

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA**

Order Instituting Rulemaking to  
Further Develop a Risk-Based  
Decision-Making Framework for  
Electric and Gas Utilities.

R.20-07-013

**JOINT IOU TRANCHING PROPOSAL**  
**DEC 6TH WORKSHOP**

Dated: Nov 22 , 2023

**Join IOU Tranching Proposal Dec 6<sup>th</sup> Workshop**

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## JOINT IOU DISCUSSION ON TRANCHING PROPOSALS DEC 6TH WORKSHOPS

### I.

#### INTRODUCTION AND BACKGROUND

The Phase 3 Workshop #1 held on July 12, 2023, addressed two main topics:

(a) evaluation of general rate case (GRC) “post-test” years;<sup>1</sup> and (b) uncertainty: transparency pilot. One of staff’s recommendations addressed the potential need for minimum “tranche” sizing requirements to ensure that any additional Risk-Based Decision-Making Framework (RDF) information provided for post-test years would be clear and useful to the Commission and parties. Staff proposed the potential use of “quintiles of Likelihood of Risk Event (LoRE) and Consequence of Risk Event (CoRE)” to define tranches such that “portions of risk with the highest 20 percent of LoRE would be grouped within a tranche, and the highest 20 percent of CoRE would be grouped in another tranche.”<sup>1</sup> Staff’s recommendation was made partially in response to current RDF requirements that tranches “will be based on how the risks and assets are managed by each utility, data availability and model maturity, and strive to achieve as deep a level of granularity as reasonably possible.”<sup>2</sup> On Oct. 13, 2023, the Assigned Commissioner issued a ruling in the Risk Informed Decision-Making Proceeding (RDF D20.07-013) to authorize an additional workshop on December 6<sup>th</sup> and to add a new issue “i” as follows:

- i. Should the Commission provide additional guidance regarding tranche granularity in the RDF?<sup>3</sup>

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<sup>1</sup> See Assigned Commissioner’s Ruling Amending Phase 3 Scoping Memo and Ruling, Scheduling December 6, 2023 Workshop and Updating Proceeding Schedule, p. 2.

<sup>2</sup> See Assigned Commissioner’s Ruling Amending Phase 3 Scoping Memo and Ruling, Scheduling December 6, 2023 Workshop and Updating Proceeding Schedule, p. 2.

<sup>3</sup> See Assigned Commissioner’s Ruling Amending Phase 3 Scoping Memo and Ruling, Scheduling December 6, 2023 Workshop and Updating Proceeding Schedule, p. 3.

The Scoping Memo further stated that the “IOU parties shall attend Workshop #6 and shall come prepared to, at minimum: (a) discuss scenarios where TURN’s proposal would not be workable; and (b) offer modifications or alternative proposals that include defining a minimum levels of granularity (which could vary across mitigation types or risks).”<sup>4</sup> In preparation for the Dec 6<sup>th</sup> workshop, the IOUs present this proposal that addresses these two topics.

## II.

### **DISCUSSION ON TURN’S TRANCHING PROPOSAL**

#### **A. OVERVIEW OF TURN’S PROPOSAL**

In TURN’s Opening Comments on Phase 3 Workshop 1, TURN proposes an approach to risk tranching that markedly changes the Commission-authorized tranching provisions as found in the S-MAP Settlement Agreement. TURN states that the number of tranches currently provided by the utilities prevents the Commission and the intervenors from making informed judgments on the mitigation portfolios.<sup>5</sup> TURN explains that tranches must be granular enough to demonstrate the variations in risk across assets consistent with project level detail so that the Commission can determine not only which mitigations to fund, but also the proper scope of the mitigation and even the pace of the work.<sup>6</sup> For these reasons, TURN proposed the following granularity requirements as a starting point for a purported “minimum” standard. TURN concedes that the number of tranches should depend on the particular risk and type of asset at issue, and proposes that the Commission set a minimum two-pronged standard that seeks to balance practical implementation constraints with “highly granular” risk modeling results:

1. The risk between tranches may not be more than 5 percent;

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<sup>4</sup> See Assigned Commissioner’s Ruling Amending Phase 3 Scoping Memo and Ruling, Scheduling December 6, 2023 Workshop and Updating Proceeding Schedule, p. 6.

<sup>5</sup> See The Utility Reform Network Opening Comments on Phase 3, Workshop One Staff Proposal and Summary, p. 4.

<sup>6</sup> See The Utility Reform Network Opening Comments on Phase 3, Workshop One Staff Proposal and Summary, p. 5.

2. The number of miles or assets in a given tranche should not represent more than 5 percent of the total asset count of miles.<sup>7</sup>

TURN acknowledges that this proposal assumes the utility has a highly granular assessment of risk by circuit or pipe segment. TURN notes some of the challenges this “highly granular” analysis creates; TURN indicates, without further detail, that risk must also be normalized by number of assets or number of miles to ensure proper aggregation (e.g., a circuit segment that is 1,000 miles long and has a risk of 100 units has a much different risk profile than a circuit that is 1 mile long and has a risk of 100 units).<sup>8</sup>

**B. CONCERNS/ISSUES WITH TURN’S PROPOSAL**<sup>9</sup>

As mentioned above, TURN proposes an approach to risk tranching that materially changes the Commission-authorized tranching provisions as found in the S-MAP Settlement Agreement. The S-MAP Settlement Agreement was reached by parties after many months of negotiation and after extensive building of the record. TURN was a key participant in those negotiations and a prominent signatory to the S-MAP Settlement Agreement as filed. After filing, it was carefully assessed by the Commission, and then approved by decision. Its terms should not be disturbed by one of the settling parties simply offering written comments on what the party feels should now be changed, notwithstanding their former support for the agreement as written.

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<sup>7</sup> See The Utility Reform Network Opening Comments on Phase 3, Workshop One Staff Proposal and Summary, p. 5

<sup>8</sup> See The Utility Reform Network Opening Comments on Phase 3, Workshop One Staff Proposal and Summary, p. 6.

<sup>9</sup> For the sake of brevity and judicial economy in this proposal document, the IOUs are not providing an exhaustive delineation of every concern or issue they have with TURN’s proposed approach. Moreover, TURN’s approach has been addressed in detail in prior written comments by the IOUs in this proceeding. The IOUs’ silence here with regard to any particular issue or position does not mean that the IOUs agree with or acquiesce to TURN or any other stakeholder’s view.

**1. TURN's Proposal is Unrealistic and Inappropriate**

At its essence, TURN's proposal relies on being able to calculate LoRE and CoRE (expressed as expected loss in dollars) down to the asset level and based on the assumption that the probabilistic models are mature enough to capture them accurately. However, this line of thinking is problematic because asset planning models do not necessarily model risk in this manner (e.g., PG&E's Transmission Integrity Management Program – TIMP model), nor are they necessarily required to do so under the S-MAP Settlement Agreement. Statistical, expected value-based approaches are used to explain phenomena when underlying physical risk drivers are not well understood or there is not enough historical data available. It is not the other way around. In other words, statistical distribution should not supplant or consign away the use of physical/engineering-based approaches. If TURN' proposal was to be adopted, it would mean that IOUs would be required to “bootstrap” a statistically based approach to modeling risks for asset planning models. This approach could be ill-suited (e.g., lack of data, immature), and not as effective as the physical/engineering-based approaches that it would replace and would ultimately distort risk analysis, including the efficacy of mitigation programs.

**2. It is Unclear if TURN's Proposal Requires Both Constraints for Tranching**

As noted above TURN's proposal argues that the Commission set a minimum two-pronged standard that seeks to balance practical implementation constraints with “highly granular” risk modeling results. However, it is not clear if TURN is proposing that *both* constraints must be met or just *one of the two*. It may not be mathematically, or even realistically feasible to meet both of these constraints for all risk types, as further discussed below in Sections II.B.2 and II.B.3. While the IOUs would appreciate additionally clarity from TURN regarding whether their approach would require both constraints or just one or the other, please note that as discussed throughout this proposal,

the IOUs do not agree with TURN's approach regardless of TURN's clarification of this specific question.

**3. The Basis for TURN's Proposal Is Arbitrary and the Precedence to Include as a Minimum Requirement Ignores How the IOUs Operate**

TURN's proposal sets out to establish a two-pronged approach: 1) the risk between tranches may not be more than five percent; 2) the number of miles or assets in a given tranche should not represent more than five percent of the total asset count of miles. These requirements ignore the intention of the language already provided in the Risk Decision Framework (RDF) regarding tranches, namely:

*"...determination of Tranches will be based on how the risks and assets are managed by each utility, data availability and model maturity, and strive to achieve as deep a level of granularity as reasonably possible. The rationale for the determination of Tranches, or for a utility's judgment that no Tranches are appropriate for a given Risk Event, will be presented in the utility's RAMP submission."*

Arbitrarily mandating a division in a group of assets or a totality of risk, ignores how the IOUs manage assets and operate, what the data availability is, and the attendant flexibility previously established by the Commission regarding how tranches should be determined. One example of how this breakdown provides no value includes how SoCalGas' Transmission Integrity Management (TIMP) program assesses pipeline integrity on a cyclical basis. As the data is received and analyzed by Subject Matter Experts (SMEs), there may be reactive measures needed for a specific section of the pipeline to maintain safety and reliability in operations. These measures could involve actions like pressure reduction, additional assessments, or pipeline replacements. This required work is not analyzed, planned, or managed by an arbitrary percentage of assets in the system nor at a percentage of risk of the system. The way in which projects or

work is executed does not follow a tranche as established by TURN's proposal and, in fact, would create more confusion and less transparency since this is not how risk reduction efforts are managed or executed.

Assuming that the data exists to quantify risk for all assets/asset groups dictated by the arbitrary percentage, the "tranche" would not meet the definition of a tranche included in the RDF: "a logical disaggregation of a group of assets (physical or human) or systems into subgroups with like characteristics for purposes of risk assessment." Moreover, establishing an arbitrary division of assets by units or by quantified risk (assuming the data is even available to calculate said risk), means this requirement is force fitting a management and quantification methodology upon the IOUs to meet a mathematical principle not predicated upon real world operations.

Additionally, TURN's proposal states that this "highly granular" approach is a "minimum requirement." For the above reasons, the IOUs see this as establishing a requirement that runs counter to the intention of the RDF which is to promote safety and transparency of how the IOUs operate and execute risk-reducing activities by instead promoting a perceived granularity for the sake of granularity. The RDF, as a flexible framework, serves Safety, Reliability, and other critical policy goals of the State. The IOUs similarly favor, whenever reasonable and feasible, that more information rather than less is provided to relevant stakeholders. But mandating the approach preferred by TURN is much more than simply provision of more information; it would instead essentially default the utilities to what TURN wants. Any utilization of any other approach presented in the alternative would in essence be subject to a rebuttable presumption on the part of the Commission that the "alternative" approach is not valid or useful in comparison to the "minimum" approach. As the IOUs have consistently pointed out, flexibility is of paramount importance, so that the utility party with the burden of proof retains the ability to meet that burden in the most effective, efficient, and accurate



manner, consistent with how the utility analyzes risks and runs its operations and business processes. The Commission should reject TURN's proposal.

**4. TURNs Proposal is Infeasible for Many of the Current RAMP Risks**

Setting aside the perceived benefits of TURN's proposal (noting the IOUs dispute such benefits), as a simple and practical matter any attempt to tranche virtually any RAMP risk using TURN's approach yields unintelligible results. How, for example, is one to tranche Employee Safety risk using the guidepost that "the risk between tranches may not be more than 5 percent"? How is one to tranche Cybersecurity risk in a manner where "the number of miles or assets in a given tranche should not represent more than 5 percent of the total asset count of miles"?

TURN's approach is erroneous and must be rejected on this basis alone. Tranche granularity is specific to each risk, and heavily influenced by data availability and results of risk analyses. Tranche granularity should be tailored to the risk and should not be generalized across all risks and all Utilities.

As mentioned in Section III.B above, TURN's tranche proposal is arbitrary, and infeasible in many instances. This is not solely because it ignores the definitions and flexibility underlying in the RDF, but it assumes that the proposal is feasible across the various risk areas included in utility RAMP filings. One counter example to this assumption is SoCalGas's Employee and Contractor risk areas. In the Company's TY2024 General Rate Case (GRC), the tranches, as established by the Settlement Agreement's definition of tranches, were based on a breakdown of incident types. These chapters, and others, reveal that TURN's requirement is not driven by data availability or how items and issues are managed by the Utilities (as outlined in the RDF) but is an arbitrary, unilaterally imposed requirement to have the Utilities create tranches and data to remain in purported compliance with the RDF. The Utilities note that the data should speak to the tranches and not the other way around.

Another example of infeasibility includes Cybersecurity. Cybersecurity is one of the top risks for a business across any industry. TURN's proposal again prescribes a minimum number of tranches that disregards how each Utility identifies, manages, and quantifies this risk. Additionally, risks such as Cybersecurity should be limited in their information, even confidential, that is provided to parties. Cybersecurity must maintain a high degree of confidentiality to continue to protect against increasing threats. TURN's requirement will undermine this level of protection by causing the risk to be looked at in too similar of manner among four very different operating companies. The issue of generating artificial data remains in Cybersecurity as well. For example, SoCalGas currently examines three tranches for Cybersecurity as justified by operational needs and available data. Shoehorning an additional set of tranches for the sake of a party's preference will force greater exposure into defensive mechanisms as well artificially dictate the risk profile in lieu of allowing the data to establish the profile.

**5. The Current RDF Already Provides Sufficient Language for Tranching, and Flexibility Is a Paramount Need**

Arbitrarily imposing new illogical, infeasible and untested tranching requirements damages the utility's ability to present its risk analysis and data in a manner that reflects how the utility actually manages and mitigates risks. It also drastically interferes with the utility's ability to adapt to or reflect future advancements in risk modeling. As cited above, the S-MAP Settlement Agreement recognized that the utilities should have a degree of flexibility in the specifics of tranching their risks. Therefore, uniformly mandated approaches at a granular level are not practicable for utility risk modeling.

The IOUs view [the settlement] guidance, together with the . . . unique circumstances associated with each Risk, and review/discussion with SPD and others, as providing sufficient direction in determining tranches." TURN concedes in its Opening Comments to Phase III Workshop and planning questions that "The settlement is

straightforward on the meaning of tranche.”<sup>10</sup> Accordingly, in response to the question in the ALJ Ruling<sup>11</sup>, post-test year reporting should be at the tranche level, where tranches are developed in accordance with the definition adopted in the Settlement Agreement. The question does not call for a wholesale revision of the tranching definition.

The determination of tranches will be based on how the risks and assets are managed by each utility, data availability, and model maturity, and strive to achieve as deep a level of granularity as reasonably possible. The rationale for the determination of tranches, or for a utility’s judgement that no tranches are appropriate for a given risk event, will be presented in the utility’s RAMP submission.

### III.

#### **IOU COUNTERPROPOSAL**

As noted above, the IOUs do not believe that TURN’s proposal should be adopted but do offer two other potential Options for parties consideration. Please note that the IOU proposal is outlined below at a more summary level for the sake of judicial efficiency and economy. The proposal may be modified as further discussion and collaboration occurs (including at workshops) and as feedback is received from Staff and other stakeholders.

#### **A. Option 1: The IOUs Provide Tranching Proposals in the Pre-RAMP Workshops**

The (RDF) already requires the IOUs to “host a publicly noticed workshop, to be appropriately communicated to interested parties and at a minimum, should include the CPUC’s Safety Policy Division (SPD), to gather input from SPD, other interested CPUC staff, and interested parties to inform the determination of the final list of risks to be included in the

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<sup>10</sup> See The Utility Reform Network Opening Comments on Phase 3, Workshop One Staff Proposal and Summary, p. 4

<sup>11</sup> See Administrative Law Judge’s Ruling Entering Workshop #1 Materials Into Record and Inviting Comment, Question 1.3, pp. 2 – 3.

RAMP.”<sup>12</sup> This process contains a built-in mechanism for the IOUs to receive and address parties’ comments on the preliminary RAMP risks. The RDF notes that “based on input received from SPD, other interested CPUC staff, and interested parties, the utility will make its determination of the final list of risks to be addressed in its RAMP. The rationale for taking or disregarding input during the workshop will be addressed in the utility’s RAMP.”<sup>13</sup> The IOUs believe that this RDF requirement could be extended to include the IOUs providing preliminary RAMP risks *and tranching proposals* in the pre-RAMP workshop. This would afford parties an early opportunity to see the IOUs’ tranching proposals, set forth for each individual RAMP risk, and make pointed recommendations tailored to each IOU’s individual RAMP risks, as opposed to having one specifically mandated tranching requirement for every RAMP risk for each IOU, as TURN would prefer.

**B. Option 2: Provide Granular Data for Asset-Based Risks That Have That Information Available**

The Joint IOUs gather that TURN’s proposal arises from a desire to have granular data, to the extent that it is available from asset-based planning models, reflected in enterprise risk models to demonstrate that risk is being effectively managed. The Joint IOUs share that desire, but, as described above, their proposal is one-dimensional, and fails to account for the complexities of asset-based planning models (e.g., risk per mile might not be the best way to report risk given the risk may change several times over the length of that asset), and will limit the IOUs by imposing an overly simplistic view of risk. In response, the Joint IOUs provide alternative proposed language (underlined) for Row 14 of the RDF to address the desire for more granular risk assessment.

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<sup>12</sup> See D.22-12-027 - Appendix A - Risk-Based Decision-Making Framework, Row 12 p. A-12.

<sup>13</sup> See D.22-12-027 - Appendix A - Risk-Based Decision-Making Framework, Row 12 p. A-12.

No.	Element Name	Element Description and Requirements
14.	Definition of Risk Events and Tranches	<p>Detailed pre- and post-mitigation analysis of Mitigations will be performed for each risk selected for inclusion in the RAMP. The utility will endeavor to identify all asset groups or systems subject to the risk and each Risk Event associated with the risk. For example, if Steps 2A and 2B identify wildfires associated with utility facilities as a RAMP Risk Event, the utility will identify all Drivers that could cause a wildfire and each group of assets or systems that could be associated with the wildfire risk, such as overhead wires and transformers.</p> <p>For each Risk Event, the utility will subdivide the group of assets, or the system associated with the risk into Tranches. Risk reductions from Mitigations and Risk Spend Efficiencies will be determined at the Tranche level, which gives a more granular view of how Mitigations will reduce Risk.</p> <p>The determination of Tranches will be based on how the risks and assets are managed by each utility, data availability and model maturity, and strive to achieve as deep a level of granularity as reasonably possible. The rationale for the determination of Tranches, or for a utility’s judgment that no Tranches are appropriate for a given Risk Event, will be presented in the utility’s RAMP submission. <u>Notwithstanding the guidance above, each utility should demonstrate:</u></p> <ul style="list-style-type: none"> <li>• <u>If a risk is managed through granular, planning models (e.g., PG&amp;E’s Wildfire Distribution Risk Model, Transmission Integrity Management Program - TIMP): how it maps the detailed asset-level information (e.g., circuit segments) to tranches, the dimensions involved (failure modes, asset type, consequence profile, etc.), and how the mapping supports, or could support, actionable controls and mitigation programs.</u></li> <li>• <u>If detailed planning models are not available, utilities will describe the dimensions involved (failure modes, consequence profiles), and how the chosen tranches support, or could be used to support, actionable controls and mitigation programs.</u></li> </ul> <p>For the purposes of the risk analysis, each element (i.e., asset or system) contained in the identified Tranche would be considered to have homogeneous risk profiles (i.e., considered to have the same LoRE and CoRE).</p>

Under this proposal, IOUs would maintain the flexibility to present information in the way they manage risk, using the information available. They would have the additional responsibility of describing how this granular view is consistent with the new RDF requirements.

This approach is superior to TURN's proposal because it allows utilities to explain how it manages risk in terms of the assets' physical properties, instead of rigid statistical classifications (per TURN's proposal), which may produce biased results by not capturing the full context of the risk analysis.

#### **IV.**

#### **CONCLUSION**

The IOUs appreciate the opportunity to address TURN's tranching proposal and provide two potential alternative options for stakeholder consideration. We look forward to continued collaboration and discussion with the Commission and the parties as Phase III of this proceeding continues to advance.