ORA DATA REQUEST
ORA-SDGE-084-FH2
SDG&E 2019 GRC – A.17-10-007
SDG&E RESPONSE
DATE RECEIVED: JANUARY 12, 2018
DATE RESPONDED: JANUARY 29, 2018

Exhibit Reference: SDG&E-31-R
SDG&E Witness: Sandra K. Hrna
Subject: Accounting and Finance, Legal, and Regulatory Affairs Divisions

Please provide the following:

1. Following up on SDG&E's response to data request ORA-SDG&E-062-FH2, Q.1 , provide a working spreadsheet to explain the derivation of 2019 forecasted low and high amounts for the $200,000 incremental average cost.

SDG&E Response 01:

A working spreadsheet that shows how $200,000 is the middle of a $100,000 - $300,000 range is not readily available nor necessary as the arithmetic is a simple average. SDG&E will expand upon the range in this data response to provide some clarity around why the range was used and why the mid-point of that range was the amount chosen for the projection.

Rationale for forecasting the lower end of the range (i.e. $100,000):
The lower end of the forecast was based on a records management project that was performed in 2007. During that year, Sempra Energy engaged a third-party consultant to perform an assessment of the records management process. The project cost given at that time was approximately $75,000. SDG&E used that project assumption and an escalation factor to account for the increase in consulting hourly costs to forecast the cost of the RAMP project for the 2019 GRC. Therefore, the cost of the project was forecasted at approximately $100,000.

Rationale for forecasting the upper end of the range (i.e. $300,000):
The project in this witness chapter is from the Risk Assessment Mitigation Phase (RAMP) and has some similarities to the project that was performed in 2007. However, the RAMP project has additional characteristics that are above and beyond in nature and contribute to higher costs. The RAMP project characteristics include:

1. Increased scope. SDG&E has more records than what was analyzed by Sempra in the 2007 assessment. As such, SDG&E's project covers a larger number and a wider variety of records.
2. Increased expertise. The project will require a more in depth expertise which will in turn require a more specialized and more experienced advisors and experts.
3. Increased hours and billable rates. The project will be performed in multiple phases over a longer period, which will require a higher number of consulting hours. Additionally, the assessment of time needed to perform a more robust assessment, rather than an initial maturity assessment of the records management process will increase billable rates.
4. Increased Risk. The 2007 project involved records management based on an administrative function while the RAMP project will also involve an operational aspect. Since the focus is on operational records, it is even more important to ensure that the records are accurate and that they capture all relevant information.

Using the average to forecast the final cost:
SDG&E used the average of the lower and higher end of the range to forecast the final cost.

2. Following up on SDG&E's response to data request ORA-SDG&E-062-FH2, Q. 2, provide workpapers to support explanations for the two FTEs for the RAMP cost tracking and financial accountability reporting requirements and one FTE in the Regulatory law department of the Legal division.

SDG&E Response 02:

SDG&E's analysis regarding the need to increase workforce is based on years of experience dealing with new requirements, regulations, and directives from various governmental agencies. The Commission adopted new requirements for financial accountability reporting in D.14-12-025, referred to as the Risk Spending Accountability Report. The Risk Spending Accountability Report will "compare the utility's GRC projected spending for approved risk mitigation projects to the actual spending on those projects, and to explain any discrepancies between the two…[this] would consist of a project-by-project (above an appropriate Commission-determined dollar cut-off) comparison of authorized vs. actual spending, accompanied by the utility's narrative explanation of any significant differences between the two" (D.14-12-025 at 44). This report is to be filed on an annual basis for "activities and spending the utility undertook during the GRC test year, and during each attrition year" (D.14-12-025 at 46). For SDG&E, the Risk Spending Accountability Report will be due annually on "September 30 after the applicable reporting period" (D.14-12-025 at 47).

While the Risk Spending Accountability Reporting is required pursuant to D.14-12-025, the format and potential content of this report remains an open item that will be addressed in Phase 2 of the Safety Model Assessment Proceeding (S-MAP), Application (A.) 15-05-002 (consolidated). An Administrate Law Judge ruling was issued on October 5, 2017 in A.15-05-002 providing a schedule for the open issues regarding the accountability reports. Currently, a Commission staff proposal for standardized reporting and outline will be issued by February 15, 2018 followed by a workshop on accountability reporting in March 2018.

In addition to the new requirement of the Risk Spending Accountability Report, Senate Bill (SB) 549 was signed into law by Governor Brown on September 27, 2017 to take effect on January 1, 2018. SB 549 requires SDG&E to "annually notify the commission, as part of an ongoing proceeding or in a report otherwise required to be submitted to the commission, of each time since that notification was last provided that capital or expense revenue authorized by the commission for maintenance, safety, or reliability was redirected by the electrical or gas corporation to other purposes" (SB 549, Bradford. Public utilities: reduction of moneys authorized for maintenance, safety, or reliability). This will be another, new annual reporting requirement for SDG&E for which the requested three FTEs (two for the Financial & Business Planning department and one for the Regulatory Law department) may be utilized.

Also with respect to the one additional FTE in the Regulatory law department, as SDG&E explained in the testimony of Ms. Sandra Hrna testimony (Ex. SDGE-31 page 21, lines 11 through 20):

SDG&E Response 02 Continued:
"The volume and complexity of the regulatory workload has changed due to the evolving of energy policy in new regulatory requirements proceedings. Given CPUC and Legislative priorities, regulatory proceedings involving new or complex initiatives have been increasing (e.g., related to new technology such as electric vehicles and electric storage, distributed generation and rate reform). With new initiatives and emerging issues, compliance requirements follow and involve advocacy, advice and counsel by regulatory attorneys. These proceedings are in addition to recurring proceedings such as the GRC, cost of capital, electric and natural gas commodity filings, and typical cost allocation/rate design. To meet the increasing workload demands and be responsive to the CPUC and other agencies, an additional FTE attorney is included in this request."

In her testimony (Ex. SDG&E-31 page 31, line 9 through page 32, line 6), Ms. Hrna also identified a non-exhaustive list of factors that have created a need for two FTEs in the Regulatory Affairs department. These factors – set forth below – also support the need for the additional FTE in the Regulatory Law department:

- The number of major proceedings has increased significantly.
- The regulatory process is lengthier, more dynamic and resource intensive.
- Higher regulator expectations of the Company to demonstrate robust and thorough records to support decision making.
- Participation by various new special-interest parties have increased over time.
- Proceedings are more likely to involve both settlement discussions and litigation, requiring management of both tracks to resolution.
- Regulators have employed a collaborative process with the expectation that the Company lead certain efforts (e.g., via working groups) to develop the proposals and build consensus.
- California's legislative focus on energy and the aggressive climate goals fast tracks the implementation of energy policy.
- Complex and critical issues are being addressed and will evolve over time:
  - Safety and reliability activities (planning, data access, stakeholder engagement, etc.).
  - Rate design reform (e.g., default time-of-use) and related customer education and outreach efforts.
  - State policy directives and goals regarding:
    - Integrated Resource Plan and Renewable Procurement Standards Program.
    - Energy Efficiency Programs.
    - Transportation electrification, energy storage, demand response, and other related programs.
- The process for filing advice letters has changed. SDG&E filed more than 300 advice letters in 2016. Requirements for filing include a greater proportion of Tier 2 and 3 advice filings, which are more complex and require greater CPUC staff interaction.

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3. Referring to Ex. SDG&E-31-R testimony, page SKH-26, lines 18-30:

   a. Explain why SDG&E has not previously requested the TPCBA. Provide supporting documents if available.

   b. How did SDG&E in the past protect customers on ensuring that they only pay for the claims expensed?

SDG&E Response 03:

a. In past GRCs, the use of a 5-year average of recorded claims costs was a reasonable way in which to smooth out variations from year to year and to forecast future costs. However, on a going-forward basis, despite efforts by SDG&E to manage its operations to prevent third-party related claims, SDG&E anticipates that it will become increasingly difficult to predict third-party incidents as well as natural disasters outside of SDG&E's control.

   As described in the testimony of Neil Cayabyab (Ex. SDG&E-27), in this GRC, SDG&E is proposing a Liability Insurance Premium Balancing Account (LIPBA) to address the uncertainty regarding the need for and price of liability insurance. However, even if the Commission approves SDG&E's proposed LIPBA, there can be significant shortfalls for SDG&E when comparing the dollar amount of claims paid against the amount of available insurance. This is due to the multitude of factors, including the impossibility of predicting the exact amount of insurance the Company will require at any given time and the inevitable tradeoff between price and the level of coverage due in part to the limited number of insurance carriers willing to provide liability insurance for utilities (particularly utilities in California).

   In light of the anticipated mismatch between third-party related claims to be paid versus the amount of insurance that will be available at any given time, SDG&E decided to propose the two-way Third-Party Claims Balancing Account (TPCBA). This balancing account will see that customers are ultimately billed no more or no less than actual claims net payments.

b. In the past, a 5-year average of recorded historical costs was a reasonable proxy for forecasted costs. If there were differences between claims payments and expenses and the approved revenue requirement, the difference was trued up in subsequent GRCs (as actual results would be used to project the next GRC cycle of claims payments and expenses).