



# Policy and Planning Division Staff Rate Case Plan Memo

**STAFF MEMO**

May 2012



**Date:** May 1, 2012

**To:** Marzia Zafar - Interim Director, Policy and Planning Division, CPUC

**From:** Nilgun Atamturk - Analyst, Policy and Planning Division, CPUC

**Subject: Rate Case Plan**

- Is the current general rate case plan able to meet the objectives of the California Public Utilities Commission?

**Recommendation:** The current general rate case plan does not impede the CPUC's ability to achieve its objectives. However, there is need for improvement and opening an Order Instituting Rulemaking (OIR) for review and possible modification of the rate case plan will benefit the Commission's review process and may shorten the duration of the rate case proceedings. An OIR targeted to (1) modify the timeline and/or on the timing of the incoming cases, (2) require submission of additional exhibits on utility safety and reliability (pending the outcome of the Rulemaking (R.) 11-02-019), and (3) require submission of additional exhibits on rate impacts of various policy initiatives would be valuable.

**Have the objectives of the CPUC changed over time?**

The CPUC's mission is to serve the public interest by making sure that investor owned utilities provide safe and reliable service at just and reasonable rates in the communications, energy, transportation, and water industries. The agency is also committed to promoting environmental goals and fostering a healthy economy. Even though our core mission has not changed over the years, initiatives taken by the Commission over the last ten years have become more diverse and challenging. Ensuring energy reliability, implementing aggressive renewable energy and energy efficiency goals, promoting demand response programs, advancing climate strategies are among these initiatives. Successful implementation of these efforts requires the Commission to make decisions and resolve complex issues in lengthy proceedings and determine allocation of financial resources outside the general rate cases.



## **Is the current rate case plan instrumental for meeting CPUC's goals or is there a need to modify it?**

General rate cases are a traditional form of regulatory proceeding, in which, a utility files a revenue request based on its estimated operating costs and revenue needs for a particular test year and the Commission determines the reasonable amount of revenue. These cases aim to strike a proper balance between risks the utilities take and reasonable opportunity for returns, taking into account changing economic conditions. The Rate Case Plan (RCP) is the guideline which provides a timeline and minimum filing requirements (list of documentation supporting a Notice of Intent (NOI) and supporting staff and other parties' exhibits and testimony) that should accompany an NOI to file a GRC, thereby ensuring coordination and consistency among general rate cases. The current RCP was modified by D.07-07-004, but no comprehensive changes have been made since 1989.

A rate case plan should be specific enough for all utilities and stakeholders to have a realistic expectation of what to submit and receive, but also be flexible enough so that the presiding officer has the discretion to scope the case based on the changing economic conditions and policy initiatives. It should allow parties to effectively examine relevant contemporary issues, to review utility operations on a comprehensive manner, and provide a realistic guidance for timely issuance of decisions.

## **Currently there appears to be three major concerns regarding the current Rate Case Plan.**

**Issue 1:** The CPUC is responsible for reviewing the costs to the major energy utilities of owning, maintaining, and operating the electric and gas infrastructure. Approximately



50 percent of the total costs are reviewed and authorized in General Rate Cases (GRCs).<sup>1</sup> The process of determining a significant portion of the revenue in interval proceedings, following the GRC, makes it difficult for the Commission and the public to track the rate impact of various policy initiatives.

**Discussion:** A major portion of utility revenues are indeed authorized in interim proceedings following GRCs, but for legitimate reasons. The GRCs generally occur on a triennial basis and address costs that are not prone to high degrees of fluctuation. For instance, Southern California Edison 2009 GRC revenues represented 36% of the total company revenues. The remaining 64% was determined in other proceedings: purchased power (44%), DWR, FERC costs, and funding for Public Purpose Programs.<sup>2</sup> Fuel and purchased power costs used to be set in GRCs, but they were moved to annual proceedings in the 1980s when gas prices started to fluctuate dramatically. Today, fuel and purchased power costs represent approximately 25 percent to 35 percent of a utility's total revenue requirement and are recovered in the annual Energy Resource Recovery Account proceedings as these costs are difficult to predict.<sup>3</sup> Other proceedings such as the funding for Public Purpose Programs are complex, technical, involve budgeting as well as programmatic changes, therefore would be difficult, if not impossible, to reintegrate into the GRCs. It will be ideal, of course, to have one umbrella proceeding where multiple proceedings are managed simultaneously on a parallel fashion, so that coordination and consistency among proceedings are achieved. However, this is a massive and possibly infeasible effort in a dynamic policy environment as we have here in California today.

**Recommendation:** Even though it is very important to get a better understanding of the rate impact of various policy initiatives on a periodic basis, it is my view that it would be very difficult to coordinate various proceedings under one umbrella proceeding. As a principle, unless the costs significantly fluctuate, they should be reviewed in the GRC.

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<sup>1</sup> 2011 Annual Report, CPUC, p.24.

<sup>2</sup> D. 09-03-025, p.

<sup>3</sup> 2011 Annual Report, CPUC, p. 24.



However, the RCP should not be modified in order to reintegrate proceedings at this time. The rate case plan can be modified, though, in order to have utilities submit exhibits showing the rate impact of various policy initiatives.

**Issue 2:** General rate cases are complex and take a long time to process.

**Discussion:** Southern California Edison 2009 GRC revenues represented 36% of the total company revenues. In that GRC proceeding, 8,500 pages testimony were filed, 53,000 pages of work-papers were submitted, and more than 100 witnesses were sponsored. The complexity and the duration of the general rate cases are a common source of frustration for all stakeholders not just in California, but in other states as well. “Less adversarial, less controversial, more predictable, and more effective rate case process” is desired by utilities, regulators, other stakeholders but no state has a magic plan to achieve it.<sup>4</sup> Ideally, all interested parties, particularly Division of Ratepayer Advocates, should employ an adequate number of qualified staff so that the cases are processed expeditiously. Unfortunately, we do not have control over staffing.

**Recommendation:** It might be helpful to (1) have the utility submitting the NOI walk all the interested parties through their filing one week after filing it so that parties become familiar with it early enough, (2) have Energy Division and Consumer protection and Safety Division be more engaged, provided that there is adequate coordination to avoid conflict and duplicative work among staff and stakeholders,<sup>5</sup> (3) survey the ALJs specializing in GRCs in order to determine if there is a need to make changes in the timeline, e.g. any stress points where all parties need extra time or any interval that is not spent efficiently, and (4) review the timing of the incoming NOIs as well as the number of attrition years in order to reduce pressure on workload and allow adequate time for careful analysis, (5) review the “master data request” and make revisions in order to streamline the data requests and reduce the amount of unused data.

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<sup>4</sup> Feingold, R.A. “A Search for Harmony”, *Public Utilities Fortnightly*, November 2005.

<sup>5</sup> One option would be to loan staff to DRA for specific issues or help more with the assigned office/ALJ at the early stages of the proceeding to set the scope.



**Issue 3:** Safety and reliability issues should be prioritized in General Rate Cases.

**Discussion:** The proper proceeding and venue to address system safety and security is currently an open issue. There are many moving parts and it would be premature to make any modifications in the rate case plan before the Commission decides on the pending proceeding.

- D.12-04-010 in R.11-02-019 listed General Rate Cases, the Rulemaking itself, and the enforcement proceedings as venues where the Commission handle the provisions of SB 705.
- The same decision already ordered audits of the gas corporations' implementation of revenue requirements authorized in their GRC. (p.21)
- Even though the respondents are natural gas corporations, this Rulemaking aims to “consider ways that this Commission can undertake a comprehensive risk assessment for all natural gas pipelines regulated by this Commission, and possibly for other industries that the Commission regulates” (p.10)

Accordingly, R. 11-02-019 provides an opportunity for the Commission to specify filing requirements (content, frequency, etc.) related to safety and reliability. In the workshop held on January 11, 2012 there was no consensus on where the safety and reliability issues should ultimately be addressed. In a way, GRCs are a natural “home” to discuss the issues since O&M expenses are closely related to safety and reliability. On the other hand, GRCs are already complex and lengthy and additional issues will require more witnesses, more exhibits, further delays, etc. It may not be practical to have the content of the risk plans as well as the cost open to discussion in a GRC due to complexity and technical nature of the issue.

**Recommendation:** The GRC sets the baseline for utility costs to provide reliable, safe, environmentally sound service. Therefore, regardless of where the system safety and security plans will be reviewed and approved, the implementation costs must be reviewed in GRCs.



Without prejudging the outcome of the pending Rulemaking, the Commission may consider modifying the standard requirement list of documentation supporting an NOI to require the following exhibits, at a minimum:

- A report on the safety and security of the utility's physical and cyber system under the CPUC jurisdiction, including a risk assessment of the system and comparison to industry best practices, safety plans, reports and special studies conducted in compliance with federal, state, and local regulations, including Commission orders in the last five years,
- A report comparing authorized versus recorded safety-related capital investment and O&M expenses for the last five recorded years, including a detailed description of how the utility determined which expenditures to include in the report.

