

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



November 25, 2020

Mr. Dan Marsh
Liberty Utilities – CalPeco Electric LLC
Rates and Regulatory Affairs Manager
933 Eloise Avenue
South Lake Tahoe, CA 96150

Dear Mr. Marsh:

On June 30, 2020, Liberty Utilities filed Advice Letter (AL) 150-E, transmitting an interim Risk Spending Accountability Report (iRSAR) on behalf of CalPeco Electric (Liberty CalPeco), pursuant to California Public Utilities Code Section 591 and Decision (D.)19-04-020. AL 150-E was filed as a Tier 1 Information Only AL and is considered effective on the filing date of June 30, 2020. The CPUC's Energy Division (ED) prepared the enclosed review of Liberty CalPeco's 2019 iRSAR and provides recommendations for the utility to consider for its upcoming 2020 RSAR to be filed in 2021.

In D.19-04-020, the CPUC affirmed that ED's review of RSARs serves to raise concerns and seek understanding of the data and "does not constitute a reasonableness [review] of the utility's proposed risk mitigation budgets or programs as required in Public Utilities Code Section 451."¹ Reasonableness review of the utility's spending is accomplished in the general rate case (GRC) process.² In addition, review and verification of the utility's risk and management activities and spending that took place during the reporting period are part of Safety Performance Metrics reporting.³ Therefore, ED's review of Liberty CalPeco's iRSAR in this letter is limited to the reporting on and highlighting of information and does not make any findings regarding the reasonableness of the utility's spending.

CONCLUSIONS

Energy Division reviewed Liberty CalPeco's report and finds that the utility has complied with California Public Utilities Code Section 591 and D.19-04-020. In the 2019 iRSAR, Liberty CalPeco presented information on authorized and actual spending on safety, reliability, and maintenance programs and provided explanations for some spending variances.

Overall, Liberty CalPeco overspent its authorized amounts in programs associated with safety, reliability, and maintenance activities in 2019 (28%). Liberty CalPeco exceeded its authorized amounts for operating and maintenance (O&M) and Capital Programs by 22% and 32%, respectively.

¹ D.19-04-020, pp. 39-40.

² Ibid.

³ Ibid, p. 40.

RECOMMENDATIONS

In August 2020, the CPUC issued D.20-08-030, adopting 2019 through 2021 revenue requirements for Liberty CalPeco. The decision also specified a list of projects pertaining to safety and reliability.⁴ ED recommends that Liberty CalPeco continue to provide a report on spending in all safety, reliability, and maintenance programs, including the specific projects identified in D.20-08-030. In the attached staff analysis, ED provides some recommendations for Liberty CalPeco to consider incorporating into the 2020 RSAR.

The 2020 RSAR should be filed and made available to the CPUC's Safety and Enforcement Division, Safety Policy Division, and Public Advocates Office. Liberty CalPeco should also provide the 2020 RSAR to ED's Tariff Unit by emailing the report to edtariffunit@cpuc.ca.gov.

If you have any questions or comments, please contact Jenny Au, Senior Utilities Engineer, at (213) 620-6502 or jenny.au@cpuc.ca.gov

Sincerely,



Edward Randolph
Deputy Executive Director for Energy and Climate Policy/
Director, Energy Division

Enclosure

*cc: Danjel Bout, Director – Safety Policy Division
Dorothy Duda, Program Manager - Market Structure, Costs and Natural Gas Branch
Franz Cheng, Program and Project Supervisor – Electric Costs*

Service Lists for A.18-12-001

⁴ D.20-08-030, Section 3.1.1 Safety and Reliability Projects, pp. 9 to 23.

Energy Division Review of the 2019 Interim Risk Spending Accountability Report of Liberty CalPeco Electric Services

The California Public Utilities Commission’s (CPUC) Energy Division (ED) reviewed Liberty Utilities CalPeco’s (Liberty CalPeco) interim Risk Spending Accountability Report (RSAR), filed on June 30, 2020. ED conducted the review to provide the CPUC and Liberty CalPeco with information that may be useful in future proceedings and serves as a precursor to the review of RSARs required by CPUC Decision (D.)19-04-020.

BACKGROUND

In December 2014, the CPUC issued D.14-12-025, *Decision Incorporating a Risk-Based Decision-Making Framework into the Rate Case Plan and Modifying Appendix A of D.07-07-004*, and directed only the large investor-owned utilities (not small multi-jurisdictional utilities (SMJUs) such as Liberty CalPeco) under its jurisdiction to prepare and submit to the CPUC annual RSARs that would compare authorized and actual spending on risk mitigation projects.

In an August 31, 2018, ruling in A.15-05-002 (*Safety Model Assessment Proceedings*), the assigned ALJ included a “General Guidance for the Small and Multi-Jurisdictional Utilities on the Risk Spending Accountability Report”⁵ (*General Guidance*). The *General Guidance* suggested that SMJUs should file interim annual RSARs beginning on June 30, 2019 for the 2018 record year and provided six principles that the SMJUs should adhere to when filing interim RSARs.⁶

In April 2019, the CPUC issued D.19-04-020, *Phase Two Decision Adopting Risk Spending Accountability Report Requirements and Safety Performance Metrics for Investor-Owned Utilities and Adopting a Safety Model Approach for Small and Multi-Jurisdictional Utilities*, and directed SMJUs to file annual RSARs, starting in June 2020 for the 2019 recorded year.

In August 2020, the CPUC issued D.20-08-030, *Approving a revenue requirement for Liberty CalPeco pursuant to its 2019 General Rate Case (GRC) Application 18-12-001*. While Liberty CalPeco did not present a risk-based decision-making framework in its 2019 GRC application, the utility expressed a commitment of moving toward a risk-based decision-making framework in its next GRC.⁷ In addition, ED expects the utility to continue submitting interim RSARs to inform the CPUC and interested parties of its risk mitigation expenditures even though D.20-08-030 did not adopt any reporting requirements for risk spending accountability.

On June 30, 2020, Liberty CalPeco filed Advice Letter 150-E, providing information on recorded expenditures and authorized budgets for programs pertaining to safety, reliability, and maintenance. The information provided in AL 150-E meets the *General Guidance* and requirements for Risk

⁵ A.15-05-002 SMAP, Energy Division Guidance for the Standardized Reporting and Outline of the Risk Spending Accountability Report, ALJ Ruling dated August 31, 2018. Attachment B - *General Guidance* for the Small and Multi-Jurisdictional Utilities on the Risk Spending Accountability Report.

⁶ Ibid.

⁷ A.18-12-001, Exhibit Liberty-01, Chapter 1: Policy - Direct Testimony of Travis Johnson, p. 11. “Liberty CalPeco is committed to developing a comprehensive risk-based decision-making model and process that will be the basis for ongoing capital and O&M planning in time for its next GRC.”

Spending Accountability Reporting, as specified in D.19-04-020 and California Public Utilities Code Section 591.

REPORTING REQUIREMENTS

While D.19-04-020 adopted a “general, simplified approach for the SMJUs to follow” to report risk spending, the CPUC directed SMJUs to follow the general RSAR procedures outlined in the Voluntary Agreement between the Safety Enforcement Division and SMJUs.⁸ The *General Guidance* provided SMJUs with six guiding principles for preparing RSARs similar to those required of large investor own utilities. The guiding principles include direction to provide a comparison of actual spending to authorized amounts for programs with activities relating to safety, reliability, and maintenance and an explanation of spending variance. In addition to grouping capital and expense programs separately along general lines of business, SMJUS should provide a discussion on balancing accounts and memorandum accounts cost recovery.⁹

In addition, D.19-04-020, Attachment 2, Section IX requires SMJUs to file and serve RSARs on the prior GRC service list until the next GRC proceeding is opened.

STAFF ANALYSIS

In its 2019 iRSAR, Liberty CalPeco provided authorized and actual operating and maintenance (O&M) expenses and capital expenditures for programs associated with safety, reliability, and maintenance. Overall, Liberty CalPeco spent more than its 2019 authorized amount¹⁰ in Capital Programs and Operating and Maintenance (O&M) Expense by 28% as shown in Table 1 below.

Table 1: Summary of Liberty CalPeco’s 2019 Spending Variance¹¹

Budget	Authorized Budget (\$000)	Recorded Budget (\$000)	Variance (\$000)	Variance (%)
Total Capital Expenditures	7,726	10,209	2,483	32%
Total O&M Expense	5,196	6,320	1,124	22%
Total - company wide	12,922	16,529	3,607	28%

In its Capital programs, Liberty CalPeco spent more than the authorized amount to replace its fleet of vehicles and make improvements to its distribution system and substations. In its O&M programs, Liberty CalPeco spent more than its authorized budget to operate and maintain its distribution plants.

⁸ D.19-04-020, p. 50. It should be noted that the Voluntary Agreement did not specify requirements or recommendations for accountability reporting (Voluntary Agreement, p. 2).

⁹ A.15-05-002 SMAP, Energy Division Guidance for the Standardized Reporting and Outline of the Risk Spending Accountability Report, ALJ Ruling dated August 31, 2018. Attachment B - General Guidance for the Small and Multi-Jurisdictional Utilities on the Risk Spending Accountability Report.

¹⁰ 2019 Authorized Budget are from D.20-08-030, provided by Liberty CalPeco in an email from Liberty’s Dan Marsh to ED’s Jenny Au on 10/2/2020 1:04PM.

¹¹ 2019 Recorded Budget are from Liberty CalPeco 2019 iRSAR, Tables 1 and 2, pp, 2-3.

In 2019, Liberty CalPeco recorded approximately \$3.7 million in its vegetation management expenses.¹² D.20-08-030 allows \$3.06 million of vegetation management expenses in rates each year and tracking of balances for recovery of up to \$915,705 via a Tier 2 Advice Letter.¹³ Therefore, the utility's vegetation management memorandum account contains approximately \$640,000 for 2019,¹⁴ which may be recovered from its customers via a Tier 2 Advice Letter.

2019 Authorized Budget

At the time of the filing of its 2019 iRSAR, the Commission has not issued a decision on Liberty CalPeco's Test Year 2019 GRC.¹⁵ Therefore, Liberty CalPeco's iRSAR provided the 2016 GRC authorized spending escalated to 2019 dollars as the 2019 authorized budget.¹⁶ In August 2020, the Commission issued Decision (D.)20-08-030 in A.18-12-001, approving a revenue requirement for Liberty CalPeco's TY 2019. At ED's request, Liberty CalPeco updated its 2019 iRSAR information and compared its 2019 spending level against the budget authorized in its TY 2019 GRC, which is shown in Table 1 above.

ED recommends that Liberty CalPeco strive to use the most recent authorized budgets to prepare future (i)RSARs. If the information is not available at the time of RSAR filings, Liberty CalPeco should update the report as soon as data become available.

Additional Information Recommended for Future (i)RSARs

1. Projects and Programs Reporting

In D.20-08-030, the Commission authorized six capital projects which are identified as safety and reliability projects and are listed below:

- a. 7300 Line Reconductor
- b. Topaz Line Rebuild Project
- c. 625/650 Line Upgrade
- d. North Lake Tahoe Parking Lot Best Management Practice Retrofit
- e. Distribution Asset Replacement Program
- f. Mobile Home Park Meter Conversion Program Balancing Account

ED recommends that Liberty CalPeco track and report separately on the spending for these specific projects in its next iRSAR in addition to the programs that the utility currently includes in its iRSAR.

¹² Liberty CalPeco's 2019 iRSAR (AL 150-E), p. 4.

¹³ D.20-08-030, p. 47

¹⁴ Liberty CalPeco's 2019 total vegetation management expense is \$3.7 million less the amount allowed in rates of \$3.06 million = \$0.64 million.

¹⁵ Liberty CalPeco's Test Year 2019 GRC was filed in December 2018 (A.18-12-001)

¹⁶ D.16-12-024 authorized capital and O&M spending for 2016 to 2018.

2. Program Descriptions

ED recommends that Liberty CalPeco include a section in future reports to provide a description of the programs included in the annual (i)RSAR.

3. Variance Explanation Threshold

ED recommends that Liberty CalPeco provide an explanation for spending variances with the following characteristics:

- a. Capital Expenditures: Over 20% and exceeding \$500,000
- b. O&M Expenses: Over 20% and exceeding \$200,000