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Request from: Office of Consumer Counsel

Question:

(SCRAF Mechanism) Has the Company considered limiting SCRAF eligibility to storm events that also satisfy an objective storm-magnitude criterion, such as a Major Event Day designation under the IEEE Major Event Day methodology (2.5 Beta Method), a minimum number of customers interrupted, or a specified ERP tier or level, in addition to the proposed dollar-cost threshold?

a. If the Company didn't consider such criteria, please explain why. If the Company considered and rejected such criteria, please provide any analysis performed and explain the basis for relying solely on a cost-based threshold.
b. If one or more of the three additional objective criteria in this question were to be adopted for the Company to be eligible for SCRAF recovery, if approved, discuss the implications and changes to storm preparation and response that the Company would consider adopting going forward?
c. Are there any other objective criteria that the Company would be comfortable adopting, in addition to the cost per event threshold, to be eligible for SCRAF recovery?

Response:

The Company considered whether additional objective criteria can reasonably and workably be used in conjunction with the proposed cost threshold for SCRAF eligibility because introducing objective criteria would help to eliminate controversy and provide clarity to all parties, including the Company. However, criteria such as an IEEE Major Event Day ("MED") designation, a minimum number of customers interrupted, or a specified ERP tier do not necessarily provide an valid and reliable indication for determining that incremental storm restoration costs are in excess of the level included in base rates and should be recoverable. The proposed cost threshold is intended to identify events that require restoration efforts at a level that is above and beyond the level set in base rates for non-catastrophic storms and for which it is not possible to establish a 'representative level' in base rates due to the magnitude and inability to accurately predict the frequency of events of this magnitude.

a. Additional Criteria

The Company did not recommend a MED-based criterion because the MED designation is based on system reliability performance rather than restoration cost for outages caused by operating circumstances not recognized by MED. Under the IEEE 2.5 Beta methodology, the MED threshold changes over time based on historical reliability performance. As the Company continues to invest in automation, sectionalizing, and other reliability improvements, outage impacts measured through SAIDI may decrease even though the underlying damage and restoration effort remain substantial. Consequently, the use of an MED threshold could produce the unintended result that a storm requiring significant incremental restoration resources, including external crews and their associated costs, would be ineligible for a prudence review under the SCRAF simply because customer outage impacts were reduced through prior reliability investments, even in situations where the costs were incremental and prudently incurred in accordance with the PURA approved ERP.

Similarly, a minimum customer interruption threshold is not an appropriate criterion because restoration costs are driven by the nature and extent of system damage rather than solely by the number of customers affected. For example, a fault on a heavily automated circuit may affect fewer customers than a similar event on a circuit without such automation, or on the same circuit in prior years prior to installation of automation, while still requiring the same field resources, equipment, and repair activities to restore service. As system automation expands, the relationship between customer interruptions and restoration costs becomes increasingly disconnected, even in situations where the costs are still determined to be incremental and prudently incurred. Also, a major component of storm response is the clearing of blocked roads and other public-safety necessities, which are not reflected in customer outages.

Similarly, a fixed ERP tier would similarly not be an appropriate criterion because ERP classifications are operational tools used to manage Company resources and may be influenced by factors such as forecast uncertainty, geographic scope, and restoration complexity. ERP levels are not designed to determine whether costs are incremental to normal operations or suitable for regulatory cost recovery.

Accordingly, the primary indicator of whether an event exceeds normal operating conditions and should be eligible for recovery under the SCRAF is the magnitude of incremental restoration costs, which is a function of external crew utilization. Catastrophic storm costs are impossible to predict with accuracy and are therefore not possible to reflect in rates on a representative level. Moreover, incremental costs may still be prudently incurred in accordance with the ERP even if the triggers discussed in this response are not met, and therefore cost should be the determining factor of SCRAF cost recovery eligibility rather than another measure.

b. Implications of Adopting Additional Criteria

If eligibility for SCRAF recovery were conditioned on an MED designation, customer interruption count, or ERP tier, the Company would need to evaluate how those requirements could affect restoration planning and resource deployment decisions.

For example, an MED or customer-count criterion could create a situation where investments that reduce outage impacts also reduce the likelihood that an event qualifies for recovery, even when restoration costs remain substantial. This could create a disconnect between reliability objectives and cost recovery mechanisms. The Company's objective during storm response is to restore customers as quickly and safely as possible, and cost recovery criteria should not eliminate the potential for cost recovery without a prudence review.

Likewise, if a specific ERP tier were required, the Company would need to consider the interaction between operational activation decisions and regulatory recovery treatment. The Company's ERP classifications are intended to support safe and effective storm response and should remain focused on operational needs rather than cost recovery outcomes.

c. Alternative Objective Criteria

If an additional objective criterion were required, the Company would be more comfortable with a criterion tied to the need for external restoration resources. In the Company's view, the clearest indication that an event exceeds normal operating conditions is that internal resources are insufficient and external mutual assistance or contract crews must be mobilized to support restoration efforts. In essence, evaluating the need for additional crew assistance encompasses concerns relating to both customer outages and public-safety demands.

The need for external resources reflects the scale and complexity of the event and is directly related to the incremental costs the SCRAF is intended to address. Unlike MED designations or customer interruption thresholds, which are based primarily on outage outcomes, the use of external resources is more closely aligned with the underlying restoration effort and associated incremental costs. In addition, the Company is often required to procure crews in advance of a weather event, based on forecasted information which may or may not materialize as expected. The incremental costs associated with those events should still be eligible for recovery, based on a prudence review and determination by PURA, even if the weather does not materialize as forecast, meaning that designated MED or customer interruption thresholds are not triggered.