

# R.20-07-013, Phase 3, Workshop #5: Pre-Workshop Planning Questions

October 5, 2023

## Discount Rates

### Description of the Issue:

Discount rates are used when calculating the present value of risk reduction benefits and mitigation costs to account for the time value of money and risk reduction benefits. Because of their importance in cost estimates, Staff discussed discount rates extensively in their 2022 Evaluation Report of SCE's 2022 RAMP Application. In their evaluation, Staff supported SCE's use of a three percent rate to discount risk reduction benefits and a 10 percent rate for discounting incremental mitigation costs.<sup>1</sup> Subsequently, however, parties, including The Utility Reform Network (TURN), argued that discounting benefits at a lower rate than costs would result in RSE calculations biased towards multi-year projects rather than immediate implementation.<sup>2</sup>

Discussion in this area will consider whether the Commission should provide guidance regarding the use of varying discount rates (*i.e.* dual-rate discounting) for mitigation costs and benefits within the Cost-Benefit Ratios in the RDF. Discussion will also center on whether the Commission should identify an appropriate discount rate (or range of discount rates) for mitigation costs and benefits in the RDF and whether the Commission should authorize IOUs to vary their use of discount rates by mitigation.

### Planning Questions:

1. When calculating a cost-benefit ratio, must the same discount rate be used in both the numerator and the denominator? If so, why, or why not? What are the implications for an IOU's cost-benefit analyses that use the same discount rate in both the numerator and denominator? Alternatively, what are the implications for an IOU's cost-benefit analyses that use a different discount rate in the numerator and denominator?
2. How should the fact that there are different types of benefits (e.g., safety, reliability, and financial) affect the choice of discount rate?
3. How should the purpose of the Cost Benefit Ratio (CBR) – to assist in assessing and comparing the cost effectiveness of proposed utility mitigations – affect the choice of discount rates?
4. Should different discount rates be used to adjust the risk reduction benefit achieved by different types of mitigations? Specifically, can dual-rate discounting be used for mitigations that demonstrate a social benefit? If so, how is a social benefit distinguished from a non-social benefit?
5. Should different discount rates be used to adjust the costs associated with different types of mitigations?
6. If dual-rate discounting is appropriate for calculating the cost-benefit ratio, what then should be the appropriate range(s) for the discount rate(s)?
7. Are sensitivity or scenario analyses appropriate to examine the impact of discount rates on CBRs?

## Risk Mitigation Reporting Templates

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<sup>1</sup> *Safety Policy Division Staff Evaluation Report on the Southern California Edison Company's 2022 Risk Assessment and Mitigation Phase (RAMP) Application (A.)22-05-013, pp.17-18.* Available as of May 3, 2023 at: [https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/safety-policy-division/reports/sce-2022-ramp-evaluation-report-final\\_111022.pdf](https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/safety-policy-division/reports/sce-2022-ramp-evaluation-report-final_111022.pdf).

<sup>2</sup> Phase 3 Roadmap at 3.

### Description of the Issue:

Utility risk mitigation filings are complex and cover hundreds of projects and program areas and related risk mitigations, risk scores, and other information. In comments on the Phase 3 Roadmap, the Commission's Public Advocates Office (Cal Advocates) emphasized the need for the Commission to consider requiring the IOUs to use templates to ensure clear utility provision of "granular detail, data and information to support utilities' risk mitigation programs."<sup>3</sup> Cal Advocates proposed that the Commission prioritize consideration and adoption of such templates in Phase 3 in order to ensure transparent utility reporting of:

- Appropriate units used for a specific mitigation, such as circuit miles, pipeline miles, asset units, staffing levels, inspection levels;
- The cost-effectiveness for the specific levels of risk mitigation programs;
- Past and proposed effectiveness of risk mitigation programs, considering safety performance metrics, safety and operational metrics, or other specific mitigation effectiveness measures; and
- Past, current and projected progress on all risk mitigation programs.<sup>4</sup>

At the request of the assigned ALJ, Cal Advocates provided two high level template "straw proposals" for discussion during Phase 3, namely a "Sample Mitigation Program Selection Template," and a "Sample Mitigation Program Progress Template."<sup>5</sup> Work in this area will center on the question of whether the Commission should adopt required templates and, if so, the information requirements and the format of the templates.

### Planning Questions:

1. Should templates for Mitigation Project Selection and the Mitigation Project Progress be required for RAMP and GRC filings?
2. What information/variables should be included within the Mitigation Program Selection and Mitigation Project Progress templates?

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<sup>3</sup> Cal Advocates comments on Phase 3 Roadmap at 2.

<sup>4</sup> Cal Advocates comments on Staff Phase 3 Roadmap proposal at 3.

<sup>5</sup> Cal Advocates Reply and Post Prehearing Conference Comments at Attachments A and B.