



Liberty Utilities (CalPeco Electric) LLC
933 Eloise Avenue
South Lake Tahoe, CA 96150
Tel: 800-782-2506
Fax: 530-544-4811

DATA REQUEST RESPONSE

LIBERTY UTILITIES (CALPECO ELECTRIC) LLC

A.18-10-007

Wildfire Mitigation Plans Rulemaking

Requesting Party: SED
Date Received: March 5, 2019
Due Date: March 8, 2019

Section 3.1: “Risk Methodology” (pages 6 and 7):

“The process to identify risks and drivers produced underlying assumptions that shaped prioritization of measure execution.”

REQUEST NO. 1:

Identify the assumptions that Liberty made when prioritizing the implementation of mitigation measures. Did these assumptions also contribute to the development of mitigation measures?

RESPONSE TO REQUEST NO. 1:

Liberty CalPeco addressed pressing needs relative to the company’s WMP. Liberty CalPeco did not use formal priority ranking system. Liberty CalPeco determined proposed mitigation items within the WMP based upon some aspects of the risk-based decision-making tool, which is still being refined. The development of mitigation measures incorporated utility leadership deliberation and external guidance, resulting in refinement of proposed measures and strategies.

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“Liberty CalPeco plans to include a final version of its risk assessment tool in its next GRC application filing, benefiting future Plan iterations during reassessment periods.”

REQUEST NO. 2:

Describe the goals Liberty has for the completion of the risk assessment tool. What improvements in the WMP does Liberty foresee with the finalization of the risk analysis tool by the next GRC filing?

RESPONSE TO REQUEST NO. 2:

Goals for Liberty CalPeco’s risk-based decision making (“RBDM”) tool include Commission compliance with RBDM requirements, as outlined in the SMAP; prevention of wildfires within the service territory, as wildfires have clearly shown to have devastating effects; and improvement of the current RBDM tool to include a more quantitative approach in evaluating future implementation of wildfire mitigation measures.

Risks are prioritized using impact and likelihood analysis. Impact factors reviewed during the assessment include: safety, reputation, financial, compliance/legal, and strategic. Risks are assessed on an inherent (unmitigated) and residual (mitigated) basis in order to clearly identify the most critical controls. Liberty CalPeco intends to improve its approach, so the reduction in impact and/or likelihood resulting from the implementation of a given control or set of controls is made clear.

REQUEST NO. 3:

Does Liberty have a timeline of what they expect to accomplish in the advancement of their risk analysis methodology before the next WMP filing in 2020?

RESPONSE TO REQUEST NO. 3:

Liberty CalPeco continues to meet with risk-management experts and to study and incorporate elements of other investor-owned utility (“IOU”) RBDM components that have been received favorably by the Commission. Liberty CalPeco has set milestones and continues to work toward their advancement for the 2020 WMP filing.

REQUEST NO. 4:

Has Liberty encountered any insufficiencies or difficulties in the development of the WMP that would be better served by a more robust risk analysis tool?

RESPONSE TO REQUEST NO. 4:

Liberty CalPeco has encountered no significant difficulties with its current RBDM.

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“To combat and control classified risk, APUC has identified ‘Risk Advisors’ from each regional area, who then oversee and evaluate potential risks within the utility...through repetitive assessment cycles to identify, evaluate, communicate, and mitigate risks.”

REQUEST NO. 5:

What is the nature of the “repetitive assessment cycles” described in Section 3.1? How often are the assessments conducted and what is the objective?

RESPONSE TO REQUEST NO. 5:

Liberty CalPeco assesses its most significant (high-impact) risks at least annually and as required, given changes in its business environment. The objective is to ensure that the nature of each risk is fully understood and that the existing controls are adequate. To the extent that the assessment reveals an increased risk, control frameworks are revisited, and additional mitigation measures are identified for implementation.

REQUEST NO. 6:

Provide a detailed description of the process that “Risk Advisors” described in Section 3.1 use in order to carry out the risk identifications and evaluations. Provide any documentation or guidelines that are used during the process.

RESPONSE TO REQUEST NO. 6:

Risk Advisors meet with business leaders and risk owners within their business group (in this case, the West Region) to review existing risk reports, re-assessing existing risks and adding any newly identified exposures. Utility management relies on its experience, knowledge about the sector, as well as standard risk categories (based on internal and external sources) when identifying and assessing risks.

Risk advisors employ both a top-down and bottom-up approach to classify areas of greatest operational concern through repetitive assessment cycles to identify, evaluate, communicate, and mitigate risks. When risks fall out of reasonable management through routine protocols, guidance plans are developed to control and monitor the growing risk.

The risk management process is comprised of multiple steps, including risk identification, analysis, evaluation and scoring, decision-making, and monitoring.

When evaluating risk impacts, Liberty CalPeco identifies five categories:

1. Safety
2. Legal Compliance

3. Strategic
4. Reputational
5. Financial

This methodology is consistent with that of other electric utilities and corporations. These methodologies share a common construct: identifying system and operational threats, characterizing risk, assigning roles for appropriate measures, prescribing remedies based on anticipated risk reduction and resource availability, and monitoring the effectiveness of the strategy. This process is echoed by small utilities, such as BVES, as well as large IOUs, such as SCE.

All employees are encouraged to be the eyes of Liberty CalPeco. Liberty CalPeco encourages employees to follow the guideline, “If you see something, say something.” Liberty CalPeco instructs employees on multiple quick and easy ways to report potential risks. Risks are assessed using the APUC impact and likelihood scales. Risks are assessed both inherently, assuming that no controls are in place, and residually, which takes into account the existing controls that are in place. Then, for any risks that fall outside of the risk appetite for the company, mitigation plans are developed to help further control those risks. Throughout the process, there is ongoing communication of the top risks and their controls at all levels. Another important aspect of this risk management process is verifying the effectiveness of controls by evaluating indicators, which are events that occur and relate to the various risks.

The APUC impact and likelihood scales are based on a 1-to-5 scale for likelihood and a 1-to-5 scale for impact. A low number for likelihood indicates a risk event is not very likely to occur, while a high number indicates a risk that is more likely to occur. A low number for impact indicates that the consequences of a risk event occurring is low, and a higher number indicates higher consequences if a risk event occurs. The rating for likelihood and impact are multiplied together to yield a risk score. That score is then plotted on a chart to create a risk heat map. The chart is color-coded with green indicating low-risk grades and red indicating high-risk grades.

Each risk is evaluated and scored in each category. The highest score is multiplied by the impact score to compute the risk rating. Criteria for developing the scores are defined to help with consistency during the assessments. A risk is plotted on the heat map is referred to as the risk grade. The heat map, when populated with the top risk grades, provides a way to quickly review the various risks and their scores.

Details about the various risks are documented in a risk register that includes information about risks, sub-risks, assumptions, scoring, in-place controls and mitigation options. As the ERM process continues, risk information and the methods for controlling those risks are refined and

communicated to decision-makers. Although Liberty CalPeco cannot eliminate all risks associated with operating an electric utility, the process of managing these risks influences decisions about capital investment and system operations.

Please also see attached documents.

REQUEST NO. 7:

Provide a detailed description of each step of the multi-step risk management process identified on Page 7 in Section 3.1 of the WMP.

RESPONSE TO REQUEST NO. 7:

Assuming that a risk assessment had not previously been completed:

- a. Ask managers/department heads to review standard risk definitions to determine which, on an inherent basis, could create extreme or high impacts on the company.
- b. Management meeting to assess these “top risks” – impact and likelihood (inherent and residual scores based on existing mitigation plans).
- c. Risks that are residually high or extreme (red or orange) require the development of risk management action plans (RMAP), informed by internal expertise, industry practices and third party subject matter experts, as required. An executive sponsor is assigned to each of these risks.
- d. Assessment of inherent and residual scores informs internal audit planning for enterprise.

Please also see attached documents.

Section 4.5.1: “Plan Components” (pages 29 and 30):

“For example, in addition to replacing fuses, changing hardware on subject poles in high threat fire districts may exempt these fixtures from various requirements.”

REQUEST NO. 8:

Is Liberty aware of any studies to assess the effectiveness of the ten feet of defensible space required in PRC 4292 in protecting wooden poles from outside fire damage?

RESPONSE TO REQUEST NO. 8:

Liberty CalPeco is not aware of any studies that assess the effectiveness of the ten feet of defensible space required in PRC 4292 in protecting wooden poles from outside fire damage.