions, including the 5 years prior to the base year, the base year, and once available, the base year plus 1. Capital additions from each year should be expressed in constant (base year) dollars and may be normalized to the number of customers in each year before averaging.

Showing Required to Demonstrate that the Default Attrition Adjustment is Unreasonable

- To overcome this presumption of reasonableness, a utility seeking a larger attrition adjustment must demonstrate that because of particular capital programs, or a major capital addition, the capital attrition adjustment provided by this mechanism will be grossly inadequate during the attrition years.

- Unless the attrition year capital budgets for identified programs are mandated by law or regulation, additional attrition increases, if justified, will be authorized subject to true-up, given the uncertainties surrounding budget-based capital forecasting.

Showing Required to Demonstrate that the Default Attrition Adjustment is Unreasonable

(continued)

- Any party can provide evidence demonstrating that the default attrition adjustment assumes unreasonably high levels of capital additions in the attrition years.

10 Appendix B – Post-Workshop Comments on the Workshop

Joint IOU Comments to Rate Case Plan Workshop #1

**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	Rulemaking 13-11-006 (Filed November 14, 2013)

JOINT COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY (U 904-G), SAN DIEGO GAS & ELECTRIC COMPANY (U 902-M), SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) AND PACIFIC GAS AND ELECTRIC COMPANY (U 39-M) TO RATE CASE PLAN WORKSHOP NUMBER 1

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September 29, 2020

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	Rulemaking 13-11-006 (Filed November 14, 2013)

JOINT COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY (U 904-G), SAN DIEGO GAS & ELECTRIC COMPANY (U 902-M), SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) AND PACIFIC GAS AND ELECTRIC COMPANY (U 39-M) TO RATE CASE PLAN WORKSHOP NUMBER 1

I. INTRODUCTION

In accordance with guidance provided by the Staff of the California Public Utilities Commission ("Commission"), the Investor Owned Utilities ("IOUs") Southern California Gas Company ("SoCalGas"), San Diego Gas & Electric Company ("SDG&E"), Southern California Edison Company ("SCE") and Pacific Gas and Electric Company ("PG&E") (collectively, the "Joint IOUs") respectfully submit their joint comments regarding the September 4, 2020, workshop ("Workshop 1"). Workshop 1 was conducted pursuant to the Commission's recent decision ("D") in Rulemaking ("R.") 13-11-006 (the "Rate Case Plan" or "RCP" Rulemaking), D.20-01-002 (hereinafter referred to as the "RCP Decision").

II. BACKGROUND

A. Purpose and Scope of RCP Workshops

The RCP Decision was issued to address the Commission's preference for greater efficiencies in processing the large energy utilities' general rate case ("GRC") proceedings, and to "ensure that complex and financially significant GRC proceedings follow a predictable schedule that balances the need for timely Commission decisions with procedural fairness for all parties."[1] The RCP Decision did not reach a determination on all issues raised by parties to the Rulemaking. Instead, the Commission ordered additional workshops to be facilitated by the Commission's Energy Division (in consultation with the Safety and Enforcement Division as appropriate) "to further explore and develop proposals to increase the efficiency of GRC proceedings"[2] on four topics:

- Standardizing the organization and format of GRC and Risk Assessment and Mitigation Plan ("RAMP") filings;
- The possible use of stipulated terms and rebuttable presumptions to reduce litigated issues, and improving the accuracy of attrition year forecasting, escalation factors, and ratemaking;
- High-level consistency in the Results of Operations modeling process across utilities; and
- The timing and implementation of Phase 2 applications on electric and gas rate design and cost allocation.[3]

Upon the conclusion of the workshop or workshops, "a designated utility shall submit a report to the Directors of the Energy Division and Safety and Enforcement Division with copies to this proceeding's service list summarizing the workshop or workshops and any agreed-upon proposals, as a compliance item in this docket."[4]

Perhaps anticipating that the workshops would develop additional "actionable" recommendations to improve the GRC process, the Commission closed the RCP Rulemaking,

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[1] D.20-01-002 at 2.

[2] *Id.* at 3-4. *See also id.at 79,* Ordering Paragraph (OP) 5.

[3] *Id.* at 3-4 and 76 (Finding of Fact (FOF) 8) ("Additional workshops could explore standardizing the organization and format of GRC and RAMP filings; the possible use of stipulated terms and rebuttable presumptions to reduce litigated issues, and improving the accuracy of attrition year forecasting, escalation factors, and ratemaking. . . .").

[4] *Id.* at 79, OP 5.

and preserved its options for acting upon those later recommendations.[5] In the interests of judicial economy and efficiency, and after careful consideration, the IOUs propose to participate in and obtain guidance and feedback from the entire series of workshops before proposing their recommendations on an appropriate vehicle or means for the Commission and parties to implement any agreed-upon efficiencies that result from the workshops. The Joint IOUs believe that our recommendations will be more meaningful to parties and useful to the Commission if the recommendations are informed by a holistic perspective that takes into account the entire spectrum of thought collaboration and robust debate that has occurred during the workshops.

The Joint IOUs remain hopeful that substantive gains can be made by parties finding common ground and consensus on items. However, at the Workshop, even IOU proposals that followed long-established Commission guidance found no real traction. And, proposals made by The Utility Reform Network ("TURN")[6] recast litigation positions in a manner that, if granted by the Commission, would be severely detrimental to the IOUs, their customers, and the communities they serve by making it more difficult to obtain a revenue requirement sufficient to provide safe and reliable service. While no consensus was achieved after multiple hours of discussion at Workshop 1, the Joint IOUs will continue to actively participate in the remaining workshops in an effort to find uniform efficiencies across all GRCs through this process.

B. Comments on Workshop 1: Stipulated Facts, Rebuttable Presumptions, and Attrition Year Improvements

As the Commission noted in the most recent Rate Case Plan Decision, the purpose of the GRCs is for the Commission "to authorize the level of funding necessary for the applicant utility

[5] *See* D.20-01-002 at 74.

[6] The Joint IOUs and TURN were the only Workshop 1 participants who provided proposals.

to provide safe and reliable service at just and reasonable rates."[7] The Joint IOUs agree with TURN that the examination required for the Commission to approve GRCs is substantial. We share TURN's stated interest in making the proceedings more efficient, which was the Commission's intent in requiring the four additional workshops.[8]

The first GRC workshop held on September 4, 2020, addressed issues that are fundamental to the determination of the amount of revenue requirement that should be authorized to the IOUs to provide safe and reliable services. As these issues are typically contested in the IOUs' pending GRCs, it is perhaps unsurprising that the workshop participants were unable to reach an agreement on these issues. While no agreements were reached in the first workshop, as indicated above, the Joint IOUs look forward to participating in additional workshops on the Rate Case Plan and hope that common ground can be established on other issues to meet the Commission and parties' objective to increase the efficiency of the GRC proceedings.

Below, the Joint IOUs respond briefly to TURN's proposals in the first workshop, consistent with instructions in the Draft Report.[9]

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[7] D.20-01-002 at 60.

[8] D.20-01-002 at 2.

[9] Draft Report, Section 8, *Next Steps.* The Comment date was moved to September 29, 2020 by e-mail to the service list on September 17, 2020.

Topic 1: Stipulated Terms[10] and Rebuttable Presumptions

The Joint IOUs agree with TURN that the Commission guidelines for forecasting methodologies initially articulated in D.89-12-057 and reinforced several times,[11] should create a presumption that the applicable forecasting methodology used for a base estimate is reasonable.[12] As the Joint IOUs noted during Workshop 1, while the Commission has indicated that the forecasting methodologies should not be rigidly applied as "firm rules," these forecasting methodologies can be thought of as the equivalent of a presumption that can be rebutted. If an established methodology is used for the forecast, with no variance or additional incremental request, then a rebuttable presumption of reasonableness should apply to the forecast.[13] This was proposed to aid efficiency and reduce the burdens of litigation. In other words, the rebuttable presumption should lower or eliminate the burden of "re-litigating" these items in each individual utility's rate case even when Commission-recommended guidance is being linearly followed.

Although claiming that "[t]he CPUC's forecasting guidance should inform rebuttable presumptions,"[14] TURN's proposal substantially diverges from Commission guidance. TURN proposes as a rebuttable presumption for the test year that "[b]ase Year (or Last Recorded Year) plus inflation provides a reasonable forecast of Test Year O&M and A&G expense at a broad

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[10] Only the Joint IOUs provided a proposal for "Stipulated Terms." *See* Draft Report, Appendix A, Chapter 9.2, IOU Presentation on Definitions of Stipulated Terms and Rebuttable Presumptions ("IOU Presentation"), Slides 2-3. During discussion, "TURN generally agreed with the utilities' position that stipulated terms should be binding and difficult to overcome." Draft Report at 5.

[11] *See, e.g.*, D.04-07-022 at 15-16; D.06-05-016 at 10-11.

[12] *See*, Appendix A, Chapter 9.3, TURN, Using Rebuttable Presumptions in Test Year Forecasting to Reduce Complexity in GRCs ("TURN Rebuttable Presumption Presentation") at Slide 5.

[13] *See* Draft Report, Appendix A, Chapter 9.2, IOU Presentation at Slide 5.

[14] *See* TURN Rebuttable Presumption Presentation at Slide 5.

level with only a limited number of exceptions, subject to adjustments as warranted."[15] The "inflation" adjustment is further derived by a proxy that assumes that increased costs due to customer growth is offset by productivity.[16]

The Joint IOUs cannot support TURN's proposal. Under TURN's proposal, for all practical purposes, the IOUs would not be permitted to propose a forecast in many areas of the case necessary for safe and reliable service to customers. It would limit the IOUs' ability to obtain an appropriate revenue requirement for a program if the funding that is needed exceeds the amount of the base cost estimate, as adjusted by TURN's proposed proxy for inflation with limited exception.[17]

As discussed further below, since the IOUs' needs for work, risks, and priorities evolve over time, the Joint IOUs cannot agree to TURN's proposals for additional rules and limitations that would erase the IOUs' longstanding right to propose reasonable adjustments to the base estimates produced by Commission-approved methodologies to support the case for funding for necessary work. Indeed, as the climate continues to change rapidly, the spending record of the past may not be a reliable predictor of future activities that are necessary to provide customers with safe and reliable service. Rendering it more difficult for the IOUs to obtain an appropriate revenue requirement was not intended or required by the Commission's guidance on forecasting methodologies, and no precedent was provided to support TURN's position.

TURN also provides new criteria that the utility would need to follow to overcome the rebuttable presumption to obtain any increase in costs above the proposed base estimate adjusted

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[15] *See id.*at Slide 6.

[16] *Id.*at Slide 7.

[17] *See id.* at Slide 8.

by inflation proxy. These hurdles include limitations on the amount and type of O&M adjustments, handling of one-time costs, a requirement to absorb cost increases due to customer growth, rules regarding unit costs, handling of vacant positions, and employee benefits. These additional conditions are not proposals intended to find some common ground, but instead are restatements or extensions of litigation positions that TURN has taken in various GRC proceedings. They would severely hamper or eliminate the IOUs' ability to make meaningful proposals or request reasonable funding. While the Joint IOUs support TURN's stated intention of making GRC proceedings more efficient, TURN's proposals would have the opposite effect. The new requirements to obtain cost recovery to provide just and reasonable service would increase rather than decrease the burdens of GRCs. More importantly, they would effectively erase forecast-based ratemaking as the operative regulatory framework. The IOUs would be left with the burden to prove requests are reasonable, but in numerous instances, would not even be allowed to propose forecasts regardless of the acuity of the need for additional funding. This does not further the goals of the workshop to increase the efficiency of GRC proceedings and appears to cancel out fundamental principles of forecast-based ratemaking that the Commission has long relied upon to make informed decisions in each IOU's GRC.[18]

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[18] TURN's proposals are based upon certain sweeping assumptions concerning utility spending and needs. *See* TURN Rebuttable Presumption Presentation at Slide 7. When asked for the basis or underpinning of these assumptions, TURN did not identify any such basis or underpinning, and stated that its proposal was merely an opening position for discussion.

Topic 2: Standardized Attrition Year Ratemaking

For the Attrition Mechanism, the Joint IOUs proposed several rebuttable presumptions for consideration by stakeholders. The presumptions proposed include the following: that O&M and capital would have distinct treatment, implementation of the attrition year adjustment by advice letter, use of escalation indices that reflect of the basket of goods utilized by utilities, the inclusion of ratified collective bargaining agreements, and adoption of capital additions as the capital adjustments.[19]

TURN presented a philosophical approach to the purpose and need for an attrition mechanism with which the Joint IOUs cannot agree. TURN proposes the "Commission presume that an attrition year adjustment mechanism should be adopted in each GRC that escalates O&M expenses by the Consumer Price Index – Urban inflation rate."[20] TURN proposes "the Commission presume that an attrition adjustment mechanism should be adopted in each GRC that calculates capital related costs based on historical capital trending. The historical capital trending should include a 7-year average of <u>recorded</u> capital additions, including the 5 years prior to the base year, the base year, and once available, the base year plus 1. Capital additions from each year should be expressed in constant (base year) dollars and may be normalized to the

[19] *See* Draft Report, Appendix A, Chapter 9.4, IOU Presentation "Standardizing Attrition Mechanisms" at Slides 6-13. Like the Joint IOU proposal for stipulated terms and rebuttable presumptions, these proposals are grounded in Commission precedent. *See, e.g.*, D.19-09-051 at 706-07 ("We agree with Applicants that the [post-test year ("PTY")] mechanism for capital additions should reflect projected capital additions rather than just escalation."); *id. at* 707 ("Since O&M expenses and capital expenditures affect the revenue requirement differently, we find that a two-part attrition mechanism, where O&M expenses and capital-related revenues are separately escalated, is reasonable. Therefore, we find it reasonable to apply different [Post-Test Year] mechanisms for O&M and for capital additions.").

[20] *See* Draft Report, Appendix A, Chapter 9.5, TURN, Standardizing Attrition Year Revenue Requirement Adjustments ("TURN Attrition Presentation") at Slide 5.

number of customers in each year before averaging."[21] TURN also proposes that a utility overcoming this presumption must show that the "capital attrition adjustment provided by this mechanism will be grossly inadequate"[22] and that attrition year capital budgets for programs that are not "mandated or law or regulation" would be subject to a later true up.[23]

While the Joint IOUs agree with TURN that use of an index is appropriate in an attrition year adjustment for operating expenses, the Joint IOUs believe the index should reflect the basket of goods and services employed by the IOUs. TURN's proposals for an attrition year escalation index does not reflect a utility's costs and services.[24] Because each of the IOUs currently has an open GRC proceeding where the amount of the attrition year revenue requirement is at issue, the IOUs cannot substantively address each of TURN's proposals for the attrition year, which the IOUs have generally successfully opposed in numerous rate cases. As an example, the use of CPI was litigated in PG&E's 2014 GRC due to a proposal of the Division of Ratepayer Advocates. The Commission declined the proposal, finding, "[t]he CPI measures changes in consumer prices and is not the best proxy for a wage index."[25] The Commission also declined to require the use of the CPI in SCE's 2004 GRC, finding that it is not "a measure of price changes faced by an electric utility."[26] Most recently, the Commission again rejected the use of CPI in 2019 when it again declined TURN's proposal in SoCalGas' and SDG&E's 2019

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[21] *See id.* at Slide 5.

[22] *See id*. at Slide 6.

[23] *See id.*

[24] *See* Draft Report, Appendix A, Chapter 9.4, IOU Presentation at Slide 10. ("Broad indices that reflect inflationary pressures for goods and services in general do not accurately reflect the specific basket of goods and services that the utility employs on behalf of its customers.").

[25] D.14-08-032 at 527.

[26] D.04-07-022 at 278.

GRC, stating, "We find that Global Insight escalation rates are specific to the utility industry and more accurately reflects [the utilities'] inflationary cost increases. In contrast, escalation based on CPI, which is a broad wholesale pricing index, [reflects] price increases for goods and services in general and does not sufficiently capture the O&M escalation inputs of [the utilities]."[27] Similarly, the Commission declined to adopt a CPI-based escalation in SCE's recent 2015 and 2018 GRC Decisions.[28] As TURN's proposal recasts litigation positions in pending GRCs, the Joint IOUs do not believe an informal resolution to these issues will be reached by the workshop parties.

III. CONCLUSION

As described above, the proposals in Workshop 1 did not achieve an agreed-upon result. The RCP Decision requires no further action on these proposals. The workshop parties appear to be far apart on these issues, and the Joint IOUs are not optimistic that common ground can be achieved through debating litigation positions that were resolved in prior Commission decisions. The Joint IOUs look forward to participating in the upcoming workshops and remain optimistic that consensus among the parties on some of the other workshop topics may be achievable.

Respectfully submitted,

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[27] D.19-09-051 at 708. *See also*, *id.* at 707 ("We also find that applying a percentage increase that is based on the Consumer Price Index (CPI) does not reflect how utilities incur costs.").

[28] D.15-11-021 at 390-391; D.19-05-020 at 285-286.