Energy Division
California Public Utilities Commission

DATA REQUEST	
Date:	January 4, 2021
Originator:	Bridget Sieren-Smith
Email:	bridget.sieren-smith@cpuc.ca.gov
Due Date:	~~January 18, 2021~~ January 21, 2021
Subject:	**2021 SB 695 Report IOU Recommendations to Limit Cost and Rate Increases**
Priority:	**Time-Sensitive**

Please provide the information as requested below. Please submit your response to this data request directly to Bridget Sieren-Smith (bridget.sieren-smith@cpuc.ca.gov). Questions regarding this data request should be immediately directed to the Originator.

As you know, SB 695 generally requires the CPUC to prepare and submit by May 1st of each year the CPUC's Annual Report to the Governor and Legislature on Actions to Limit Utility Cost and Rate Increases Pursuant to Public Utilities Code Section 913.1 (the "SB 695 Report"). For 2021, the CPUC is embarking on a different approach than in previous years. The CPUC seeks to publish the 2021 SB 695 Report in January 2021 before a tentatively scheduled Cost and Rate En Banc in February 2021.

This data request is issued regarding proposed recommendations of the investor-owned electric and gas utilities (IOU) to limit cost and rate increases consistent with the state's energy and environmental goals for reducing greenhouse gases, as required by Public Utilities Code Section 913.1. The data provided in the response will be included in its entirety in an appendix to the 2021 SB 695 Report.

In preparing this year's proposed recommendations, the IOUs are encouraged to be a specific as possible in identifying and quantifying specific potential cost savings initiatives. While recognizing that the utilities generally propose cost savings initiatives in Test Year General Rate Cases, Public Utilities Code Section 913.1 annually requires that the utilities:

> "…study and report to the commission on measures that they recommend be undertaken to limit costs and rate increases."

We therefore request that you limit your response to recommended measures to be undertaken to limit cost and rate increases.[1] Please study and report on the three subject areas in Question 1 through Question 3 below.

[1] Data reflecting rates trends, cost recovery mechanisms, types of cost recovery proceedings, and other data non-specific to studying and reporting on measures recommended to limit cost and rate increases should not be included, except to the extent that such data directly supports the recommendations.

Introduction

For over a decade, SCE has been proactively pursuing cost reduction opportunities through numerous Operational Excellence efforts,[2] including procurement portfolio optimization, improvements to productivity, and work force optimization. SCE has partnered with external consultants to benchmark companies across various industry sectors and critically diagnose SCE's operations to develop ambitious goals for redesigning organizations and processes.

As presented in SCE's 2021 General Rate Case (GRC) application, SCE's recorded O&M expense declined by almost $450 million from 2012 to 2018, which allowed SCE to undertake additional work to upgrade its grid to maintain and improve service without corresponding increases in customers' bills. SCE has also worked to optimize and right-size its employee base, which resulted in a reduction from 14,652 employees at the end of 2012 to 12,183 at the end of 2018.[3] These reductions resulted from modifying processes and operational practices, and, where appropriate, transitioning certain activities to Managed Service Providers who can deliver quality services at lower cost.

Nonetheless, with cost pressures from public policy initiatives, wildfire mitigation and grid hardening, increasing customer expectations, and the need to integrate new technologies, SCE continues to take a broad and thoughtful approach to finding areas where costs can be reduced, both capital expenditures and O&M expense, to help offset some of these necessary cost pressures and keep rates affordable for customers. That said, measures to reduce costs must never compromise our ability to provide safe, reliable and clean service.

SCE's cost reduction efforts will continue, both in the near term and beyond, as we pursue our Operational Excellence aspirations and generally relate to these themes:

- Undertaking continuous improvement activities to improve safety, reliability, customer satisfaction, and affordability
- Increased optimization of work processes and strengthening of foundational capabilities
- Utilizing digital tools and technologies to bring customer value

1. Operational Productivity and Efficiency Opportunities[4]

Please identify and make recommendations for at least five potential operational area cost-cutting strategies:[5]

Changes to office and travel expense prompted by COVID-19 Shelter-At-Home directives, for which the utility considers continued cost savings may be realized beyond the lifting of such directives.

- The COVID-19 pandemic is driving a "new normal" for current and future office and work modes. SCE anticipates that more workers are likely to be spending less time in the office, creating potential

[2] SCE initiated the Wires Investment Strategy Efficiency Review (WISER) effort in 2009, focused on transmission and distribution (T&D) processes. The savings from the WISER effort were included in SCE's 2012 GRC. In 2013, SCE initiated the first phase of Operational Excellence, as discussed in SCE's 2015 GRC. The second phase of SCE's Operational Excellence initiative was launched in early 2015.

[3] SCE had 12,569 and 13,040 employees at the end of 2019 and 2020, respectively, excluding interns, contractors and employees on leave.

[4] Text shown in red denotes the data request questions as proposed by the Energy Division.

[5] For dual-fuel utilities, please include at least one item related to gas.

opportunities to increase the amount of hoteling and shared workspaces. While the need for workspaces have been impacted by the COVID-19 pandemic in the near-term, the timing and long-term impacts remain uncertain. SCE is and will continue to evaluate opportunities to potentially reduce office space based on expectations of "new-normal" return-to-work patterns.

- In the short term as a reaction to the stay-at-home orders, beginning in early 2020, SCE began realizing savings (compared to budget) due to limited spend on travel expenses (airfare, conferences, and lodging) for a significant portion of its workforce. These savings will be refunded to customers through the COVID CEMA account in the future.[6] Given the uncertainty around what the long-term telework environment will be post the COVID-19 pandemic, SCE recommends continuing to assess its operating footprint in light of the changing work environment to consider whether the initial cost savings can be sustained once the "new normal" work environment is better defined.

Changes to operational area expense due to use of Information Technology and Data Analytics.

- SCE is actively exploring a potential transformation of its planning and budgeting technologies. A centralized and more advanced planning and analytics platform would enable SCE to 1) transition from manual processes to increased automation, 2) better integrate budgets/forecasts and work planning assumptions that would allow for more accurate forecasts, 3) increase planning and reporting efficiencies and eliminate redundant processes, and 4) produce advanced predictive and robust data-driven decision-making capabilities. SCE anticipates operational efficiencies and potential cost savings resulting from this transformation but at this point SCE has not quantified savings.

- SCE sees value in updating its Enterprise Resources Planning (ERP) system over a multi-year basis, which, depending on the scale of the update, could generate larger cost-related benefits by improving the organization's ability to optimize its core processes, leverage next generation technologies, improve data quality and utilization, and reduce the volume and complexity of applications.

- SCE recommends continually assessing its analytics and reporting functions to improve data/information governance in conjunction with the establishment of systems of records and systems of engagement, which when implemented effectively can reduce the resources required to compile data sets to produce various operational and key performance indicator (KPI) reports and potentially reduce costs in the long-term.

- SCE recommends continually assessing opportunities to consolidate and integrate its disparate systems. For instance, in the category of Geographical Information Systems (GIS), we are consolidating various land base systems to a common land base and simplifying these systems. Such efforts not only have the potential to reduce system maintenance costs but are also expected to reduce data discrepancies and enable more real time decision-making.

- SCE is exploring investment in Robotic Process Automation capabilities to automate manual, repetitive, high volume transactions such as billing exceptions and enrollments in low-income programs such as CARE and Medical Baseline. For example, in 2020, SCE standardized an automation platform, thereby giving the enterprise the ability to build their own automations that may continually support SCE's ability to offset emergent and necessary cost pressures to maintain affordable customer rates.

[6] To the extent incremental COVID costs are greater than realized savings, the savings will be used to reduce the amount of incremental COVID costs in the CEMA.

Changes to purchasing expense due to improvements in supply chain management.

Supply chain management has been an ongoing focus area for SCE for over a decade and more recently since 2016, SCE's Supply Management has implemented various efforts to mitigate and reduce costs, which reduces both capital expenditures and O&M expense. The most notable ongoing effort to improve value is through formal Category Management. The primary goal of Category Management is to reduce costs and maximize the value SCE gets from vendors by grouping like services and materials to create high-level purchasing strategies. Non-energy procurements are purchases of all materials and services supporting the day-to-day operation of the business. These include materials and services for infrastructure construction and maintenance. This effort results in a continuous, phased review of the various categories of non-energy procurement across the enterprise and examines the total lifecycle process (need through pay) for all non-energy procurements.

Some of the objectives of this effort are to:

- Increase the value of the materials and services provided by SCE's vendors, by reducing costs and improving the quality and service of our vendors with a focus on total cost of ownership.
- Define the need and improve demand management for purchases with internal partners.
- Realize efficiencies and effectiveness by improving end-to-end procurement and finance processes, including streamlining activities, training employees, increasing effective use of automation, and evaluating outsourcing options.

Supply Management monitors performance of these activities through internal cost savings and competitive sourcing metrics. Our annual target is three percent, developed from discussions with other utilities and supply chain consultants, as well as our own assessment of our maturity in the supply chain process. The three areas of savings metrics are: (1) price savings (includes negotiated savings), (2) cash savings (payment or volume discounts), and (3) process savings.

- COVID and Wildfire Insurance Impacts to SCE Vendors – The changing business environment has allowed SCE to re-visit the non-energy procurement process and address contractor wildfire-related insurance issues. Wildfire risk and insurance capacity and costs are not just a utility-related issue. Increasing numbers of SCE's contractors are also being impacted by the decreased availability of insurance capacity levels and increasing premiums. This issue is reducing the availability of cost-effective goods and services in support of SCE's wildfire programs and general purchasing efforts. In response, SCE is seeking ways to mitigate the wildfire risk, insurance capacity and costs issues on SCE's contractor base to ensure the availability of cost-effective goods and services for the grid. SCE is in the early stages of this initiative and has not yet forecast potential cost reduction or cost mitigation outcomes.

- Power Procurement: SCE continues to regularly review the existing portfolio of long-term energy procurement contracts with an eye towards cost savings opportunities that provide customer benefit while supporting or increasing both the reliability and sustainability of the grid. These opportunities range from collateral reduction opportunities, capacity increase or decrease opportunities, and termination opportunities for non-cost effective deals.

Two other recommendations, one of which should be centered in cost-cutting opportunities related to Transmission and Distribution expense.

- Replacement of aging underground cable is an extremely costly but necessary endeavor. SCE recommends further study into techniques that allow for more cost-effective repair and accurate replacement decisions. One area of distribution spend that SCE recommends further studying is the efficient replacement or repair of certain underground cable, referred to as cable-in-conduit or "CIC." Traditional open cut trenching methods are more than double the cost of this novel option to test and repair cable. SCE suggests continued refinement of its Cable Life Extension program to test CIC prior to making replacement decisions to more accurately identify the cable at greatest risk of failure rather than relying solely on historical performance.

- SCE sees value in and recommends further integration of its vegetation management work through a cloud-based software platform that includes process orchestration, automation, mobile tools, and an integrated repository across all programs. This will allow for collaboration with customers, arborists, environmental regulators, and utility regulators to achieve the right trim at the right time. Integrating programs onto a single platform will enhance efficiency, risk modeling, communication, reporting, planning and scheduling. It will help provide a data-driven understanding of impediments to achieving program standards and will allow for a strategic approach to resolving those impediments in the future that will drive more efficient use of resources. The integrated system should permit easier alignment with electrical infrastructure mapping and findings from other types of inspections such as ground and aerial inspections. This type of platform leverages artificial intelligence, remote sensing tools and predictive modeling to drive vegetation management decision-making based on various risk characteristics.

- SCE is considering further redesign of its inspection programs to move from a compliance, time-based inspection process to a risk-informed inspection process. In consultation with the Commission and other regulators, this would include the implementation of a single digital platform with improved end-to-end aerial and ground inspection processes for distribution and transmission. It will also incorporate advanced technologies including assisted and augmented reality as well as artificial intelligence / machine learning models that will reduce human error, improve the consistency and quality of inspections, improve inspection efficiency, and improve data quality. The digital information will enable more informed decision making to increase confidence regarding the health of the transmission and distribution field assets in high fire risk areas.

2. Managed Service Provider Opportunities

Please identify and make recommendations for potentially outsourcing work to external companies.

- SCE sees value in exploring the potential for expanding outsourcing activities. However, the complexities associated with this type of transition are significant and include challenges related to people, process, and technology.
    - In terms of people, the transition involves a considerable effort to scope and develop clear contractual provisions, evaluate that a managed service provider has the appropriate resources and skill level to deliver on the scoped work and meet performance needs, and train managed service provider on SCE's systems and processes.

- In terms of process, managed service providers are generally used to standardized workflow or process models that are well documented, standardized, and have a maturity framework in place, while SCE's business model, and that of other IOUs, may be unique enough that our processes are often considered non-standardized.
- Finally, bringing in a managed service provider often requires integration of technology systems, which often involves several cybersecurity considerations, among others.

- Accordingly, SCE does not have any further recommendations related to managed service providers other than referring the Commission to the current areas in which SCE has already transitioned to this staffing model.

3. Alternative Financing Opportunities

Please identify and make recommendations regarding the applicability within the utility of potential alternative financing mechanisms such as securitization.

- In the normal course of business, SCE supports recovering expenses concurrently with when they are incurred. SCE also recovers balancing account year-end balances in the following calendar year. Timely decisions and rate changes support predictable cash flow and facilitate lower financing costs. As previously discussed with the Energy Division, 2021 presents unique circumstances that may warrant a different approach. These unique circumstances include the convergence of the following:
  - Implementation of new GRC rates halfway into the test year;
  - Recovery of higher-than-usual O&M costs built up for years in various memo/tracking accounts related to wildfires and the COVID pandemic;
  - A challenging economic environment related to COVID; and,
  - More limited windows within which to effectuate rate changes due to the implementation of SCE's new billing system

- SCE is thoughtfully considering potential revenue recovery options, including:
  a. **Securitization:** This tool can be used to address the unusual build-up of unrecovered O&M and capital costs while managing customer rate and bill impacts in the near-term during a challenging economic environment without negatively impacting SCE's financial health and ability to cost-effectively access capital in the markets.
  b. **Interim Rate Recovery:** This tool can be used to prevent the accumulation of large amounts of unrecovered costs that must then be recovered sometime in the future on top of then-current year expenditures. Interim rate recovery better aligns spending and cost recovery while maintaining Commission oversight of the reasonableness of the costs ultimately recovered. A similar approach is employed by the FERC when setting rates to recover costs. Interim Rate Recovery also reduces the total costs customers ultimately realize since financing costs are lower than through traditional ratemaking. This is because the compounding of financing costs over time, which can result in significant increases to the final total cost of projects, are lower when Interim Rate Recovery is authorized.