Company:	San Diego Gas & Electric Company (U902M) Southern California Gas Company (U904G)
Proceeding:	2016 General Rate Case
Application:	A.14-11-003/004 (cons.)
Exhibit:	SDG&E-202 SCG-202

SDG&E AND SOCALGAS

REBUTTAL TESTIMONY OF DIANA L. DAY

Risk Management and Policy

June 2015

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Doc#297681

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(RISK MANAGEMENT AND POLICY)

I. SUMMARY OF DIFFERENCES

TOTAL SDG&E O&M - Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SDG&E	**631**	**2,965**	**2,334**
ORA	**631**	**1,061**	**430**

TOTAL SoCalGas O&M - Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SoCalGas	**0**	**2,592**	**2,592**
ORA	**0**	**0**	**0**

II. INTRODUCTION

A. ORA

Office of Ratepayer Advocates (ORA) issued its report on Risk Management on April 24, 2015.[1] The following is a summary of ORA's position(s):

- Item 1 – ORA concludes that the proposed test year (TY) 2016 organizational structure is "top heavy" with management.[2]
- Item 2 – San Diego Gas & Electric Company (SDG&E), on behalf of SDG&E and Southern California Gas Company (SoCalGas), hired third-party consultants on a sole-source contract basis, instead of through competitive bidding, and argues for caution in TY 2016 funding — stating it is not clear that the Utilities acted to minimize costs. The forecast of rapidly increasing costs argues against the use of averaging to determine a TY 2016 expense estimate.[3]

B. MGRA

Mussey Grade Road Alliance (MGRA) served its direct testimony on May 15, 2015.[4] In its testimony, MGRA offers comments regarding Enterprise Risk Management (ERM), ORA's

[1] Ex. ORA-12, April 24, 2015 ORA Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company, Test Year 2016 General Rate Case, Risk Management and Procurement (Witness Truman Burns).
[2] Ex. ORA-12 (Burns) at 5:5-6.
[3] Ex. ORA-12 (Burns) at 6:6-10.
[4] Direct Testimony of the Mussey Grade Road Alliance (Witness Joseph Mitchell), May 15, 2015.

testimony and the Safety and Enforcement Division (SED) Report.[5] SDG&E and SoCalGas appreciate MGRA's support for the developing ERM program. While we reserve the right to address any MGRA issues at a later time, our rebuttal to MGRA testimony will be limited to those issues addressed in SDG&E's electric distribution testimony chapters.[6]

III. REBUTTAL TO PARTIES' O&M PROPOSALS

A. Shared Services O&M

SHARED SDG&E O&M - Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SDG&E	**631**	**2,965**	**2,334**
ORA	**631**	**1,061**	**430**

SHARED SCG O&M - Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SCG	**0**	**2,592**	**2,592**
ORA	**0**	**0**	**0**

1. Disputed Cost

a. ORA

ORA recommends that SDG&E receive $1.061 million for SDG&E and SoCalGas' Test Year Operations & Maintenance (O&M) forecast for Risk Management ERM expenses, based on SDG&E's 2014 adjusted recorded expense amount, and rejects SDG&E's TY 2016 forecast of $2,965 and SoCalGas' TY 2016 forecast of $2,592. This recommendation fails to recognize that the ERM organization was expanding in 2014 as a result of the Risk OIR (R.13-11-05) and only began its larger development mid-year. ORA's claim that 2014 expenses were "the highest level of [ERM] expenditures so far," while true, is not meaningful given that the organization was newly expanded in mid-2014, which is thus the only year for which expenses have been recorded.[7] Current staffing levels demonstrate that SDG&E's and SoCalGas' TY 2016 forecasts are accurate and on course, given that the current actual count of 12 full-time equivalent (FTE) hires is 5.5 FTE's higher than the 2014 adjusted recorded levels of 6.5 FTE's. Establishing an ERM

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[5] *See, e.g., id.* at 15-17, *passim*.
[6] Ex. SDG&E- 209 (Jenkins) and Ex. SDG&E-210 (Woldemariam).
[7] Ex. ORA-12 (Burns) at 5:27.

organization increasingly has become a requirement for California utilities,[8] such that the requested ERM organization funding is now necessary to meet Risk Management objectives. SDG&E's and SoCalGas' TY2016 forecasted requests are reasonable and demonstrated by the actual rapid growth of our department in just one year.

Building an effective and efficient ERM organization takes time and resources. SoCalGas and SDG&E reasonably began expanding the organization between June 2014 and the time the Applications in this proceeding were filed in November 2014. Today, the staff complement is ramping up to address the steps in SoCalGas and SDG&E's risk management process, including: risk identification, risk analysis, risk evaluation and prioritization, risk mitigation plan development and documentation, risk-informed decision processes and mitigation implementation, and monitoring and measuring risk mitigation effectiveness.

The same ERM staff is also required to lead the evolution of our risk management processes in a strategic manner across both SDG&E's and SoCalGas' organizations, responding to recommendations from SED and others. For example, sufficient funding and staffing is necessary to respond to the SED report's 10 recommendations as to how SoCalGas and SDG&E could improve its risk management processes, practices and tools. The recommendations ranged from developing new systems to capture and analyze data, to the use of probabilistic modeling to developing risk reduction benefit per dollar invested to benchmarking. Each of the recommendations requires knowledgeable staff capable of developing the recommended policies, practices and tools. In addition, success requires senior staff with proven ability to lead and implement the recommended policies, practices and tools across both utilities. For example, the Director of Operations Risk Management directs initiatives that will focus on how to identify and manage risks within asset classes while concurrently, the Director of Enterprise Risk Management is reviewing how we can expand our application of quantitative techniques. Contrary to ORA's claim, the ERM organization is not top heavy,[9] it is simply new. It is reasonable to develop an evolving organization beginning with leadership, particularly here, given the ERM organization's ground-breaking responsibilities. SoCalGas and SDG&E leadership have taken a strategic

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[8] *See* Ex. SDG&E-02 at DD-3 (citing Risk OIR, R.13-11-05: "In November 2013, the CPUC issued a subsequent OIR to develop a risk-based decision-making framework to evaluate safety and reliability improvements and revise the Rate Case Plan (RCP) for energy utilities.").
[9] Ex. ORA-12 (Burns) at 6:1.

approach to continue implementing leading risk management approaches, as the California Public Utilities Commission (Commission or CPUC) and the California legislature have requested.

Finally, ORA argues that "SDG&E, on behalf of SDG&E and SoCalGas, hired third-party consultants on a sole-source contract basis, instead of through competitive bidding, argues for caution in TY 2016 funding – it is not clear that the Utilities acted to minimize costs. The forecast of rapidly increasing costs argues against the use of averaging to determine a TY 2016 expense estimate."[10] This argument does not reflect the fact that one of the two consultants in question was engaged in 2015 to provide additional support for SDG&E's Safety Model Assessment Proceeding (SMAP) filing.[11] Further, and with respect to the second consultant, ORA's argument does not recognize the limited timeline in which SoCalGas and SDG&E needed to incorporate a risk showing as part of their TY 2016 General Rate Case (GRC) filing and the limited time available to engage highly specialized, knowledgeable consultants with a combination of risk management knowledge, an understanding of the history and the evolving requirements of the Commission and California legislature and experience with other California energy and utility risk related matters.

In March of 2012, Paul Clanon, the executive director of the CPUC sent a directive letter to Pacific Gas & Electric Company (PG&E) to "perform and provide a risk assessment of its entire system" and provide "a risk assessment of its physical system as well as a description of and a justification for the company's risk mitigation programs and policies" in its 2014 GRC filing.[12] At the time, it was not clear whether Clanon's letter applied to all California utilities until the initiation of an official Order Instituting a Rulemaking (OIR) in November of 2013 to develop a risk-based decision-making framework to evaluate safety and reliability improvements and revise the general rate case plan for energy utilities. While the OIR didn't explicitly institute specific requirements for the California utilities to fulfill in their future rate cases, it planted one of the first seeds towards the regulatory evolution that has taken place since.

During the same time period, SoCalGas and SDG&E were initiating preparations for the 2016 GRC. Initial discussions on including risk in the rate case started and the need to engage an outside expert to fulfill that decision prevailed. With the Notice of Intent (NOI) having to be filed in July of 2014, SoCalGas and SDG&E had six months to find the appropriate experts and

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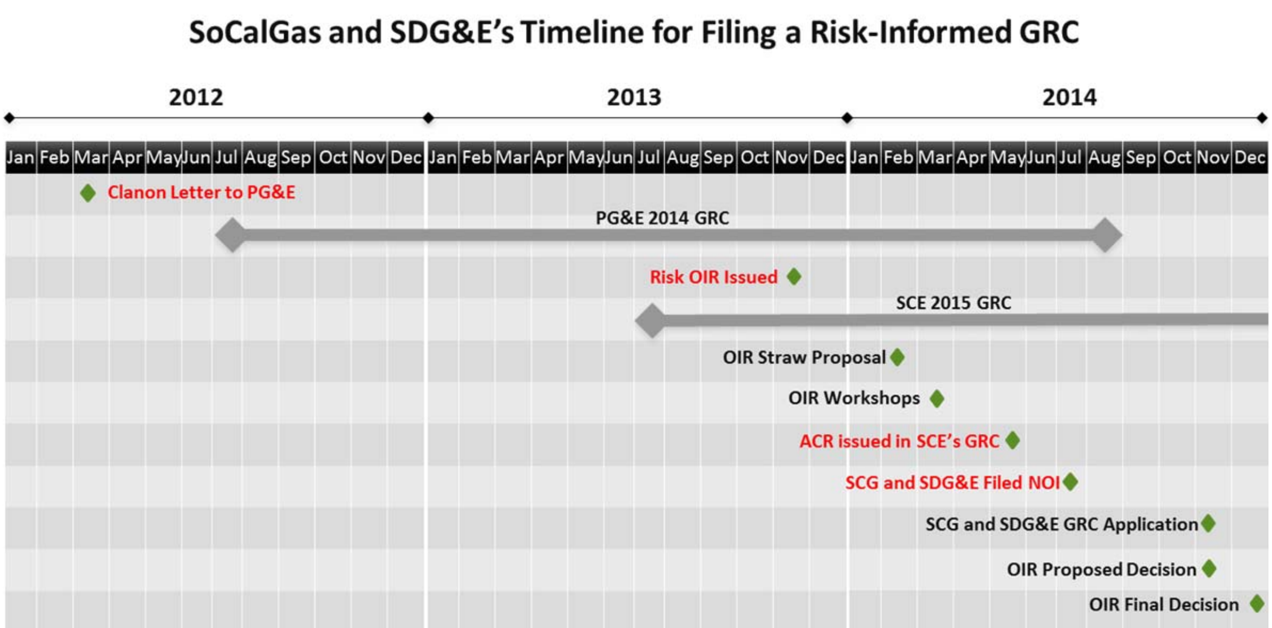
[10] Ex. ORA-12 (Burns) at 6:6-10.
[11] A.15-05-002, filed May 1 2015.
[12] March 5, 2012 Letter from Executive Director Paul Clanon to Mr. T. Bottorff of PG&E (Clanon letter), p. 1, *available at* www.cpuc.ca.gov.

assemble a risk-informed GRC that would satisfy potential expectations at the CPUC and to support efforts in the March 2014 OIR workshops. This limited timeframe accelerated the need for a sole-source contract with appropriate consultants to effectively put together a risk-informed rate case.

SoCalGas and SDG&E's timeline was further confirmed with the Assigned Commissioner Ruling (ACR) issued in May 2014 in SCE's 2015 rate case that explicitly solidified the need for SoCalGas and SDG&E to file a risk-informed NOI and application for the 2016 GRC.

Figure 1 below represents this timeline.

Figure 1



The pool of qualified consultants meeting all of these requirements is very limited, such that it would not have been useful or workable to use a request for proposal process and still meet the dates for filing our application. SoCalGas and SDG&E leadership met with consultants to evaluate their capability and also discussed their capabilities with references, and determined that both Davies Consulting and McKinsey met these requirements.

ORA did not question the need for the ERM organization, and it should not be in doubt. As noted in my direct testimony,[13] the Commission has, through proceedings going back to the March 5, 2012 issuance of the Clanon letter, requested, and through the OIR decision, required utilities to increase the focus on public and employee safety and security:

[13] Ex. SDG&E-02 at DD-3.

> It is our intent that the adoption of these additional procedures will result in additional transparency and participation on how the safety risks for energy utilities are prioritized by the Commission and the energy utilities, and provide accountability for how these safety risks are managed, mitigated and minimized.[14]

Further, SED in their March 27, 2015 report stated:

> The Assigned Commissioner's Scoping Memo in Application (A.) 14-11-003/004 directed the Safety & Enforcement Division (SED) to produce a report on San Diego Gas& Electric's and Southern California Gas Company's "approach and policies regarding risk and safety."
>
> In particular, the Scoping Memo stated that among the many issues in the General Rate Case (GRC) proceeding is consideration whether each utility's "proposed risk management, safety culture, policies, and investments will result in the safe and reliable operation of its facilities and services."[15]

These statements leave no doubt that the Commission expected SoCalGas and SDG&E to submit testimony regarding their risk management programs. In the short time available, the consultants' knowledge, our leadership's assessment and discussions with others all led us to conclude that a sole source contracting process was the most effective approach.

This concludes my prepared rebuttal testimony.

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[14] Decision14-12-025 at 3.
[15] SED Risk Assessment Section, Staff Report, March 27, 2015 at 7.