

## **Integrating Risk and Asset Management into Investment Planning**

### **Applying Davies Consulting's ISM<sup>3</sup>™ Model to Address a New Regulatory Trend**

#### *The Challenge*

In 2011, the California Public Utility Commission (CPUC) determined that the safety and physical security of utility employees and the general public had to be explicitly considered in utility rate applications. The CPUC sent a directive letter to one utility to perform and provide a risk assessment of its entire system and assess how it compares to industry best practices as a part of its General Rate Case (GRC) filing for 2014-2016. The utility undertook an internal process to strengthen its risk management process, integrating risk assessment into its asset management and investment planning strategies.

In September of 2012, the CPUC engaged two outside consulting firms to evaluate the utility's GRC filing to determine how well it had complied with the risk consideration directive. The utility hired Davies Consulting to respond to the consultant reports as well as to independently evaluate its GRC filing. Specifically, Davies Consulting was asked to assess how well the utility had integrated risk in its investment planning in comparison to industry best practices.

#### *The Davies Consulting Approach*

Davies Consulting used its own Integrated Strategic Management Maturity Model (ISM<sup>3</sup>™) to complete this project. ISM<sup>3</sup>™ synthesizes and comprehensively integrates aspects of utility asset management and risk management to provide an overall business/investment strategy for utilities to use as the basis for future planning efforts. ISM<sup>3</sup>™ is designed to optimize investment options (based on risk management and asset management priorities) to meet corporate objectives set forth by senior leadership.

Davies Consulting was able to:

- Review and evaluate overall utility policies, practices, and governance.
- Develop a framework for assessing how the utility's Electric Operations, Energy Supply, and Gas Operations were integrating risk and asset management into investment planning.
- Develop and apply a proprietary and groundbreaking model (ISM<sup>3</sup>™) to assess the maturity of the utility's effort to integrate risk management and asset management into investment planning.
- Benchmark the utility against other industry leaders.
- Provide rebuttal testimony regarding consultant reports to the CPUC.

### *The Results*

- The utility was able to effectively respond to the CPUC's risk consideration directive.
- The utility is now at the forefront of the industry in terms of explicitly addressing risk management in a rate case filing.
- Davies Consulting helped shape a proposed path for utility commissions, utilities, and interveners to move forward in achieving the CPUC's objective.
- Davies Consulting's ISM<sup>3</sup>™ model provided a means for evaluating a utility's investment planning process in terms of integrating risk and asset management.
- The CPUC has issued an Order Instituting a Rulemaking (OIR) to more fully investigate this major change in the least cost regulatory paradigm.