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.