

**2006**  
**AFFILIATE TRANSACTIONS AUDIT**  
**OF**  
**SOUTHERN CALIFORNIA EDISON COMPANY**  
**AND CERTAIN OF ITS AFFILIATES**

**APRIL 27, 2007**



**NORTHSTAR CONSULTING GROUP**  
MANAGEMENT CONSULTANTS

Santa Maria, CA • Boston, MA • Las Vegas, NV



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# EXECUTIVE SUMMARY

This section of the report provides a brief overview of the findings, conclusions, and recommendations resulting from NorthStar Consulting Group's (NorthStar) audit of Southern California Edison Company's (SCE) compliance with the Affiliate Transaction Rules (Rules) for the year 2006. It presents an overall picture without duplicating the specific material described further in the report and includes a brief overview of the scope and objectives of the audit, the approach used by NorthStar in auditing SCE's compliance with the Rules, an exhibit summarizing SCE's compliance status and a list of NorthStar's recommendations for improvements in SCE's compliance activities.

NorthStar reviewed the transactions and relationships between SCE and its affiliates during 2006 in detail, and found that while SCE was largely in compliance with the Rules, SCE had more compliance issues in 2006 than in previous years.

## Audit Scope and Objectives

The objective of this audit is to express an independent opinion on the degree and extent of SCE's compliance with the California Public Utilities Commission's (CPUC or Commission) rules governing affiliate transactions and relationships, and with SCE's own Compliance Plans filed with the Commission, for the calendar year ending December 31, 2006.

## Audit Approach

NorthStar approached this audit from a managerial as well as a financial perspective. As stated in Section II.A of CPUC Decision 97-12-088, the CPUC has chosen "...to adopt rules that generally require more separation between a utility and its affiliate, rather than rules that rely almost exclusively on tracking costs." While the NorthStar team performed standard audit tests of selected affiliate transactions, we also focused on the effectiveness of the control environment—i.e., the organization, business processes, and regulatory compliance procedures that affect SCE's compliance efforts.

We conducted our assessment of SCE's compliance with the CPUC Rules in accordance with Generally Accepted Government Auditing Standards (GAGAS) for performance audits. The standards are defined in *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions* produced by the Government Accounting Office (GAO) in 1981 and revised in 1988, 1994 and 2003. The most pertinent standards relate to issues of management economy, efficiency, and effectiveness as they apply to public utilities.

During the course of the audit, NorthStar submitted 210 data requests to SCE. A list of the data requests is provided in **Appendix A** of this report. NorthStar also conducted 62 interviews with SCE officers, managers, and employees who had specific knowledge of operations and policies relating to Affiliate Transaction Rules compliance. Many SCE personnel were interviewed more than once. **Appendix B** contains a list of the personnel interviewed. Throughout this report, we have identified, where possible, the data request or

interview that led to a specific finding. The number of the data request (e.g., DR 50) or interview (e.g., I-20) has been included in the text to provide easy reference to the supporting materials.

In addition to the data requests and interviews, NorthStar tested the validity, accuracy, and compliance status of a large number of affiliate transactions and other customer transactions that are subject to the Affiliate Transaction Rules. The audit included testing of either a sample or the entire population of the following types of 2006 transactions:

- A sample of the Customer Information Service Requests (CISRs).
- All Intercompany Service Requests (ISRs).
- A sample of the Direct Access Service Requests (DASRs).
- All property transfers involving SCE and any covered affiliate.
- All service agreements and contracts between SCE and affiliates in effect during 2006.
- All joint purchasing transactions between SCE and its covered affiliates.
- All employee movement between SCE and its affiliates along with associated transfer fee payments when required.
- All SCE bill inserts.
- All Board of Director minutes.
- All SCE and affiliate marketing and advertising materials distributed during 2006.

The audit also conducted tests on a number of current transactions to determine conformance with the Rules. These transactions included:

- Customer calls to the Customer Call Center.
- Electronic Affiliate Transaction Bulletin Board and web postings.
- Bulk power scheduling.

Because SCE's compliance process is an internal control system, our review was also based on the internal controls guidelines published in the 1992 report by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. COSO defines internal control as the process carried out by the Board of Directors, management, and other personnel for the purpose of gaining reasonable assurance of achieving objectives related to: (1) the effectiveness and efficiency of operations, (2) the reliability of financial reports, and (3) compliance with laws and regulations.

The COSO definition of internal control includes several important concepts worth noting. First, internal control is a means to an end, not an end in itself. Second, internal controls are not "people proof". Third, effective internal controls can only provide a reasonable assurance, not a guarantee. Effective internal controls cannot entirely prevent human error, poor judgment, or well-planned fraud. It is important to balance the cost of controls with their effectiveness, so as not to burden a company with expensive controls that provide minimal benefit.

## **Summary of Findings and Conclusions**

Before we summarize our findings and conclusions in Table 1, it is important to note that SCE management has always had a clear vision of its primary public mission, but must keep its management systems, resources and logistical support functions equally prepared for balanced, businesslike response to all areas, including compliance with the Affiliate Transaction Rules. All its resources, whether dedicated to the delivery of energy, or to the many functions that support the uncompromised level of service required, must be equally proficient if there are to be no weak links that jeopardize service or inordinately increase its cost. We strongly recommend that SCE add emphasis to the Rules-related management information systems, policies and procedures that must, by necessity, keep pace with functional and internal control requirements. Many of SCE's accounting processes are outdated and require more manual intervention than is desirable. Manual intervention increases resource needs and the potential for error. SCE plans to implement a new accounting system in early 2008.

## **Recommendations**

### **Rule II - Applicability**

1. Revise SCE's current definition of an affiliate's "creation" and Rules applicability in its compliance plan.
2. Re-evaluate and reclassify as necessary all SCE Class B affiliates based upon the revised definition.

### **Rule IV – Disclosure and Information**

3. Improve the process to grant affiliate employee access to SCE's computer systems and conduct focused training for all personnel involved.
4. Conduct periodic audits of computer system access protocols for covered affiliate employees.
5. Discontinue covered affiliate employee attendance at SCE Board of Directors meetings.
6. Discontinue joint attendance of SCE and EMMT personnel at meetings such as the EIX Market Design Policy Group and EIX Risk Management Committee.
7. Provide a checklist of exit interview documents required for each utility employee transferring to a covered affiliate. This checklist should be completed, signed by the appropriate HR manager, and included in each employee's exit interview file with the documentation for audit inspection.

### **Rule V – Separation**

8. Clarify the degree to which MVL books and records are common to and separate from SCE in its Compliance Plan.
9. Revoke Class A affiliate employee GO 1 parking garage passes and prohibit garage access.

10. Restrict Class A affiliate employees' access to SCE facilities to normal business hours.
11. Terminate system access for SCE employees transferring to Class A affiliates in a more timely manner.
12. Develop and implement an overall training program that provides periodic training to SCE employees who are affected by the Rules. This should include focused training in the area of computer systems and facilities access.
13. Test changes to affiliate transaction spreadsheets before they are used in accounting systems.
14. Remove all Class A affiliate references from SCE's website.
15. Modify SCE's ATR Manual and Compliance Plan to accurately describe the utility's obligations with regard to the disclaimer requirement in Rule V.F.1.
16. Develop and implement an overall training program that provides periodic training to SCE employees who are affected by the Rules. This should include focused training in the area of disclaimer requirements.
17. Prohibit SCE participation in meetings, conference calls, or other events in California with covered affiliates except those expressly permitted by the Rules.
18. Discontinue the use of "blanket" Intercompany Service Requests for joint employment.

#### **Rule VI – Regulatory Oversight**

19. Strengthen the Regulatory Policy and Affairs Department's Affiliate Transaction Rules compliance function to provide a stronger monitoring role, increase its presence and influence over affiliate rules compliance issues across the EIX family of companies.

#### **Rule VII – Utility Products and Services**

20. Revise NTP&S accounting standards to improve accuracy and timely reporting.
21. The Annual Report of Nontariffed Product and Services should be developed and submitted to the CPUC on a timely basis.



**Table 1**  
**Southern California Edison**  
**Summary Compliance Status (2006)**

Rule	Section	In Compliance	Recommendations
I	A - G	Yes	None
II	A - I	No	#1 and #2
III	A	Yes	None
	B	Yes	None
	C	Yes	None
	D	Yes	None
	E	Yes	None
IV	A	Yes	None
	B	No	#3 - #6
	C	Yes	None
	D	Yes	None
	E	Yes	None
	F	Partial	#7
	G	Yes	None
	H	Yes	None
V	A	Yes	None
	B	Yes	#8
	C	No	#9 - #12
	D	Yes	None
	E	No	#13
	F	Partial	#14 - #17
	G	No	#18
	H	Yes	None
VI	A	Yes	#19
	B	No	None
	C	Yes	None
	D	Yes	None
VII	A	Yes	None
	B	Yes	None
	C	Yes	None
	D	Partial	#20
	E	Yes	None
	F	Yes	None
	G	Yes	None
	H	Partial	#21
VIII	I	Yes	None
	A	Yes	None
	B	Yes	None
	C	Yes	None
	D	No	None

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## RULE I. DEFINITIONS

Rule I defines the key terms used throughout the Affiliate Transaction Rules (the Rules). While Rule I did not require any specific compliance action on the part of SCE during 2006, the definitions in Rule I should be reflected in SCE's compliance procedures, training and compliance oversight activities.

In reviewing SCE's compliance with Rule I, NorthStar used the following evaluative criteria:

- SCE understands and accepts the definitions contained in Rule I.
- SCE's compliance procedures and compliance training are consistent with the definitions in Rule I.

In conducting its compliance audit, NorthStar examined the following:

- SCE's Affiliate Transactions Rules (ATR) Manual.
- SCE's Affiliate Transactions Compliance Plan Update for 2005 (CP05) filed December 2005 and applicable for all of CY2006.
- SCE's compliance training materials.
- Commission Resolution E-3539.
- Various Commission decisions relating to the Affiliate Transaction Rules and predecessor rules.

### Rules I.A through I.G

**I. Definitions:** Unless the context otherwise requires, the following definitions govern the construction of these Rules:

**I.A.** "Affiliate" means any person, corporation, utility, partnership, or other entity 5 per cent or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly either by a utility or any of its subsidiaries, or by that utility's controlling corporation and/or any of its subsidiaries as well as any company in which the utility, its controlling corporation, or any of the utility's affiliates exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership. For purposes of these Rules, "substantial control" includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of 5% or more by the utility in an entity's company creates a rebuttable presumption of control.

For purposes of this Rule, "affiliate" shall include the utility's parent or holding company, or any company which directly or indirectly owns, controls, or holds the power to vote 10% or more of the outstanding voting securities of a utility (holding company), to the extent the holding company is engaged in the provision of products or services as set out in Rule II B. However, in its compliance plan filed pursuant to Rule VI, the utility shall demonstrate both the specific mechanism and procedures that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding

company or another utility affiliate not covered by these Rules as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules or (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.

Regulated subsidiaries of a utility, defined as subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate. However, these Rules apply to all interactions any regulated subsidiary has with other affiliated entities covered by these rules.

**I.B.** “Commission” means the California Public Utilities Commission or its succeeding state regulatory body.

**I.C.** “Customer” means any person or corporation, as defined in Sections 204, 205 and 206 of the California Public Utilities Code, that is the ultimate consumer of goods and services.

**I.D.** “Customer Information” means non-public information and data specific to a utility customer which the utility acquired or developed in the course of its provision of utility services.

**I.E.** “FERC” means the Federal Energy Regulatory Commission.

**I.F.** “Fully Loaded Cost” means the direct cost of good or service plus all applicable indirect charges and overheads.

**I.G.** “Utility” means any public utility named as a respondent to Rulemaking 97-04-011/Investigation 97-04-012, and any other public utility subject to the jurisdiction of the Commission as an Electric Corporation or Gas Corporation, as defined in California Public Utilities Code Sections 218 and 222, which the Commission by subsequent decision or order requires to comply with these Rules.

## **Findings and Conclusions**

SCE is in compliance with Rule I.

The definitions provided in Rule I are contained in SCE’s compliance procedures manual titled Affiliate Transaction Rule (ATR) Manual (DR 3). This manual is structured to serve as a day-to-day guidebook for employees of SCE and its affiliates.

The purpose of the ATR Manual is clearly stated on its first page. It is designed to gather, in one document, the body of rules pertaining to affiliate transactions, to provide examples of how each Rule is implemented, to inform readers of appropriate procedures to be followed regarding individual Rules, and to direct readers to appropriate departmental contacts for further information (DR 3, Chapter 1, Page 1). The ATR Manual and the Rules are available to all employees on MyEdison.net, the company’s internal computer network.

The ATR Manual was originally issued in November 1998 and titled the *Policies and Rules on Affiliated Company Transactions (PROACT) Manual*. The name was changed in December 2001 to avoid confusion with another use within SCE of the PROACT acronym (for the “Procurement Related Obligations Account,” which does not concern affiliate-related issues). The manual is made available to employees in printed versions and electronically.

In years where changes occur, SCE files a copy of the most up-to-date version of the manual with its annual affiliate transactions compliance report each May 1.

The training materials used to educate SCE and affiliate employees on the Affiliate Transaction Rules stress the following items contained in Rule I.A (DR 43 and 44):

- An affiliate is any entity whose ownership by SCE or EIX is 5 percent or more.
- A holding company's exemption cannot be used to circumvent the Rules.

Definitions are not limited to Rule I. Important definitions are found elsewhere in the Rules. For example, Rule II.B defines the characteristics of affiliates that are covered by the Rules, and by default, defines those affiliates not covered by the Rules. Similarly, Rule V.E defines certain types of corporate support services that may be shared by a utility and its affiliates and also highlights other activities that may not be shared. Additional definitions can be found in Commission decisions and resolutions, most notably Resolution E-3539, along with Decisions 93-02-019, 98-08-035, and 99-09-002. SCE's ATR Manual also reflects information about and interpretation of these Decisions and Resolutions.

A number of other terms appear in the Rules that, by default, leave definition or interpretation to the utilities subject to the Rules. Examples include terms significant to compliance with the Rules such as: "executives", "employees involved in marketing", "energy marketing affiliate", "corporate oversight and governance", and the "creation of a new affiliate". Because of the significance of terms such as these, SCE has offered its definitions of them in its compliance plans in effect during 2006. Furthermore, SCE has devoted Chapter II of its ATR Manual to definitions that are relevant to the Rules (DR 3).

In accordance with Rule I.A, SCE has established and implemented procedures to ensure that SCE's parent holding company, Edison International (EIX), or any other affiliate not covered by the Rules is not used as a conduit to circumvent the Rules. These procedures, which are described in SCE's Affiliate Transactions Compliance Plan Update for 2005 (CP05) applicable for all of CY2006, and covers movement of employees, transfer of information, transmission of documents and electronic communications, and temporary assignments of SCE employees to EIX or to other affiliates (DR 110). SCE's compliance plan is discussed in greater detail under Rule VI.A in this report.

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## **RULE II. APPLICABILITY**

Rule II defines, by the types of transactions they engage in, those affiliates that are subject to the Affiliate Transaction Rules. In the case of SCE, the Rules apply to all transactions with affiliates engaging in the provision of products using electricity or services relating to the use of electricity.

In reviewing SCE's compliance with Rule II, NorthStar used the following evaluative criteria:

- SCE understands and accepts the terms contained in Rule II.
- SCE's compliance procedures, compliance training, and annual reports on affiliate transactions are consistent with the terms in Rule II.

In conducting its compliance audit, NorthStar examined the following:

- SCE's Annual Report of Affiliate Company Transactions, which identifies all SCE affiliates and the nature of their business
- SCE's Affiliate Transaction Rule (ATR) Manual
- SCE's compliance training materials
- SCE's Compliance Plans
- New affiliates of SCE added in 2006

### **Rules II.A through II.I**

**II.A.** These Rules shall apply to California public utility gas corporations and California public utility electrical corporations identified in Rule I.G.

**II.B.** For purposes of a combined gas and electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted below. For purposes of an electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity. For purposes of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or the provision of services that relate to the use of gas.

**II.C.** These Rules apply to transactions between a Commission-regulated utility and another affiliated utility, unless specifically modified by the Commission in addressing a separate application to merge or otherwise conduct joint ventures related to regulated services.

**II.D.** These rules do not apply to the exchange of operating information, including the disclosure of customer information to its FERC-regulated affiliate to the extent such information is required by the affiliate to schedule and confirm nominations for the interstate transportation of natural gas, between a utility and its FERC-regulated affiliate, to the extent that the affiliate operates an interstate natural gas pipeline.

**II.E. Existing Rules:** Existing Commission rules for each utility and its parent holding company shall continue to apply except to the extent they conflict with these Rules. In such cases, these Rules shall supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent holding company from adopting other utility-specific guidelines, with advance Commission approval.

**II.F. Civil Relief:** These Rules shall not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.

**II.G. Exemption (Advice Letter):** A Commission-jurisdictional utility may be exempted from these Rules if it files an advice letter with the Commission requesting exemption. The utility shall file the advice letter within 30 days after the effective date of this decision adopting these Rules and shall serve it on all parties to this proceeding. In the advice letter filing, the utility shall:

**II.G.1.** Attest that no affiliate of the utility provides services as defined by Rule II B above; and

**II.G.2.** Attest that if an affiliate is subsequently created which provides services as defined by Rule II B above, then the utility shall:

**II.G.2.a.** Notify the Commission, at least 30 days before the affiliate begins to provide services as defined by Rule II B above, that such an affiliate has been created; notification shall be accomplished by means of a letter to the Executive Director, served on all parties to this proceeding; and

**II.G.2.b.** Agree in this notice to comply with the Rules in their entirety.

**II.H. Limited Exemption (Application):** A California utility which is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application, served on all parties to this proceeding, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates. The applicant has the burden of proof.

**II.I.** These Rules should be interpreted broadly, to effectuate our stated objectives of fostering competition and protecting consumer interests. If any provision of these Rules, or the application thereof to any person, company, or circumstance, is held invalid, the remainder of the Rules, or the application of such provision to other persons, companies, or circumstances, shall not be affected thereby.

## **Findings and Conclusions**

SCE is not in compliance with Rule II. SCE did not properly and consistently classify a number of affiliates created during 2006 as covered by the Rules.

SCE distinguishes between affiliates covered by the CPUC's Affiliate Transaction Rules and affiliates covered by other, earlier rules. According to SCE's definitions:

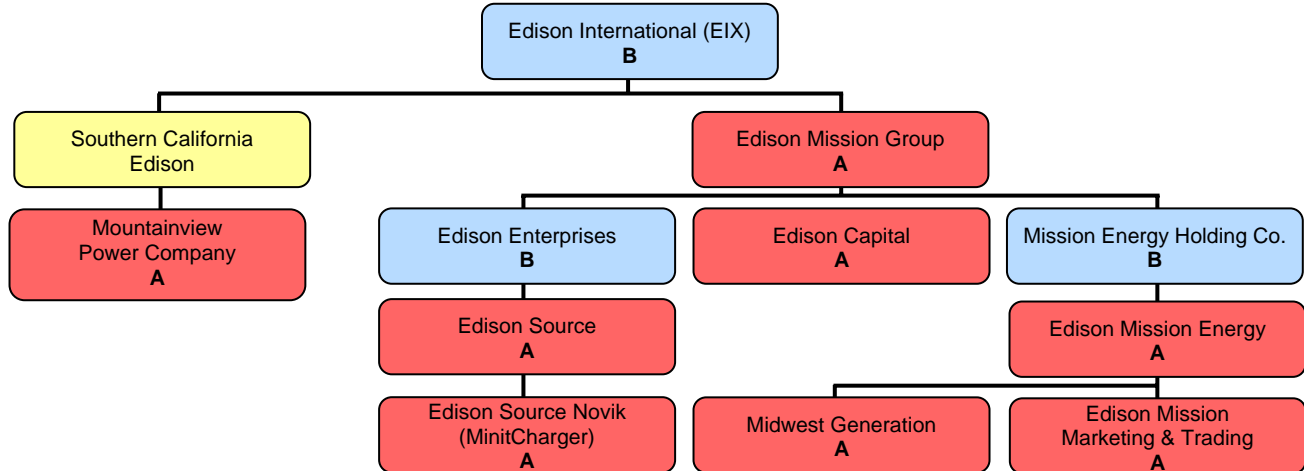
- Class A (covered) affiliates are subject the Affiliate Transaction Rules. These affiliates engage in the provision of a product that uses electricity or the provision of services that relate to the use of electricity.
- Class B (non covered) affiliates are not subject to the Rules, but are subject to Decisions 88-01-063 and 93-02-019, and cannot be used as a conduit to circumvent the Rules. These affiliates provide neither a product that uses electricity nor services that relate to the use of electricity.

SCE presents summary listings of its Class A and Class B affiliates in its Affiliate Transactions Compliance Plan Update for 2005 (CP05) (DR 110) submitted to the CPUC on December 23, 2005 and in its 2005 Annual Report on Affiliate Company Transactions (DR 26) submitted to the CPUC on May 1, 2006. Volume I of the Annual Report provides a full list of SCE's affiliates and their officers and presents organizational charts. These two documents govern SCE's compliance with the Rules during CY2006. SCE's ATR Manual and training materials include clear and consistent definitions of Class A and Class B



affiliates, as well as reasons for the classification of particular affiliates. SCE's principal Class A and Class B affiliates are shown in **Figure 2** below.

**Figure 2**  
**Southern California Edison's Principal Affiliates (2006)**



Source: DR 71

Upon being informed of an affiliate's creation or acquisition, SCE reviews each new affiliate entity to determine whether it should be covered by the Rules or not (DR 7 and 70). SCE applies the Rules to all transactions with those affiliates covered by Rule II.B. SCE's parent holding company, Edison International (EIX), is not an affiliate covered by the Rules during 2006.

### Covered Affiliates

According to Rule II.B, the following affiliates of Southern California Edison are covered by the Rules. The terms Class A or covered, as used throughout this report, refer to these affiliates:<sup>1</sup>

- Edison Mission Group, Inc. Organized to own the stock and coordinate the activities of non-utility companies. It offers no products or services in its own name.<sup>2</sup>
- Mission Energy Holding Company – Owns the stock of Edison Mission Energy and also acts as a financing vehicle.

Source: CP05, DR 110

<sup>1</sup> The following Class A affiliates identified in previous SCE compliance plans and audit reports have been either sold, dissolved and/or cancelled: Edison Select and Edison Utility Services – two subsidiaries of Edison Enterprises that provided inside electrical wiring warranty services and electric services outsourcing; most assets of Edison Source; and fourteen subsidiaries of Edison Mission Energy that developed, owned, and/or operated electrical power generation projects – Edison Mission Energy Services B.V., Edison Mission Operation and Maintenance Services B.V., Contact Energy Limited, EcoElectrica LP, Italian Vento Power Corporation, ISAB Energy s.r.l., CPC Cogeneration LLC, Tri-Energy Company Limited, CL Power Sales 6 & 9, Perth Power Partnership, CBK Power Company Limited, Kalayaan Power Management Corporation, and Coaltrade Services International Pte Ltd.

<sup>2</sup> SCE notified the Commission by letter dated November 17, 2005 of the reclassification of this affiliate from Class B to Class A.

- Edison Mission Energy (EME). A Delaware corporation, subsidiaries of which develop, own, and/or operate electrical power generation projects.<sup>3</sup> EME itself does not own any portion of such generation facilities or provide services relating to the use of electricity.
- All subsidiaries of EME listed in Volume 1 (pages 23-205) of SCE's Annual Report on Subsidiary, Affiliate, and Holding Company Transactions, filed May 1, 1998, as well as those subsidiaries created between January 1, 1998 and the Compliance Plan Update for 2005 and posted on the World Wide Web and reported to the Commission pursuant to Rule VI.B, including:<sup>4</sup>
  - Edison Mission Marketing & Trading, Inc. (EMMT)
  - EME Homer City Generation L.P.
  - Mission Energy Westside, Inc.
  - Chestnut Ridge Energy Company
  - Edison Mission Energy Fuel Services, Inc. (now Edison Mission Energy Services, Inc.)
  - Edison First Power Limited
  - Midwest Generation, LLC
  - Edison Mission Energy Fuel Services LLC
  - CL Power Sales 1,2, 7,8,10, and CP Power Sales 12 and 17, LLCs
  - Sunrise Power Company LLC
  - EMOM Services, Inc.
  - Mission Energy Singapore Pte. Ltd.<sup>5</sup>
- Mountainview Power Company LLC. Acquired to complete, own and operate an electric generating power plant. Although structured as a subsidiary of SCE, the CPUC determined that MVL would be a Class A affiliate of SCE, but has waived most of the ATRs.<sup>6</sup>
- Edison Source. A subsidiary of Edison Enterprises which, through its own subsidiary Edison Source Norvik, a Canadian company, provides rapid battery charging technology for the electric fork lift market, under the name Edison Minit-Charger. Other operations previously reported for Edison Source and its subsidiaries have been discontinued and/or sold.

<sup>3</sup> In October 2001, this affiliate merged with, and succeeded, a California corporation with the same name.

<sup>4</sup> The Commission has approved all SCE's Rule VI.B advice letters for these Edison Mission Energy (EME) Subsidiaries submitted through 2003. There were no Rule VI.B advice letters filed for EME in 2004. During 2005, an advice letter was submitted for one EME and various Edison Capital affiliates (1872-E), which is still pending approval. The compliance statements in CP05 apply to transactions between SCE and all existing Class A Affiliates.

<sup>5</sup> EME's subsidiaries noted above develop, own, and/or operate electrical power generation projects. Subsidiaries of Edison Mission Energy that do not engage in these activities are considered Class B affiliates.

<sup>6</sup> In D.03-12-059, the CPUC authorized SCE to purchase Mountainview Power Company, LLC and to operate it as a wholly-owned subsidiary. Findings of Fact 17, 18 & 19 states .[17] MVL is not a regulated subsidiary exempt from the ATRs. [18] It is in the public interest to grant a one-time waiver of the following ATR rules: III.B; III.E; IV.B; V.C; V.D; V.E; V.F; V.G.1; V.G.2; and V.H.5. [19] Any transactions between MVL and unregulated affiliates are covered by the ATRs, should be reported in the annual affiliate rules report, and should be covered by the annual affiliate rules audit. Mountainview began commercial operations on December 9, 2005, at which time it was reclassified to a Class A affiliate of SCE and reported to the CPUC, as required by Rule VI.B.

- Edison Capital – Although SCE considers many Edison Capital subsidiaries to be Class B affiliates, the following Edison Capital subsidiaries are considered Class A affiliates:
  - Storm Lake Power Partners I LLC; Lakota Ridge LLC; Shaokatan Hills LLC; and Woodstock Hills LLC; Bisson Windfarm LLC; Boeve Windfarm LLC; CG Windfarm LLC; Fey Windfarm LLC; K-Brink Windfarm; TG Windfarm LLC; Tofteland Windfarm LLC; Westridge Windfarm LLC; and Windcurrent Farms LLC; Carstensen Wind LLC; Greenback Energy LLC; Lucky Wind LLC; Northern Lights Wind LLC; Stahl Wind Energy LLC; **Groen Wind LLC; DegreeffPA, LLC; Larswind, LLC; Sierra Wind, LLC; White Caps Windfarm, LLC; Whispering Wind Acres, LLC; Tower of Power, LLC; Stony Hills Wind Farm, LLC; Power Blades Windfarm, LLC; MD & E Wind, LLC; Maiden Winds, LLC; LimiEnergy, LLC; JMC Wind, LLC; HyperGen, LLC; Bendwind, LLC; ALP Wind, LLC; Hillcrest Windfarm, LLC; Tair Windfarm, LLC; Power Beyond, LLC; and DegreeffDP, LLC.** These entities are wind-driven electric generation facilities in Iowa and Minnesota.
  - Cade, Edeser, Electropaz and Empresa de Luz y Fuerza Electrica de Oruro S.A. (“Elfeo”) – A foreign utility company which provides electric distribution in Bolivia.
  - DanMar Transmission LLC, West Pipestone Transmission LLC, **East Ridge Transmission LLC; and Windom Transmission, LLC.** These entities own transmission and substation facilities in Minnesota.

Within the affiliates noted above, SCE identified and classified 23 Class A affiliates (in bold) that were created or acquired during calendar year 2006. As required by Rule VI.B, SCE notified the CPUC about the creation of each of these new Class A affiliates and posted the information on the World Wide Web (DR 7). These new Class A affiliates are described in our discussion of SCE’s compliance with Rule VI.B.

### **Non Covered Affiliates**

SCE considers the following affiliates (including EIX, for calendar year 2006) not covered by the Rules as they do not provide a product that uses electricity or engage in the provision of services that relate to the use of electricity. The terms Class B or non-covered, are often used to refer to these companies:<sup>7</sup>

- Edison International (EIX) – EIX is the parent holding company of Southern California Edison Company, Edison Mission Group, Inc. (formerly The Mission Group), Edison Insurance Services, Inc., and EIX Trust III. It was organized principally to acquire and hold securities of other corporations for investment purposes and to provide corporate governance and oversight.

<sup>7</sup> The following inactive Class B affiliates identified in previous compliance plans have been dissolved: Subsidiaries of Edison Mission Group, Inc.—Edison Environmental Services, Edison Technology Solutions and Edison EV, and subsidiaries of Edison International—Edison Ventures, Edison TransEnergy, Edison Drives Electric, and EIX Trusts I and II.

- Edison O&M Services – Inactive, ceased operations November 26, 2003 (provided operation and maintenance services for electric generating facilities owned by utility companies and independent power producers).<sup>8</sup>
- Edison Capital – Provider of capital and financial services, including leveraged-leasing transactions and other project financing, principally regarding infrastructure projects and affordable housing, either directly or through its subsidiaries. While some infrastructure financing transactions have involved electrical facilities, such as a cross-border financing lease of a power plant in the Netherlands, Edison Capital’s role is a lender or investor and not a provider of electricity or related services.
  - All subsidiaries of Edison Capital, and interests in partnerships through Edison Capital’s subsidiaries, listed in Volume 1 (pages 11-19) of SCE’s Annual Report on Subsidiary, Affiliate, and Holding Company Transactions, filed May 1, 2006, with the exception of the twenty-one entities listed under Edison Capital covered affiliates noted above under covered affiliates.
  - Edison Capital’s non-covered subsidiaries, like their parent company, provide capital and financing services for infrastructure projects and affordable housing. Affiliated general partnerships include the affordable housing projects in which Edison Capital and its subsidiaries invest.
- Edison Enterprises – Organized to own the stock and coordinate the activities of various retail companies. Of these, only one company (Edison Source Norvik, described above) remains active.
- Mission Land Company and its subsidiaries – Engaged in the business of owning, managing, and selling industrial parks and other real property investments.
- Mission Power Engineering Company – Inactive (formerly engaged in design and construction of electrical power plants).<sup>9</sup>
- Edison Insurance Services – Issues domestic and foreign property damage and business interruption insurance to Edison International and its subsidiaries.
- EIX Trust III – Inactive, (organized to act as a financing vehicle).

## Compliance with Rule II

As shown in **Figure 2**, and the descriptions of the affiliates that follow, Edison International, Edison Mission Group, Edison Enterprises, Edison Capital, Edison Mission Energy, and Mission Energy Holding Company, directly or indirectly own the stock of Class A affiliates and do not directly provide products or services that use electricity (DR 70, 71 and 110).

SCE includes Edison Capital in its description of covered as well as non covered affiliates, and based upon its 2005 organizational consolidation with EME reclassified this affiliate as a Class A, along with its parent Edison Mission Group. EME also has subsidiaries that SCE considers to be non covered.

<sup>8</sup> SCE notified the Commission by letter dated March 28, 2005 of the reclassification of this inactive affiliate from Class A to Class B.

<sup>9</sup> SCE notified the Commission by letter dated May 30, 2003 of the reclassification of this inactive affiliate from Class A to Class B. This action was taken in response to a recommendation made in the external audit conducted pursuant to Rule VI.C for 2002.

NorthStar's audit team saw no indications that any of SCE's Class B affiliates noted above, directly provide a product that uses electricity or provide services that relate to the use of electricity. However, six of SCE's largest affiliates are considered in some cases to be Class A (covered) affiliates and some cases Class B (non covered) affiliates regardless of their products and services. Therefore, SCE does not consistently use products and services directly produced by the affiliate as a determination of its classification.

- Edison International (B)
- Edison Mission Group (A)
- Edison Enterprises (B)
- Edison Capital (A)
- Mission Energy Holding Company (B)
- Edison Mission Energy (A)

The 2006 ATR audit surfaced additional issues with respect to SCE's classification of affiliates created during 2006 and their products and services. The following affiliates created in 2006 were classified as non covered: not providing a product that uses electricity or the provision of services that relate to the use of electricity.

- Wildorado Wind, LP – owned by Mission Wind Texas, Inc. – a 161 megawatt wind-driven electric generation facility in Texas.
- Stonycreek Windpower, LLC – owned by Mission Wind Pennsylvania, Inc. – a 65 megawatt wind-driven electric generation facility in Pennsylvania.
- Lookout Windpower, LLC – owned by Mission Wind Pennsylvania, Inc. – a 25 megawatt wind-driven electric generation facility in Pennsylvania.
- Forward Windpower, LLC – owned by Mission Wind Pennsylvania, Inc. – a 30 megawatt wind-driven generation facility in Pennsylvania.
- Edison Mission Carson Corporation – owned by Edison Mission Energy (a covered affiliate) – a special purpose entity formed with BP Carson Power, LLC to develop, own and operate facilities to gasify petroleum coke to produce an electric generation fuel in Carson California.
- Mission Wind Oklahoma, Inc. – wholly owned by Edison Mission Wind, Inc. formed in August 2005, as a non covered affiliate holding membership interests in various wind generating projects – is also an intermediate holding company for a wind project in Oklahoma.
- Mission Wind New York, Inc. – wholly owned by Edison Mission Wind, Inc. a non covered affiliate holding membership interests in various wind generating projects – was created to own partial interests for a wind project in New York.

SCE's position on these affiliates and their classification is contained in footnote number 56 of its Compliance Plan Update for 2005 and response to DR 166.

The Commission does not define creation for the purposes of this Rule. Incorporation and other organizational steps required to legally form a new corporate entity may be completed far in advance of a determination of whether or not the new affiliate is subject to these Rules-i.e., the

determination of precisely what products or services it will provide-and even farther in advance of initial offering of those products or services to customers. From time-to-time, entities are formed simply for the purposes of reserving a corporate name and forming a legal shell to house undefined future ventures. By its terms, Rule VI.B requires reporting of a new affiliate only if it is “addressed by these Rules,”-i.e., when it begins providing products or services that would render it an affiliate as defined in the Rules. Hence, in the interest of providing the Commission with relevant information, SCE will report the creation of new affiliates under Rule VI.B when they begin to offer products or services to customers.

NorthStar’s inquiries into the creation of SCE affiliate entities with undefined products and services produced the following response (DR 141):

EIX and its affiliates do not create entities for the purpose of reserving a corporate name or as a shell to house undefined future ventures. EIX or an affiliate may occasionally reserve a corporate name with the California Department of Corporations, but no corporation is formed (that is, no entity is created) unless and until there is a specific purpose or business purpose for it.

SCE will clarify footnote 56 in our next update of the Compliance Plan.

The Class B affiliates created during 2006 have defined electricity related products and services. For the most part, these affiliates are electric generation projects or own electric generation projects. In some cases these affiliates have already contracted for products and services and are well past “beginning” to offer products and services to customers (DR 165).

- Wildorado Wind, LP – power from the project will be sold under a 20-year power purchase agreement with Southwestern Public Service.<sup>10</sup> An energy purchase agreement for the project was dated February 10, 2005, and an interconnection agreement was dated December 22, 2005 (DR 165).
- FirstEnergy Corporation announced on February 4, 2004 that it entered into a 20-year agreement to purchase the output from Stonycreek Windpower, LLC – a 65 megawatt wind-driven electric generation facility in Pennsylvania.<sup>11</sup> SCE did not provide a contract for Stonycreek in DR 165 and stated that the FirstEnergy contract was not assumed in EMG’s acquisition.

## **Recommendations**

1. Revise SCE’s current definition of an affiliate’s “creation” and Rules applicability in its compliance plan.
2. Re-evaluate and reclassify as necessary all SCE Class B affiliates based upon the revised definition.

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<sup>10</sup> EME 10-Q for period ending March 31, 2006 page 24.

<sup>11</sup> News Release: FirstEnergy Signs Long-Term Renewable Energy Agreement, February 4, 2004 (<http://investors.firstenergycorp.com>)



## **RULE III. NONDISCRIMINATION**

Rule III prohibits SCE from providing preferential treatment to its affiliates or customers of its affiliates. Preferential treatment is prohibited in the provision of utility products and services, marketing efforts, wholesale energy trading, application of tariffs, and dissemination of information. Rule III also stipulates that transactions between SCE and its affiliates are limited to tariffed products and services unless the opportunity to sell or to purchase these products and services is made available to all market participants through an open and competitive process (or as provided for by Rules V.D, V.E and VII). NorthStar reviewed SCE's affiliate related policies, affiliate related procedures and transactions with its affiliates to determine compliance with Rule III.

More specifically, we examined whether the utility:

- Provides leads to its affiliates.
- Solicits business on behalf of its affiliates.
- Acquires information on behalf of or to provide to its affiliates.
- Competitively bids and awards the purchase or sale of products and services (except as permitted in Rule V.D, Rule V.E, and Rule VII).
- Shares market analysis reports.
- Requests authorization from its customers to pass on customer information exclusively to its affiliates.
- Gives any appearance that the utility speaks on behalf of its affiliates.
- Gives any appearance that the affiliates speak on behalf of the utility.
- Exercises any discretion in the application of tariffs applied to affiliates versus other market participants and their customers.
- Requests for similar services are processed in the same manner and within the same time for affiliates and all other market participants and their customers.
- Ties the provision of any services or the availability of discounts of rates, rebates, or waivers of terms and conditions of any services provided by the utility, to the taking of any goods or services from its affiliates.
- Assigns customers to any of its affiliates.

NorthStar's audit of SCE's compliance with Rule III included the following tasks:

- Direct observation of the Customer Call Center operating activities included a review of procedures, protocols and specific training. The objective was to evaluate whether Customer Call Center employees either misrepresented SCE's relationship with its affiliates or discriminated in the provision of services. NorthStar also reviewed the procedures for handling outages and customer complaints.
- Review the assignments of major account representatives to determine if they are assigned on a non-discriminatory basis.
- Review SCE's Affiliate Transaction Rule compliance procedures manual (ATR Manual) and SCE's compliance training materials.

- Detailed tests of the following affiliate and customer transactions:
  - All property transfers involving SCE and covered affiliates.
  - Customer Information Service Requests (CISR forms). Specific tests of SCE's CISR data files included the accuracy of the electronic data and calculation of processing times to evaluate the potential for discrimination.
  - All Intercompany Service Requests (ISRs).
  - Direct Access Service Requests.
  - All joint purchasing transactions between SCE and covered affiliates.
  - All SCE bill inserts and radio, billboard, newspaper, and magazine advertisements.
  - All SCE marketing and advertising materials distributed during 2006.
  - All service agreements and contracts between SCE and affiliates in effect during 2006.
  - SCE's wholesale electric energy and natural gas transactions.

## **Rule III.A**

**III.A. No Preferential Treatment Regarding Services Provided by the Utility:** Unless otherwise authorized by the Commission or the FERC, or permitted by these Rules, a utility shall not:

**III.A.1.** Represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers; or

**III.A.2.** Provide its affiliates, or customers of its affiliates, any preference (including but not limited to terms and conditions, pricing, or timing) over non-affiliated suppliers or their customers in the provision of services provided by the utility.

## **Findings and Conclusions**

SCE is in compliance with Rule III.A.

SCE does not represent, that as a result of its relation to SCE, its affiliates and customers of its affiliates will receive preferential treatment in the provision of utility products and services. SCE does not provide preferential treatment in the provision of utility products and services to its affiliates or to customers of its affiliates. In assessing compliance with this Rule, NorthStar focused its review in two areas: the organizations and activities that offer the greatest interface between utility products and services and retail customers, and the procurement of wholesale generation resources.

## **Retail Customer Interface Activities**

### **Customer Call Center**

SCE has three customer call centers: two primary centers and one emergency back up center. The emergency center only operates when SCE's two primary centers are unable to operate due to an unplanned emergency. NorthStar conducted a review of the activities at one of SCE's primary customer call centers and found no indication of preferential treatment. NorthStar also reviewed the services provided and tested a sample of customer calls. As



SCE does not currently have a retail-energy marketing affiliate the potential for preferential treatment is eliminated. NorthStar listened to customer service telephone calls and found:

- Services are scheduled on a first-come first-serve basis.
- SCE provides the same courteous and professional customer service to direct access customers as it does to its native load customers.
- SCE recognizes the unique needs of direct access customers and directs calls to those customer service representatives who are specially trained to handle direct access related services.
- Customer service representatives handling direct access calls respond to specific questions in compliance with the affiliate transaction rules (DR 169).
- The response time to direct access customers is comparable to all other customers.

SCE self-monitors its customer service quality through direct observation of its customer service representatives. SCE utilizes this quality assurance process to identify weaknesses or deficiencies and provides corrective training, as necessary, to all affected employees.

NorthStar tested the customer call center telephone numbers and internet customer service menu and found no opportunities where preferential treatment could be provided to affiliates or customers of affiliates.

### **Major Account Representatives**

SCE does not provide preferential treatment to affiliates or customers of affiliates in providing major account services. SCE provides account managers to its largest 4,500 accounts and all government accounts regardless of whether generation service is provided. Account managers assignments are based on the organizational segment.

SCE categorizes its major accounts into three business segments: Commercial / Commodity, Manufacturing, and Government. NorthStar reviewed the assignment of major account representatives for a sample of SCE's largest customers. Customers in this list represent both native load and direct access customers. Account managers are assigned non-discriminately to both full service SCE customers and direct access customers. SCE does not provide preferential treatment in account manager assignment. Account managers are assigned to a specific industry segment. Customers are assigned to the account managers based on work load (DR 98).

### **Direct Access Service Requests**

SCE does not provide preferential treatment in processing direct access service requests (DASRs).

DASRs are used by the utility and independent energy marketers to enroll or manage customer accounts. On September 20, 2001, the CPUC suspended direct access. Customers that were direct access customers prior to the suspension date were permitted to remain direct access customers and are permitted to change suppliers. As SCE did not have an affiliate providing retail generation services in its service area during 2006, the potential for

preferential treatment was eliminated. However, SCE still maintains an active procedure for processing direct access requests for the remaining direct access customers (DR 88).

### **Third Party Customer Information Requests**

SCE has a non-discriminatory process for processing third-party customer information service requests. The process has three basic steps: (1) receipt of properly executed customer information service request (CISR) form; (2) the verification of information on the CISR and; (3) dispersing data. During 2006, SCE did not have an affiliate providing retail energy or retail energy related services in its service area or affiliate-related CISRs. Therefore the potential for preferential treatment was eliminated. However, SCE still maintains an active nondiscriminatory procedure for processing CISRs.

SCE continually reviews new third-party requestors in order to determine if there is an affiliate relationship and if the third-party is a genuine business enterprise. NorthStar reviewed the list of third party requestors and found no affiliate transactions during 2006 (DR 81 and 82).

### **Provider Lists**

NorthStar reviewed the internet based service provider list and the focused lists of non-affiliated providers distributed to customers upon customer request. NorthStar found these lists to be non-preferential. They are organized by type of service offered, alphabetical, and do not include affiliates (DR 99).

## **Wholesale Generation**

### **Scheduling**

SCE does not provide preferential treatment in the scheduling of energy from third-party energy providers. NorthStar reviewed a sample of day-ahead generation dispatch schedules and found no preferential treatment in the dispatch of its affiliates' generating units (DR 144).

### **Procurement Activities**

SCE did not provide preferential treatment to Edison Mission Energy (EME) during the open bid period of SCE's July 21, 2006 Request for Offers (RFO) for new generating resources. NorthStar reviewed the correspondence between SCE and Edison Mission Energy from the period of July 21, 2006 through the bid closing date of January 5, 2007. The correspondence between SCE and EME was consistent with the correspondence expected during an open bid process (DR 143).

### **Short Lists**

NorthStar reviewed the resulting "short lists" of SCE's two RFOs for new generating resources and found no evidence of preferential treatment. Edison Mission Energy is

included on one of the two short lists of bidders. This short list included one affiliate and numerous non-affiliate bidders (DR 181 and 182).

### **Rules III.B and III.B.1**

**III.B. Affiliate Transactions:** Transactions between a utility and its affiliates shall be limited to tariffed products and services, the sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, or as provided for in Sections V.D and V.E (joint purchases and corporate support) and Section VII (new products and services) below, provided the transactions provided for in Section VII comply with all of the other adopted Rules.

### **Findings and Conclusions**

SCE is in compliance with Rule III.B.

SCE's compliance plan acknowledges that transactions with its affiliates are limited to those allowed under Rule V.D and V.E and those obtained through a competitive bidding process (DR 110).

SCE issued RFOs for wholesale generation on July 21, 2006 and August 31, 2006. SCE complied with the requirements of Rule III.B by publicly advertising the RFOs (DR 181).

SCE procures both wholesale natural gas and electric energy as part of its generation profile. SCE's natural gas portfolio includes long-term procurement contracts, physical day-to-day balancing trades, and short-term hedges. SCE does not procure natural gas from its affiliates. This conclusion is supported by SCE's list of approved counterparties, which does not include any affiliates. NorthStar reviewed the transactions in each area of SCE's natural gas portfolio and found there was only one type of gas transaction with an affiliate – tolling for qualifying facilities (QF). These transactions are mandated in SCE's CPUC approved contract with the QF. NorthStar determined that other than gas tolling transactions for a QF, there were no natural gas transactions with its affiliates (DR 145, 146, and 195).

SCE's electric portfolio includes bilateral contracts, utility retained generation, qualifying facilities, inter-utility agreements, and the California Department of Water Resources. SCE's bilateral contracts are a mixture of short-term, long-term and daily balancing transactions. SCE does not engage in short-term or balancing transactions with its affiliates. NorthStar reviewed the list of approved counterparty trading parties and found no affiliates on the list. NorthStar also reviewed SCE's wholesale daily energy trades and found none with affiliates (DR 13, 58, 112, and 147).

SCE has a number of long-term contracts with affiliates. These contracts are for QFs and are CPUC approved. In addition to the qualifying facilities, SCE purchases power from Mountainview Power Company, LLC (MVL) a Class A affiliate under a purchased power agreement. MVL was purchased in March 2004 from Sequoia and achieved full commercial operation in January 2006. SCE requested a one time waiver from Rule III.B associated with the purchase and operation of MVL. The Commission granted the one time waiver from ATR Rule III.B in Decision 03-12-059 (DR 135).

Decision 03-12-059 authorizes SCE to purchase power from MVL in accordance with the Purchased Power Agreement (PPA) under the federal Filed Rate Doctrine. The PPA is not a market-based contract; instead it is a cost-based contract providing for recovery of investment, fixed and variable costs, and a regulated rate of return, over the 30-year life of the contract (Decision 03-12-059 p.5).

MVL is a wholly-owned subsidiary of the utility. MVL completed construction of the facility pursuant to Sequoia's already negotiated construction contracts. As a result of this process, there was no transfer of assets between SCE and MVL.

**III.B.1. Provision of Supply, Capacity, Services or Information:** Except as provided for in Sections V.D, V.E, and VII, provided the transactions provided for in Section VII comply with all of the other adopted Rules, a utility shall provide access to utility information, services, and unused capacity or supply on the same terms for all similarly situated market participants. If a utility provides supply, capacity, services, or information to its affiliate(s), it shall contemporaneously make the offering available to all similarly situated market participants, which include all competitors serving the same market as the utility's affiliates.

### **Findings and Conclusions**

SCE is in compliance with Rule III.B.1.

SCE's wholesale energy division maintains an electronic document retention center that captures emails and correspondence with other wholesale energy trading partners. NorthStar tested a sample of the stored documents and found all of the correspondence with affiliates was related to operational concerns specific to an approved contract. There is no indication that SCE was providing unnecessary information to affiliates (DR133).

SCE procures and sells wholesale natural gas and electric energy and is a net buyer of energy. As discussed in Rule III.B, SCE procures long-term energy on a competitive basis through a formalized RFO process. Also as discussed in Rule III.B, there were no transactions providing wholesale supply or capacity to an affiliate. If an affiliate is provided information on unused capacity or supply, SCE offers all market participants the information on its website. SCE did not post any occurrences during 2006 (DR 58 and 125).

### **Rule III.B.2**

**III.B.2. Offering of Discounts:** Except when made generally available by the utility through an open, competitive bidding process, if a utility offers a discount or waives all or any part of any other charge or fee to its affiliates, or offers a discount or waiver for a transaction in which its affiliates are involved, the utility shall contemporaneously make such discount or waiver available to all similarly situated market participants. The utilities should not use the "similarly situated" qualification to create such a unique discount arrangement with their affiliates such that no competitor could be considered similarly situated. All competitors serving the same market as the utility's affiliates should be offered the same discount as the discount received by the affiliates. A utility shall document the cost differential underlying the discount to its affiliates in the affiliate discount report described in Rule III.F.7 below.

### **Findings and Conclusions**

SCE is in compliance with Rule III.B.2.

SCE affiliates did not receive fee waivers or discounts during 2006. SCE maintains a posting area on its website where if an affiliate were to be afforded a discount or waiver, the terms and conditions are made available to all market participants. During 2006, there were no discounts or waivers posted on the website (DR 39 and 125).

SCE sells wholesale natural gas and electricity. SCE did not sell wholesale natural gas or electricity to its affiliates during 2006.

### **Rules III.B.3 through III.B.5**

**III.B.3. Tariff Discretion:** If a tariff provision allows for discretion in its application, a utility shall apply that tariff provision in the same manner to its affiliates and other market participants and their respective customers.

**III.B.4. No Tariff Discretion:** If a utility has no discretion in the application of a tariff provision, the utility shall strictly enforce that tariff provision.

**III.B.5. Processing Requests for Services Provided by the Utility:** A utility shall process requests for similar services provided by the utility in the same manner and within the same time for its affiliates and for all other market participants and their respective customers.

### **Findings and Conclusions**

SCE is in compliance with Rules III.B.3 through III.B.5.

During 2006, SCE affiliates did not receive tariffed electric service from the utility. Those affiliates located within SCE's service territory currently lease their office space that include electric service in their leases (DR 4).

SCE has a number of voluntary tariffs that result in a rate discount if customer load reduction requirements are met during periods of potential system blackouts. SCE accepted all bids for load reduction during these periods in 2006. A number of these special rates are available only to customers accepting generation service from SCE. This would not constitute a violation of Rule III.B as all direct access customers (affiliate and non-affiliate) are not allowed to receive service under these rates.

NorthStar discussed the prohibitions concerning preferential treatment in the provision of utility products and services in Rule III.A.

### **Rules III.C and III.D**

**III.C. Tying of Services Provided by a Utility Prohibited:** A utility shall not condition or otherwise tie the provision of any services provided by the utility, nor the availability of discounts of rates or other charges or fees, rebates, or waivers of terms and conditions of any services provided by the utility, to the taking of any goods or services from its affiliates.

**III.D. No Assignment of Customers:** A utility shall not assign customers to which it currently provides services to any of its affiliates, whether by default, direct assignment, option or by any other means, unless that means is equally available to all competitors.

### **Findings and Conclusions**

SCE is in compliance with Rules III.C and III.D.

SCE's compliance plan notes the prohibitions on tying and assigning customers to affiliates (DR 110). SCE does not have an affiliate offering retail electric service so there is no opportunity to tie service or assign customers to an affiliate (DR 71).

## Rule III.E

**III.E. Business Development and Customer Relations:** Except as otherwise provided by these Rules, a utility shall not:

- III.E.1. provide leads to its affiliates;
- III.E.2. solicit business on behalf of its affiliates;
- III.E.3. acquire information on behalf of or to provide to its affiliates;
- III.E.4. share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates;
- III.E.5. request authorization from its customers to pass on customer information exclusively to its affiliates;
- III.E.6. give the appearance that the utility speaks on behalf of its affiliates or that the customer will receive preferential treatment as a consequence of conducting business with the affiliates; or
- III.E.7. give any appearance that the affiliate speaks on behalf of the utility.

## Findings and Conclusions

SCE is in compliance with Rule III.E.

SCE does not provide business development or customer relations activities to its affiliates. SCE does not have an affiliate that provides retail electric services thereby eliminating any opportunity to violate this Rule. Nevertheless, NorthStar conducted a review of the SCE's customer contact areas and found:

- SCE's affiliate compliance plan specifically notes the prohibition concerning business development or customer relations activities on the behalf of an affiliate. SCE's compliance further notes the strict confidentiality of customer information (DR 110).
- SCE did not jointly respond to any customer RFPs with affiliates (DR 100).
- SCE did not provide assistance to affiliates in business development, market evaluation, or information (DR 60).
- SCE did not provide customers advice or assistance concerning its affiliates (DR 63).
- SCE's list of energy service providers does not include any affiliates (DR 99).
- Interviews with account executives and call center staff indicated an understanding of the "arms-length" treatment of affiliates.

## Rule III.F

**III.F. Affiliate Discount Reports:** If a utility provides its affiliates a discount, rebate, or other waiver of any charge or fee associated with services provided by the utility, the utility shall, within 24 hours of the time at which the service provided by the utility is so provided, post a notice on its electronic bulletin board providing the following information:

1. the name of the affiliate involved in the transaction;

2. the rate charged;
3. the maximum rate;
4. the time period for which the discount or waiver applies;
5. the quantities involved in the transaction;
6. the delivery points involved in the transaction;
7. any conditions or requirements applicable to the discount or waiver, and a documentation of the cost differential underlying the discount as required in Rule III B 2 above; and
8. procedures by which a nonaffiliated entity may request a comparable offer.

A utility that provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee associated with services provided by the utility shall maintain, for each billing period, the following information:

9. the name of the entity being provided services provided by the utility in the transaction;
10. the affiliate's role in the transaction (i.e., shipper, marketer, supplier, seller);
11. the duration of the discount or waiver;
12. the maximum rate;
13. the rate or fee actually charged during the billing period; and
14. the quantity of products or services scheduled at the discounted rate during the billing period for each delivery point.

All records maintained pursuant to this provision shall also conform to FERC rules where applicable.

### **Findings and Conclusions**

SCE is in compliance with Rule III.F.

SCE's compliance plan states that affiliates will not receive preferential treatment. Nevertheless, SCE has developed a form for reporting affiliate discounts and a web page for posting affiliate discounts (DR 110).

SCE affiliates were not offered any pricing concessions, discounts, or waivers during 2006 (DR 39).

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## **RULE IV. DISCLOSURE AND INFORMATION**

Rule IV specifies the procedures and requirements that SCE must follow in disclosing several categories of information. SCE may not provide customer information to affiliates exclusively, or without customer consent. Non-customer specific non-public information that SCE makes available to its affiliates must be contemporaneously made available to all other service providers. Information concerning SCE's affiliates can only be made available to customers as part of Commission-approved lists. Other advice and assistance about service providers is prohibited, and records of transactions with affiliates must be maintained.

In examining SCE's compliance with Rule IV, NorthStar used the following evaluative criteria:

- The utility provides customer information to its affiliates and non-affiliated entities on an equal basis and only with written customer consent.
- The utility makes non-customer specific non-public information available on a non-discriminatory basis to non-affiliated companies when it makes such information available to an affiliate.
- The utility controls information disclosure in such a way as to be fair to all entities and maintains records of all transactions with its affiliates.
- The utility complies with all requests to review records of affiliate transactions within 3 days.
- Information on service providers is given to customers only upon their request, and includes information on all service providers, including affiliates, or alternatively, a response will consist of references to generally available listings of service providers.
- The utility does not supply non-public supplier information to its affiliates or non-affiliated entities without written permission from the supplier.
- The utility does not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.
- The utility submits timely advice filings regarding distribution of lists.
- The utility honors third-party requests to be included on such lists. All tariffed and nontariffed transactions with affiliates are logged and recorded in SCE's General Accounts.
- The utility maintains timely, accurate records of all transactions between the utility and its affiliates.
- The utility maintains a record of all contracts and related bids for the provision of work, products or services to and from the utility to its affiliates for no less than a period of three years.

NorthStar's audit of SCE's compliance with Rule IV included the following tasks:

- Direct observation of the Customer Call Center operating activities included a review of procedures, protocols and specific training. The objective was to evaluate the nature of information released and whether Customer Call Center employees provided any information that would require written consent or discriminated in the

provision of services. Customer Service Representatives were also observed to evaluate the nature of information provided on affiliated and non-affiliated service providers.

- Review SCE's compliance procedures manual (ATR Manual) and SCE's compliance training materials.
- Review of SCE's semi-annual advice filings required by Rule IV.C.2.
- Detailed tests of the following affiliate and customer transactions:
  - Third-party Customer Information Requests or Customer Service Information Requests (CISRs). Specific tests of SCE's CISR data files included flow process evaluation, dissemination of information and analysis, and accuracy of electronic data.
  - All Intercompany Service Requests (ISRs) processed in 2006 were reviewed to determine the potential for information transfer between SCE and its affiliates.
  - All joint purchasing transactions between SCE and covered affiliates.
  - All service agreements and contracts between SCE and affiliates in effect during 2006.

## **Rule IV.A**

**IV.A. Customer Information:** A utility shall provide customer information to its affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior affirmative customer written consent.

### **Findings and Conclusions**

SCE is in compliance with Rule IV.A.

SCE does not provide preferential treatment in the provision of customer information to third parties and only provides customer information to third parties with prior affirmative customer consent. NorthStar's review of SCE's compliance with Rule IV.A included an analysis of current customer information policy, evaluation of third-party customer information forms and process flow, and assessment of Customer Call Center procedures.

SCE classifies customer information as customer name, account number, billing address, service address, usage history, and other specific customer information which is considered confidential. During 2006, SCE's customer call center received approximately 12 million calls. In order to maintain customer privacy and prevent the inadvertent release of customer information to unauthorized parties, SCE's customer service representatives (CSRs) require positive identification verification prior to discussing account information. NorthStar monitored a sample of customer calls and found that the CSR obtained sufficient personal information from the caller to determine that caller was authorized to discuss a specific account (DR 118).

SCE provides customer information to the Community Choice Aggregator (CCA) program upon receipt of a signed CCA Non-Disclosure Agreement and a signed Community Choice Aggregation Declaration (Form 14-770). SCE also utilizes a standard form (CISR)

for the release of customer information to third-parties. This form is available online and through customer service to all interested parties. NorthStar reviewed a sample of completed CISR forms and found each contained a customer signature and account number (DR 62 and 81).

SCE monitors the processing time of CISRs for both affiliates and non-affiliates. During 2006, SCE did not provide customer information to affiliates so a comparison of processing time was not possible. Nevertheless, SCE maintains this process in the event there are future transactions of this nature with affiliates.

SCE's Compliance Plan and Section 4-4 of the Affiliate Transaction Rule Manual emphasize that customer information can only be released to a third party upon written customer consent (DR 3 and 110).

## **Rule IV.B**

**IV.B. Non-Customer Specific Non-Public Information:** A utility shall make non-customer specific non-public information, including but not limited to information about a utility's natural gas or electricity purchases, sales, or operations or about the utility's gas-related goods or services, electricity-related goods or services, available to the utility's affiliates only if the utility makes that information contemporaneously available to all other service providers on the same terms and conditions, and keeps the information open to public inspection. Unless otherwise provided by these Rules, a utility continues to be bound by all Commission-adopted pricing and reporting guidelines for such transactions. Utilities are also permitted to exchange proprietary information on an exclusive basis with their affiliates, provided the utility follows all Commission-adopted pricing and reporting guidelines for such transactions, and it is necessary to exchange this information in the provision of the corporate support services permitted by Rule V.E below. The affiliate's use of such proprietary information is limited to use in conjunction with the permitted corporate support services, and is not permitted for any other use. Nothing in this Rule precludes the exchange of information pursuant to D.97-10-031.

## **Findings and Conclusions**

SCE is not in compliance with Rule IV.B.

The audit revealed that Mr. Jeff Barnett was hired as a Vice President of Tax for Edison Mission Group (EMG) (a covered affiliate) in June 2006 and was granted access to SCE's computer system(s) from June to December 2006. Mr. Barnett was provided access to non-customer specific, non-public information (DR 164). Rule IV.B requires that if this information is made available to affiliates, it must be contemporaneously made available to all market participants. SCE did not offer to make this information available to any market participants. On December 14, 2006, Mr. Barnett was elected Vice President of Tax for EIX and SCE by the Board of Directors and terminated his employment with EMG (DR 47).

The Board of Director meetings of SCE and EIX are conducted and recorded as Joint Regular Meetings of the Boards of Directors of Edison International and Southern California Edison Company. Mr. Ted Craver, Edison Mission Group Chairman, President and CEO attended all regular joint board meetings held during CY2006. Based upon the non-customer specific, non-public nature of information shared and decisions reached in these board meetings (e.g., forward looking prices for natural gas and power, generation supply reserves,

readiness of the SCE grid to support the summer peak, upcoming New Generation RFO, and SCE's plans to build five generation peaking projects, etc.), NorthStar believes that Mr. Craver's attendance violates Rule IV.B.

SCE's position with regard to covered affiliate employee attendance at Board meetings is:

SCE believes that Mr. Craver's attendance at the 2006 EIX-SCE Board meetings did not violate the Rules. SCE prepares its updates to the Boards of Directors using only publicly available information whenever possible in order to ensure compliance with not only Rules IV.B and V.G, but also with the FERC Standards and Codes of Conduct, and with SCE's California Activity Procedures – each of which limits the types of information that can be shared among affiliated companies. When the Board's presentations or deliberation require discussion of information that may not be permissibly shared with the affiliates under any applicable rules or procedures, affected employees are excused from the meeting. No such instances arose during the Board meetings in 2006.

SCE's Affiliate Transaction Compliance Plan notes the criteria of providing non-customer specific non-public information to affiliates. SCE's web site includes an area to make non-customer specific non-public information provided to affiliates available to all marketing participants. During 2006, there were no postings to the web site (DR 101, 110, 125, 151, and 164).

NorthStar reviewed the communications between SCE and EME during the bid period of the RFO for new generation resources issued on July 21, 2006. There was no evidence that EME received non-customer specific non-public information (DR 143).

SCE held a number of meetings with covered affiliates during 2006. While the occurrence of these meetings did not necessarily indicate a violation of the Rules, NorthStar finds these meetings problematic for the following reasons:

- SCE has maintained that transactions with affiliates are to be kept at "arm's-length".<sup>12</sup> However, SCE appears to contradict compliance policy and the ATR Manual as stated in response to DR 113:

SCE is not required to, and does not document every meeting between personnel from SCE and any marketing affiliate. Therefore, there may be additional meetings involving SCE and EMMT personnel during 2006 that were not captured in the following list, despite our investigation.

- Among the various meetings held between SCE and covered affiliates, the EIX Market Design Policy Group and EIX Risk Management Committee meetings are attended jointly by both SCE and EMMT personnel (an energy marketing affiliate). While SCE maintains that these meetings are conducted at the policy level, NorthStar

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<sup>12</sup> SCE Affiliate Transaction Rule Manual, page 5-1.

considers the potential for SCE to inadvertently provide “non-customer specific, non-public information” to covered affiliates to be significant (DR 113).

### **Recommendation**

3. Improve the process to grant affiliate employee access to SCE’s computer systems and conduct focused training for all personnel involved.
4. Conduct periodic audits of computer system access protocols for covered affiliate employees.
5. Discontinue covered affiliate employee attendance at SCE Board of Directors meetings.
6. Discontinue joint attendance of SCE and EMMT personnel at meetings such as the EIX Market Design Policy Group and EIX Risk Management Committee.

## **Rule IV.C**

### **IV.C. Service Provider Information:**

**IV.C.1.** Except upon request by a customer or as otherwise authorized by the Commission, or approved by another governmental body, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility’s affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities. A utility shall submit lists approved by other governmental bodies in the first semi-annual advice letter filing referenced in Rule IV.C.2 following such approval, but may provide customers with such lists pending action on the advice letter.

**IV.C.2.** If a customer requests information about any affiliated service provider, the utility shall provide a list of all providers of gas-related, electricity-related, or other utility-related goods and services operating in its service territory, including its affiliates. The Commission shall authorize, by semi-annual utility advice letter filing, and either the utility, the Commission, or a Commission-authorized third party provider shall maintain on file with the Commission a copy of the most updated lists of service providers which have been created to disseminate to a customer upon a customer’s request. Any service provider may request that it be included on such list, and, barring Commission direction, the utility shall honor such request. Where maintenance of such list would be unduly burdensome due to the number of service providers, subject to Commission approval by advice letter filing, the utility shall direct the customer to a generally available listing of service providers (e.g., the Yellow Pages). In such cases, no list shall be provided. If there is no Commission-authorized list available, utilities may refer customers to a generally available listing of service providers (e.g., the Yellow Pages.) The list of service providers should make clear that the Commission does not guarantee the financial stability or service quality of the service providers listed by the act of approving this list.

### **Findings and Conclusions**

SCE is in compliance with Rule IV.C.

SCE filed Advice Letters 2024-E and 2024-EA on July 13, 2006 and December 28, 2006 respectively. SCE’s filing is in accordance with Rules IV.C, Resolution E-3539, and Advice Letters 1342-EB, 1450-E, and 1491-EI. The filing addresses four types of lists: Internet-Based Development of Service Provider List; Generally Available Lists; Focused Lists of Non-Affiliated Service Providers; and Government-Approved Lists (DR 124).

SCE does not provide list of service providers except upon customer request. Lists are primarily obtained on the CPUC website and SCE's AgTAC and CTAC facilities (DR 63 and 99).

SCE has also supported the development of an internet-based self-nominated service provider list. This list has a very small number of participants. SCE's position is that since the list is so small, supplying the list would incorrectly imply that SCE endorses these providers. As such and as approved in Advice Letter 1342-EB, SCE does not distribute this list but rather directs customers to generally available lists such as the yellow pages. Customers are referred to such listings as yellow pages, internet search engines, and electronic bulletin boards (DR 124).

Prior to Resolution E-3539, SCE routinely provided customers, upon request, lists of non-affiliated manufacturers, distributors or service providers for providing equipment, construction and services related to energy efficiency, safety, and emerging technologies. The Commission approved the distribution of these lists in Advice Letters 1342-EB and 1450-E.

Advice Letter 1342-EB authorized SCE to refer customers to government approved lists. SCE offers customers the following government-approved lists:

- The CPUC website – list of registered electric service providers.
- The South Coast Air Quality Management District – list of suppliers of water-based cleaning materials and equipment.
- The California Energy Commission – list of firms participating in the Transitional Incentive Program (DR 5 and 124).

SCE's Customer Service Business Unit (CSBU) provides lists to customers only upon customer request and in compliance with the Affiliate Transaction Rules and the subsequent decisions (DR 63).

## **Rule IV.D**

**IV.D. Supplier Information:** A utility may provide non-public information and data which has been received from unaffiliated suppliers to its affiliates or non-affiliated entities only if the utility first obtains written affirmative authorization to do so from the supplier. A utility shall not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.

## **Findings and Conclusions**

SCE is in compliance with Rule IV.D.

SCE does not provide affiliates information concerning suppliers except for in the case of permissible joint purchases. SCE's compliance plan states that SCE will not request permission of suppliers to disclose information exclusively to affiliates. SCE's Procurement Department has been informed about this Rule and is responsible for ensuring compliance.

SCE interprets this Rule not to preclude sharing of information regarding suppliers' terms and conditions pertaining to permissible joint purchases. In accordance with Rule V.D, SCE obtains the supplier's written permission prior to providing the affiliate the supplier's information.

NorthStar found no instances where affiliates were provided vendor information except for in the case of joint purchases. During 2006, SCE considered four opportunities for joint purchases with affiliates. In each case, permission to release the successful bidder's vendor information was obtained from the vendor. There were no other requests for release of supplier information (DR 97).

## **Rule IV.E**

**IV.E. Affiliate Related Advice or Assistance:** Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers.

### **Findings and Conclusions**

SCE is in compliance with Rule IV.E.

As a matter of policy, SCE does not provide advice or assistance concerning other service providers with one exception. As described in Rule IV.C, SCE provides lists of service providers upon customer request (DR 63).

## **Rule IV.F**

**IV.F. Record-Keeping:** A utility shall maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates, including but not limited to, all waivers of tariff or contract provisions and all discounts. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. The utility shall make such records available for third party review upon 72 hours' notice, or at a time mutually agreeable to the utility and third party. If D.97-06-110 is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 request for confidentiality within 24 hours of service.

### **Findings and Conclusions**

SCE is in partial compliance with Rule IV.F.

Compliance with Rule IV.F requires three actions on the part of SCE. First, the utility shall maintain "contemporaneous" records documenting all affiliate transactions. Second, the utility must maintain such records for a minimum of three years or longer. Third, the utility shall make such records available for third party review upon 72 hours' notice, or at some mutually agreeable time.

The audit found the utility's ability to comply with the record keeping requirements of Rule IV.F has deteriorated.



## **Contemporaneous Records**

SCE has not kept contemporaneous records of all transactions with its affiliates despite the extensive discussion in SCE's Compliance Plan (CP05), ATR Manual, corporate manuals and training materials. NorthStar's review found a number of record keeping issues with accounting records and employee exit interview documentation (DR 3, 42, 44, and 68).

### **Accounting Records**

SCE's compliance plan states that billings between SCE and its Class A affiliates are recorded on a monthly basis. Records of these inter-company billings are made available subsequent to the closing of monthly transactions. SCE's policy statements are aligned with Resolution E-3539, Finding 59, which defines "contemporaneous" as once per month for the purposes of Rule IV.F (DR 5 and 68 ). However, SCE stated the following in its response to DR 26:

Hard copies of SCE's Annual Report of Affiliated Company Transactions for the 2005 calendar year were provided in response to question 2. SCE does not prepare preliminary Affiliate Transaction Reports by month. The final 2006 Affiliate Transaction Report is not available until approximately May 2007.

NorthStar tested numerous affiliate transactions and found that each was recorded contemporaneously. However, SCE has difficulty reporting the results of these transactions on a contemporaneous basis. For example, the information used for Schedules C and D of the annual Affiliate Compliance Report cannot be reported until the middle of April the following year, due to the large amount of complex analysis that must be done outside of the accounting system. It is expected that conversion from the legacy accounting system to the new database driven system will greatly reduce the additional effort and time required to produce these reports (DR 122). SCE currently anticipates that the new accounting system will be implemented in early 2008.

### **Employee Termination/Transfer Documentation**

SCE's Human Resources (HR) Department is responsible for conducting exit interviews for all utility employees moving to affiliates. During the exit interview, documents related to affiliate transactions, property transfers and other utility information are presented to, and signed by, transferring employees. The signed documents are kept in a file for each transferring employee and maintained by SCE's HR Department (DR 3).

Six SCE employees transferred to covered affiliates during 2006. Four SCE employees transferred to EME and two SCE employees transferred to Midwest Generation. NorthStar reviewed the HR Department exit interview files for each employee to verify records were kept in accordance with SCE's policies and procedures. NorthStar found only half of the files contained exit interview documentation (DR 47 and 140).

The audit found that SCE has not effectively implemented the 2005 Affiliate Transaction Audit recommendation for the HR Department to improve employee transfer record keeping.



## Record Maintenance

Each SCE business unit is responsible for maintaining records of its transactions with affiliates. SCE cites several benefits of its decentralized approach (DR 31):

- Requires SCE organizations to take responsibility for their own affiliate transactions.
- Requires SCE organizations to understand the Rules and to communicate them to employees who are likely to be involved in transactions.
- Helps SCE organizations to promote compliance with the Rules.
- Enables different business units to tailor record-keeping to best suit their particular business or function.

NorthStar requested affiliate transaction documentation and record retention schedules to verify records are maintained for a minimum of three years (DR 1, 13, 150, and 180). NorthStar found that SCE has implemented adequate record retention policies and procedures.

## Timeliness of Records

Another indication of SCE's deteriorating record keeping activities was the utility's inability to respond to NorthStar's data requests in a timely fashion. Before initiating the 2006 Affiliate Transaction Audit in November 2006, NorthStar submitted over 130 data requests to SCE. By the end of December 2006, at least 25 percent of the original data requests remained unanswered or non-responsive.

SCE did not receive any other formal requests for information from third parties in 2006 pursuant to Rule IV.F (DR 31).

## Recommendations

7. Provide a checklist of exit interview documents required for each utility employee transferring to a covered affiliate. This checklist should be completed, signed by the appropriate HR manager, and included in each employee's exit interview file with the documentation for audit inspection.

## Rule IV.G

**IV.G. Maintenance of Affiliate Contracts and Related Bids:** A utility shall maintain a record of all contracts and related bids for the provision of work, products or services to and from the utility to its affiliates for no less than a period of three years, and longer if this Commission or another government agency so requires.

## Findings and Conclusions

SCE is in compliance with Rule IV.G.

NorthStar reviewed SCE and its subsidiaries master agreements, contracts and bids with its affiliates. SCE has established record retention policies and procedures for its employees

to ensure maintenance of contract-related materials SCE maintains a record of all contracts and related bids for the provision of work, products or services to and from SCE to its affiliates for no less than a period of three years (DR 1, 3, 13, 150, and 180).

## **Rule IV.H**

**IV.H. FERC Reporting Requirements:** To the extent that reporting rules imposed by the FERC require more detailed information or more expeditious reporting, nothing in these Rules shall be construed as modifying the FERC rules.

### **Findings and Conclusions**

Rule IV.H does not require any specific action by SCE.

## **RULE V. SEPARATION**

Rule V requires that the utility and its affiliates: (1) be separate corporate entities with separate books and records, (2) not share facilities, except for the provision of shared corporate services, (3) prohibit joint purchases related to the utility merchant function, (4) not promote or advertise an affiliate's affiliation with the utility, (5) not jointly employ the same employees, and (6) transfer allowable goods and services at fair market value or fully loaded cost.

In assessing SCE's compliance with Rule V, NorthStar used the following evaluative criteria:

- The utility and its affiliates are organizationally and functionally separate.
- There are no overlapping managerial positions other than for approved shared services and no joint employees with its affiliates.
- The utility's interpretation of what constitutes a separate corporate entity is consistent with the Affiliate Transaction Rules.
- Separate books and records are kept for the utility and its affiliates.
- Books are kept in accordance with USOA and GAAP standards.
- The utility and affiliated companies are physically separate.
- Affiliate companies do not have computer access to information systems beyond what is appropriate for joint corporate functions.
- The processes used to allocate costs for shared facilities and services provide accurate and timely information.
- Items jointly purchased are allowed by the Affiliate Transaction Rules.
- Costs of joint purchases are allocated appropriately.
- Disclaimers are used appropriately.
- No affiliate has traded upon, promoted or advertised its affiliation with the utility.
- Transfers of employees between the utility and its affiliates do not come at the expense of the utility business.
  - Officer approval of both companies involved in the transfer is obtained before the transfer occurs.
  - Utility employees are free to accept or reject employment with affiliates and no involuntary transfers take place.
- If a utility employee elects to accept a position with an affiliate, he or she resigns from the utility.
- The transfer-pricing methodology ensures that transactions between the utility and its affiliates do not harm the utility or its customers.

## Rule V.A

**V. A. Corporate Entities:** A utility and its affiliates shall be separate corporate entities.

### Findings and Conclusions

SCE is in compliance with Rule V.A.

SCE and its affiliates are separate corporate entities. Each of SCE's principal affiliates shown in Rule II, Figure 2 is a separate corporation, limited liability company, or trust. The separation of SCE from its affiliates is thoroughly documented in the Company's Annual Reports to the CPUC on Subsidiary, Affiliate, and Holding Company Transactions and in Edison International's 10-K Report filed annually with the Securities and Exchange Commission (DR 2, 26 and 116). As a further confirmation, NorthStar reviewed the articles of incorporation of the following SCE affiliates. All are corporate entities separate from SCE (DR 8).

- Edison International (EIX)
- Edison Mission Group (EMG)
- Edison Capital
- Edison O&M Services (EOMS)
- Edison Enterprises
- Edison Source
- Mission Land Company
- Mountainview Power Company
- Edison Insurance Services.

SCE and its Class A (or covered) affiliates have separate employees, separate directors and officers, with the exception of Mountainview Power Company (operated by SCE employees allowed by D.03-12-059), and the Corporate Secretary whose shared corporate support services to SCE and its Class A affiliates are allowable under Rule V.E.

Although SCE shared its directors and 13 officers with EIX in 2006, as allowed by Rule V.G.1, and shared an additional officer with two other Class B (or non covered) affiliates, SCE's management team is largely unique to SCE.

## Rule V.B

**V. B. Books and Records:** A utility and its affiliates shall keep separate books and records.

**V.B.1.** Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Procedures (GAAP).

**V.B.2.** The books and records of affiliates shall be open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Section 314.

### Findings and Conclusions

SCE is in compliance with Rule V.B.

SCE and its affiliates keep separate books and records except for its wholly owned subsidiary, Mountainview Power Company, LLC (MVL) a Class A affiliate. This conclusion is supported by direct examination of accounting reports, interviews with accounting personnel, and review of accounting and data processing procedures.

MVL was granted an exemption from many sections of the Affiliate Transaction Rules in D.03-12-059, but the affiliate was not exempted from Rule V.B (DR 68).<sup>13</sup> MVL's cost accounting is performed through SCE's accounting systems, costs are recorded in MVL-specific accounts and financial statements are produced (DR 135). Therefore, the books and records of MVL are not entirely separate from SCE's books and records. However, given the explicit Commission exemptions for MVL and in particular the use of SCE systems, MVL cannot have fully separate books and records.

SCE procedures for billing affiliates for goods and services received are outlined in the Affiliate Transaction Rules (ATR) Manual (DR 3). SCE's Corporate Regulatory Accounting group accumulates charges to affiliates for shared support services, directly requested services, sale of tangible and intangible property, sale of materials and supplies, and other reimbursable expenses, including applicable loadings. SCE invoices each affiliate monthly for accrued charges using a hard copy invoice (DR 186). EIX pays the invoices from SCE for all affiliates on a monthly basis.

SCE's books and records are kept in accordance with the Federal Energy Regulatory Commission (FERC) uniform system of accounts. In SCE's CY2006 10-K Report, the company's external auditor stated that the financial statements conform with accounting principles generally accepted in the United States in the year ending December 31, 2006 (DR 116).

SCE's ATR Manual states that the books and records of its affiliates shall be open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Section 314 (DR 3). Throughout the course of this affiliate transactions audit, NorthStar made over 200 requests for reports and data from the books and records of SCE. In all but a very few cases SCE was able to provide requested information within a reasonable amount of time. However, SCE was unable to provide complete accounting reports of transactions between SCE and its affiliates, and specifically Schedules C&D of the annual Affiliate Transactions Report, until the first week of April 2007 which is too late for this information to be included in the audit of affiliate transactions (DR 122).

## **Recommendation**

8. Clarify the degree to which MVL books and records are common to and separate from SCE in its Compliance Plan.

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<sup>13</sup> In D.03-12-059, the CPUC authorized SCE to purchase Mountainview Power Company, LLC and to operate it as a wholly-owned subsidiary. Findings of Fact 17, 18 & 19 states .[17] MVL is not a regulated subsidiary exempt from the ATRs. [18] It is in the public interest to grant a one-time waiver of the following ATR rules: III.B; III.E; IV.B; V.C; V.D; V.E; V.F; V.G.1; V.G.2; and V.H.5. [19] Any transactions between MVL and unregulated affiliates are covered by the ATRs, should be reported in the annual affiliate rules report, and should be covered by the annual affiliate rules audit. Mountainview began commercial operations on December 9, 2005, at which time it was reclassified to a Class A affiliate of SCE and reported to the CPUC, as required by Rule VI.B.

## Rule V.C

**V. C. Sharing of Plant, Facilities, Equipment or Costs:** A utility shall not share office space, office equipment, services, and systems with its affiliates, nor shall a utility access the computer or information systems of its affiliates or allow its affiliates to access its computer or information systems, except to the extent appropriate to perform shared corporate support functions permitted under Section V.E of these Rules. Physical separation required by this rule shall be accomplished preferably by having office space in a separate building, or, in the alternative, through the use of separate elevator banks and/or security-controlled access. This provision does not preclude a utility from offering a joint service provided this service is authorized by the Commission and is available to all non-affiliated service providers on the same terms and conditions (e.g., joint billing services pursuant to D.97-05-039).

### Findings and Conclusions

SCE did not comply with Rule V.C.

SCE provided a number of Class A affiliate employees access to its facilities, provided space for Class A affiliate computer systems in its datacenter, and access to computer systems not permitted by Rule V.E shared corporate support.

### Office Space Separation

SCE and its affiliates occupy separate office facilities with only three exceptions. These exceptions are the Washington DC office, EMG Corporate Office and the General Office (GO). Each is discussed below:

#### Washington DC Office

The Washington D.C. office is leased by EIX, and portions sublet to SCE, EMG and a third party firm. NorthStar reviewed the floor plan for this office space. The floor plan shows that SCE and EMG share a common reception area, corridor and two conference rooms, but EMG's offices are completely separated from SCE's offices. SCE and EMG have separate card scanner access doorways leading from the reception area and corridor. There is one common door between the EMG and SCE office space. The common door is card scanner controlled (DR 162). Sublet costs are allocated according to occupied square footage (DR 163).

#### EMG Corporate Office

Seven SCE employees work at the EMG Corporate Office performing shared corporate services. NorthStar reviewed the floor plan and conducted a site visit of EMG's Corporate Office to validate separation requirements. SCE's employees at EMG consist of five auditors, a manager and one administrator. The auditors work exclusively for the unregulated affiliates and do not conduct any audits for the utility. The auditors' office space is located on the 15<sup>th</sup> floor and has electronic card scanners on doors that provide access to audit personnel only (DR 160).

## General Office Buildings

The only affiliate located in the GO Building complex is EIX, which is not covered by the Affiliate Transaction Rules and the separation requirements of Rule V.C. All of EIX's California-based personnel are located on the fourth floor of the GO Building 1. The GO Building complex (GO Buildings 1 through 4) has the following security controls.

- Security guards are stationed at the main entrances to all GO Buildings. All occupants of these buildings (SCE and EIX employees) have identification badges that must be passed through electronic card scanners to gain entry. SCE policy requires identification badges to be worn in plain sight.
- Two side entrances to the GO 1 Building have revolving doors that are activated by authorized employee identification badges passing through electronic card scanners. Video cameras enable security personnel to watch these entrances.
- Higher levels of security are required in Energy Supply and Management, Law Department, and SCE's datacenter (GO 2 Building). Security card scanner doors into these areas only allow designated SCE employees to access.
- Cars entering the garage under GO 1 Building require a parking sticker to be allowed access by the security guard posted at the entrance. Anyone who attempts to enter the garage without the sticker will be stopped by the security guard.
- Employees entering the GO Buildings 1 and 4 on nights and weekends must enter Building 1 on the street level through a security-controlled door and pass a visual inspection and badge authorization.
- A security guard is stationed at the GO 1 Building loading dock.

## Facility Access

SCE provided a number of Class A affiliate executives access to the GO 1 Building. NorthStar's review found nine Class A affiliate executives from EMG, Edison Mission Energy (EME), Midwest Generation, and Edison Mission Marketing and Trading (EMMT, an energy marketing affiliate and subsidiary of EME) were provided identification/access badges (188 and 203). SCE's rationale for providing these badges was to attend board meetings, meet with EIX officers, labor relations meetings and board presentations (DR 188). NorthStar reviewed SCE Corporate Security facility access log and found (DR 189):

- Class A affiliate executives with parking passes entered the GO 1 Building from SCE's underground parking facility. This enabled the executives to enter and exit the facility without using their identification/access badges or being recorded in security logs.
- Class A affiliate employees were granted access to the GO 1 Building during weekends and after normal business hours.

## Separate IT Datacenter Facilities

NorthStar's audit included a review of SCE's datacenter facilities for compliance with Rule V.C. NorthStar found 13 affiliate computer servers were hosted by the utility in 2006 (DR 177 and 205). Ten were owned by EIX and three owned by Edison Capital. SCE hosted the three Edison Capital servers until May 2006 at its Irvine, California datacenter at which time they were removed (DR 205). During a 2005 reorganization, Edison Capital was re-classified a Class A affiliate (see discussion in Rule II). SCE should have removed these servers in CY2005 to comply with the Rules.

## Computer System Access

Rule V.C prohibits sharing computer systems between the utility and covered affiliates. Additionally, the utility and its covered affiliates must be denied access to each other's computer systems. Covered affiliates should only be permitted computer system access pursuant to Rule V.E or if access is open to non-affiliates.

NorthStar reviewed a selection of Class A affiliate employee computer access authorization files kept by SCE's Information Security organization. Our review found SCE provided covered affiliates access to its systems not related to Rule V.E.

- Mr. Jeff Barnett was authorized network and application access to SCE's email system (DR 151). SCE granted this access to perform corporate support activities allowable under Rule V.E (DR 151 and 164). However, covered affiliates cannot provide shared corporate support (see Rule V.E for further discussion). Mr. Barnett had access to SCE's email system from June 2006 to December 2006 (DR 151). This access is prohibited by Rule V.C and Resolution E-3539 (DR 5). Specifically, Resolution E-3539 Ordering Paragraph 17 states that Edison shall not share e-mail systems and "supporting infrastructure" with any of its affiliates.
- An EME employee was granted network access to a computer system located in SCE's datacenter without proper documentation as to what data or applications were deployed on this system (DR 151).

SCE's Global database system tracks and administers all IT UserIDs. Global receives a weekly feed from SCE's HR systems of terminated utility employees. All terminated utility employees should automatically trigger a "Suspend" user ID status for all Global administered applications (DR 149). NorthStar reviewed SCE's revocation process by examining the utility employee termination/transfer documentation (DR 47 and 79). During 2006, there were six employee transfers that impact Rule V.C. Four SCE employees transferred to EME and two SCE employees transferred to Midwest Generation, LLC. NorthStar found two of the six employees did not have their access terminated in a timely fashion (DR 79):

- One employee transferring to Midwest Generation, LLC had network access suspended 12 working days after termination.



- One employee transferring to EME had network access suspended 10 working days after termination.

SCE's IT Affiliate Manager re-verifies affiliate access privileges annually through the Security Access Verification System's (SAVS) System Access Audit (SAA) tool. The IT Affiliate Manager completed the annual review of access privileges in November 2006. Over 300 affiliate employee IT system accounts were re-verified (DR 192). NorthStar's review of the SAVS SAA audit process and criteria for re-verification found it inadequate. The process did not consider the appropriateness of the access in the context of the Rules. This was exemplified by Mr. Barnett's access to SCE's email system from June 2006 to December 2006.

### **Recommendations**

9. Revoke Class A affiliate employee GO 1 parking garage passes and prohibit garage access.
10. Restrict Class A affiliate employees' access to SCE facilities to normal business hours.
11. Terminate system access for SCE employees transferring to Class A affiliates in a more timely manner.
12. Develop and implement an overall training program that provides periodic training to SCE employees who are affected by the Rules. This should include focused training in the area of computer systems and facilities access.

### **Rule V.D**

**V. D. Joint Purchases:** To the extent not precluded by any other Rule, the utilities and their affiliates may make joint purchases of good and services, but not those associated with the traditional utility merchant function. For purpose of these Rules, to the extent that a utility is engaged in the marketing of the commodity of electricity or natural gas to customers, as opposed to the marketing of transmission and distribution services, it is engaging in merchant functions. Examples of permissible joint purchases include joint purchases of office supplies and telephone services. Examples of joint purchases not permitted include gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, systems operations, and marketing. The utility must insure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions of such purchases, and in accordance with applicable Commission allocation and reporting rules.

### **Findings and Conclusions**

SCE is in compliance with Rule V.D.

SCE policies and procedures prohibit joint purchases associated with the traditional utility merchant function. NorthStar's audit showed no evidence of joint purchases for gas or

electric purchases for resale, purchases of gas transportation or storage, purchases of electric transmission, systems operations or marketing with SCE's affiliates.<sup>14</sup>

SCE and its covered affiliates are generally responsible for their own materials and services purchasing. However, there are several purchasing arrangements that are considered "joint purchases" under which SCE and its covered affiliates can purchase goods and services (DR 45).

A joint contract occurs when SCE and one or more of its affiliates jointly negotiate and enter into a single contract or purchasing agreement with a third-party supplier to provide goods or services to each company. Under single-party contracts for joint users, one entity (SCE, an affiliate, or the holding company) negotiates and executes a contract or purchasing agreement with a third-party supplier. Either as part of the negotiations or after the arrangement is executed, the supplier agrees to allow the contracting entity to use the agreement for purchases for EIX companies. Each EIX entity independently determines if it wants to purchase the goods or services under this arrangement. There are currently two agreements involving SCE and covered affiliates that are single-party contracts for joint use. During CY2006, there were two active joint purchases involving SCE and its affiliates:

- Subscription research and knowledge data base services (effective 1/1/06).
- Advanced coal technologies research (effective 3/23/06).

EIX contracts for aggregated discounts to all Edison International companies are also considered joint contracts although no payments or sales are directly made. Two such agreements were executed during 2003 for discounts on air travel and are currently in force.

Joint negotiations resulting in separate contracts are used when SCE and one or more of its affiliates jointly negotiate with a third-party supplier for goods or services. After jointly negotiating, each company enters into a separate contract with the supplier. SCE has participated in twelve such arrangements. None of these joint purchases include Rule V.D prohibited materials or services.

- |  |   |
|--|---|
| • Resale of Microsoft products (2003)          | • Computer training (2001)                          |
| • Routers and maintenance (2000)               | • Travel services (2005)                            |
| • News services ((2000)                        | • Car rental discounts (2002)                       |
| • Mail attender license for Lotus Notes (2000) | • Cellular phone services (2004)                    |
| • Desktop computer products (2001)             | • Software maintenance services (2005)              |
| • Non-desktop computer products (2000)         | • Enterprise-wide resource planning software (2006) |

SCE may purchase goods or services that ultimately support the provision of shared corporate support services as described in Rule V.E below. These may include specialized consulting, software, or communications services. While NorthStar does not consider these

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<sup>14</sup> Decision 03-12-059, Finding 18, granted a one-time waiver from Rule V.D for Mountainview Power Company, a wholly-owned SCE Class A affiliate.

to be “joint purchases,” the costs are appropriately allocated to the affiliates along with the services that are performed in compliance with Rule V.D.

## **Rule V.E**

**V. E. Corporate Support:** As a general principle, a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems and personnel. Any shared support shall be priced, reported and conducted in accordance with the Separation and Information Standards set forth herein, as well as other applicable Commission pricing and reporting requirements.

As a general principle, such joint utilization shall not allow or provide a means for the transfer of confidential information from the utility to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of the specific mechanisms and procedures in place to ensure the utility follows the mandates of this paragraph, and to ensure the utility is not utilizing joint corporate support services as a conduit to circumvent these Rules.

Examples of services that may be shared include: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal, and pension management.

Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing.

## **Findings and Conclusions**

SCE did not comply with Rule V.E.

### **Shared Corporate Support Functions**

In its compliance plans SCE has identified approximately 64 corporate support functions that it believes may be shared pursuant to Rule V.E, subject to transfer pricing requirements of Rule V.H and the restrictions of Rules V.D and V.F. These corporate support functions are listed in a matrix that includes SCE’s primary reasons for including each function as a permissible shared support service. SCE’s corporate support matrix is included in the Company’s ATR Manual and Compliance Plan (CP05) (DR 3 and 110).

NorthStar reviewed SCE’s corporate support matrix and found no inconsistency with Rule V.E. The various functions are organized in the matrix under a number of general headings: Accounting and Finance, Legal, Ethics & Compliance, Human Resources, Government and Regulatory Affairs, Information Technology, Corporate Communications, Corporate Services, and Procurement. The matrix includes all of the allowable functions appearing in the third paragraph of Rule V.E and none of the prohibited functions cited in the fourth paragraph. Each function included in the matrix is accompanied by a brief discussion of what the function does and how it meets Commission standards. Typical rationale includes:

- Expressly allowed by Rules V.E or V.D or authorized by CPUC Resolution E-3539

- Allows standardization, consistency, and efficiency.
- Allows legitimate economies of scale and scope to be achieved.
- Involves oversight and governance.
- Has no unfair impact on competitive markets or affiliate production costs.
- Does not advertise Class A affiliates' products and services and does not disclose non-public utility information.

Discussions of several of the support services in the matrix contain cautionary language regarding performance of the service for Class A affiliates. For example, the environmental affairs and the legislative and regulatory analysis function discussions state that SCE will not perform the function for a Class A affiliate where the particular assignment or activity does not legitimately also serve the utility or the corporation as a whole.

In its compliance plan, SCE states that it does not jointly conduct with its Class A affiliates any of those functions listed under the examples of services that may not be shared (DR 110). Immediately following the corporate support matrix in CP05 and in the ATR Manual, SCE presents a list of 24 services that may not be shared. This list makes it clear to the reader that SCE will comply with the fourth paragraph of Rule V.E. It includes all of the functions cited in the fourth paragraph of Rule V.E and shows approximately a dozen more.

Officers of SCE and EIX have verified that specific mechanisms and procedures in place are believed to be sufficient to ensure (a) that SCE follows the mandates of Rule V.E and (b) that SCE is not utilizing joint corporate support services as a conduit to circumvent the Rules.

As previously discussed, Mr. Jeff Barnett was hired as a Vice President of Tax for Edison Mission Group (EMG, a Class A affiliate) in June, 2006. He was provided access to utility information systems and performed work on behalf of SCE's Tax Department. SCE's position is that Mr. Barnett's responsibilities fell within a shared services function permitted by Rule V.E (DR 164). Rule V.E only allows shared services for a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services. Having covered affiliates or their officers perform shared corporate services is clearly prohibited by Rule V.E, V.C and various elements of Rule IV – Disclosure and Information. On December 14, 2006, Mr. Barnett was elected by the Boards of Directors of Edison International and Southern California Edison as Vice President for both companies.

### **Charging for Shared Corporate Services**

Throughout each month, labor and non-labor charges for shared corporate support are posted to the accounts designated to accrue these charges. At the end of each month, these costs are assigned to each affiliate using worksheets (DR 172). A hard copy invoice is prepared each month from these worksheets and sent to each affiliate (DR 186).

Charges for shared corporate support are segregated into two categories: Directly Charged Corporate Support and Allocated Corporate Support. Directly Charged Corporate Support occurs when an employee performs a corporate support activity that benefits one affiliate but not all affiliates. The employee records this time on his or her timesheet under a project number that is unique to the affiliate receiving the benefit. These labor charges, as

well as the appropriate labor loadings and other expenses if incurred, are billed to the affiliate receiving the benefit.

Allocated Corporate Support occurs when an employee performs corporate functions that benefit all affiliates. As with Directly Charged Corporate Support, the labor charges, as well as appropriate labor loadings, and expenses are accumulated, then allocated and billed to the affiliates. The multifactor allocation method is the most commonly used method for allocating these corporate support costs.

NorthStar reviewed the accounting process by which costs were assigned or allocated to affiliates by sampling transactions at each step in the process. We analyzed the method by which affiliate costs were recorded and the invoices to SCE's affiliates were prepared. Our review revealed that the process of assigning or allocating costs to and billing of affiliates is largely manual and occurs outside the corporate accounting system with extensive reliance on spreadsheets (DR 139, 172 and 209). Despite the reliance on external processes, NorthStar found that both billing and payments were timely.

The spreadsheets used by SCE to bill its affiliates are complex and must be modified periodically to reflect organizational and other changes. During the audit, two errors were discovered in the spreadsheets used by SCE. While the existence of these errors is disconcerting, SCE's response raises additional concerns (DR 209):

When the errors in the formulas were discovered at year-end, two accountants in Corporate Accounting went through every formula in each of the 2006 worksheets to make sure the formula was fixed, and that the error did not reappear in any other cells.

While such effort is commendable, it points out that SCE does not have uniform and rigorous standards for testing spreadsheet changes before they are used in a production environment. SCE plans to implement a new accounting system in early 2008 that should eliminate the need for the current manual processes and spreadsheets.

SCE was unable to provide complete reports of transactions during 2006 between SCE and its affiliates during the period of this audit. Therefore, no analysis of the amounts or comparisons with prior years was possible.

## **Recommendation**

13. Test changes to affiliate transaction spreadsheets before they are used in accounting systems.

## **Rules V.F and V.F.1**

### **V.F. Corporate Identification and Advertising:**

**V.F.1.** A utility shall not trade upon, promote, or advertise its affiliate's affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the

affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:

**V.F.1.a.** the affiliate “is not the same company as [i.e. PG&E, Edison, the Gas Company, etc.], the utility,” and the affiliate “is not regulated by the California Public Utilities Commission.”

**V.F.1.b.** In the case of energy service provider affiliates, the disclaimer will be:

The affiliate “is not the same company as [i.e., PG&E, Edison, the Gas Company, etc], the utility, and the California Public Utilities Commission does not regulate the terms of [the affiliate’s] products and services.”

The application of the name/logo disclaimer is limited to the use of the name or logo in California.

## **Findings and Conclusions**

SCE is in partial compliance with Rules V.F and V.F.1. SCE included the names of covered affiliates on its own website.

## **Utility Marketing Materials**

NorthStar reviewed SCE’s promotional materials developed in hardcopy and displayed on its Internet website.

SCE utilizes hardcopy promotional materials to provide information to customers concerning non-tariff products and services, energy efficiency programs, rate information, safety, rebates and bill payment options. NorthStar determined that SCE did not share hardcopy marketing efforts with its affiliates. NorthStar bases this conclusion on its review of the following materials:

- Customer bill inserts (DR 90)
- Advertisements in local media (DR 91)
- Presentation materials provided to industry trade groups (DR 71)
- Marketing/advertising materials (DR 91 and 152)

During the review of the utility’s website, NorthStar found two Class A affiliates mentioned in a statement at the end of each page of SCE’s website ([www.sce.com](http://www.sce.com)). This statement reads:

Edison International is the parent company of Southern California Edison, Edison Mission Energy, and Edison Capital.

SCE’s position was that the statement was intended to be informational; therefore, the utility was not trading upon or promoting its affiliation with covered affiliates. In addition, SCE says it was not attempting to advertise the covered affiliates’ affiliation with the utility since the statement was in small, light colored font (DR 176). NorthStar reviewed SCE’s Compliance Plan (CP05) for additional clarification on the utility’s position (DR 110). The plan states:

In those circumstances where the utility makes permissible reference to any Class A affiliate in material circulated within California, SCE will include the

appropriate disclaimer regarding that affiliate.

Whether the statement was informational or the utility was advertising its relationship to covered affiliates, it is prohibited by Rule V.F.1. The utility is prohibited from trading upon, promoting or advertising its affiliation with covered affiliates. Furthermore, SCE's compliance plan adds confusion as to the utility's responsibility with regard to Rule V.F.1 and whether the disclaimer requirement applies to the utility.

### **Affiliate Marketing Materials**

Edison Minit-Charger was the only covered affiliate that developed hardcopy marketing materials in 2006. NorthStar reviewed these materials and found they did not require a disclaimer (DR 55).

NorthStar reviewed covered affiliate web pages and found no instances where the disclaimer was used improperly.

Review of the EIX website, a non-covered affiliate, found the use of a disclaimer. While this does not present a compliance issue with the current Rules, it suggests confusion as to the proper implementation of Rule V.F.1. Rule V.F.1, as amended by CPUC Decisions 98-11-027, 99-09-033 and 02-02-046, requires a disclaimer if a covered affiliate uses the utility's logo, corporate tagline, or name.

- EIX used the following disclaimer:

The other Edison International companies are not the same companies as Southern California Edison (SCE), the utility, and are not regulated by the California Public Utilities Commission.

This disclaimer does not comply with the specific wording (the specific names of the affiliates) sanctioned in CPUC decisions shown above in Rule V.F.1.a.

- EIX, a non covered affiliate, is not required to use any disclaimer.

Edison International's Corporate Communications (CorpCom) Department is responsible for reviewing the content on affiliate websites, publications, advertisements, publications, affiliate "give-aways" and other materials to ensure compliance with Rule V.F and V.F.1 (DR 110). A memorandum dated December 9, 2002 distributed to all EIX companies states the EIX Vice President must sign off on all layout and copy of advertising and promotional materials prior to publication.

### **Recommendations**

14. Remove all Class A affiliate references from SCE's website.
15. Modify SCE's ATR Manual and Compliance Plan to accurately describe the utility's obligations with regard to the disclaimer requirement in Rule V.F.1.



16. Develop and implement an overall training program that provides periodic training to SCE employees who are affected by the Rules. This should include focused training in the area of disclaimer requirements.

## **Rule V.F.2**

**V.F.2.** A utility, through action or words, shall not represent that, as a result of the affiliate's affiliation with the utility, its affiliates will receive any different treatment than other service providers.

### **Findings and Conclusions**

SCE is in compliance with Rule V.F.2.

SCE does not represent through action or words that as a result of the affiliate's relationship with the utility that the affiliate will receive any different treatment than other service providers. As discussed in Rule III.A, SCE understands and enforces the provisions of the Rules concerning the prohibition against preferential treatment. NorthStar reviewed operations and tested transactions at the customer call center, major accounts, and power procurement (DR 112, 133, 145, 146, 147, and 169). NorthStar also reviewed presentation and marketing materials and found no representation of preferential treatment (DR 71, 91 and 152).

## **Rule V.F.3**

**V.F.3.** A utility shall not offer or provide to its affiliates advertising space in utility billing envelopes or any other form of utility customer written communication unless it provides access to all other unaffiliated service providers on the same terms and conditions.

### **Findings and Conclusions**

SCE is in compliance with Rule V.F.3.

SCE does not provide advertising space to covered affiliates in utility envelopes or any other form of written utility customer communications (DR 57). This is consistent with policy statements found in SCE's ATR Manual and current Compliance Plan (CP05) (DR 3 and 110).

NorthStar reviewed all SCE written marketing materials, advertisements, newsletters, bulletins, and billing inserts distributed during 2006 and found no instances where covered affiliates were provided advertising space (DR 91, 117 and 152). Generally, these materials emphasized energy efficiency programs, rebates, safety tips and rate information. NorthStar found instances where EIX was provided space or mentioned in these materials (DR 57, 91 and 117). In these instances, the focus of the material was related to corporate image and community relationship (e.g., EIX support of the Alzheimer's Associations' 2006 Memory Walk). Also, NorthStar toured public areas of SCE facilities (e.g., CTAC) and found no instances of covered affiliate advertisements, brochures or other written marketing materials.



## Rule V.F.4

**V.F.4.** A utility shall not participate in joint advertising or joint marketing with its affiliates. This prohibition means that utilities may not engage in activities which include, but are not limited to the following:

**V.F.4.a.** A utility shall not participate with its affiliates in joint sales calls, through joint call centers or otherwise, or joint proposals (including responses to requests for proposals (RFPs)) to existing or potential customers. At a customer's unsolicited request, a utility may participate, on a nondiscriminatory basis, in non-sales meetings with its affiliates or any other market participant to discuss technical or operational subjects regarding the utility's provision of transportation service to the customer.

**V.F.4.b.** Except as otherwise provided for by these Rules, a utility shall not participate in any joint activity with its affiliates. The term "joint activities" includes, but is not limited to, advertising, sales, marketing, communications and correspondence with any existing or potential customer.

**V.F.4.c.** A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.

## Findings and Conclusions

SCE is in partial compliance with Rule V.F.4.

SCE did not respond to any customer RFPs/RFQs during 2006 (DR 100). NorthStar reviewed all advertising materials developed during 2006 by SCE and its affiliates and found no instances of joint advertising (DR 55, 57, 90, 91, 152, 191, and 193). NorthStar reviewed presentations made to major customers and did not find any evidence of joint sales call activities (DR 117). SCE's customer call center operates separate and independently from its affiliates. NorthStar toured the customer call center in Rancho Cucamonga and monitored a sample of customer calls and found no evidence that SCE utilizes its customer call center in any manner for joint marketing with its affiliates (DR 169).

Rule V.F.4 prohibits a utility from participating in any joint activities with its affiliates involving existing or potential customers. SCE, EMG and EMMT participated in the California Climate Coalition in 2006 (DR 113). Participants in the coalition included car manufacturers and oil companies that may be SCE customers (DR 98).

SCE stated that it did not participate with its affiliates in any trade shows, conferences, or marketing events held in California in 2006 (DR 178). As previously discussed, NorthStar found that SCE participated in a number of meetings with its affiliates that did not include customers (DR 113).

## Recommendation

17. Prohibit SCE participation in meetings, conference calls, or other events in California with covered affiliates except those expressly permitted by the Rules.

## Rule V.F.5

**V.F.5.** A utility shall not share or subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research.

## Findings and Conclusions

SCE is in compliance with Rule V.F.5.

SCE directs and funds its own research and development activities independently of its affiliates. In particular, SCE does not:

- Jointly fund research and development activities with affiliates.
- Subsidize its affiliates' research and development activities.
- Does not collaborate with affiliates on research and development activities through professional organizations.

NorthStar conducted interviews and reviewed data responses concerning SCE's research and development activities. SCE currently funds \$1.6 million annually in research and development activities which are primarily transmission and distribution related. Some of SCE's research and development projects are collaborative efforts sponsored by the Electric Power Research Institute (EPRI). SCE's involvement in these types of projects is similar to a magazine subscription where the final product is a publication. As procurement of these publications is equally available to all EPRI members, affiliate procurement of the same publications would not constitute a joint collaboration and would not conflict with the Rules.

SCE purchased services from the Cambridge Energy and Research Association with one of its affiliates. CERA provides access to a proprietary database. Access to this database is publicly available to all industry participants and does not constitute joint research and development (DR 65, 66, 67, 97 and 132).

## Rules V.G and V.G.1

### V.G. Employees:

**V.G.1.** Except as permitted in Section V E (corporate support), a utility and its affiliates shall not jointly employ the same employees. This Rule prohibiting joint employees also applies to Board Directors and corporate officers, except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to affiliates that operate within California. In the case of shared directors and officers, a corporate officer from the utility and holding company shall verify in the utility's compliance plan the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules. In its compliance plan required in Rule VI, the utility shall list all shared directors and officers between the utility and affiliates. No later than 30 days following a change to this list, the utility shall notify the Commission's Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 of any change to this list.

## Findings and Conclusions

SCE has not complied with Rule V.G.1.

SCE's ATR Manual and its Compliance Plan (CP05) state that SCE does not jointly employ the same employees as a covered affiliate, except as permitted by Rule V.E (DR 3 and 110). SCE's ATR Manual defines joint employment as the receipt or earning of compensation concurrently that will be reported on IRS Forms W-2 from Southern California Edison and a Class A affiliate (DR 3, Chapter 11). During calendar year 2006, no employees of SCE were employed jointly by SCE and any of its covered affiliates based upon SCE's definition (DR 11 and 46).

However, using Rule V.G.2.e, SCE has authorized "blanket" Intercompany Service Requests (ISRs) for 12 of the 18 individuals requested to provide support for SCE affiliates covering half or the entire calendar year. These ISRs are not "temporary" in nature and do not comport with the temporary or intermittent assignment allowed under Rule V.G.2.e. Blanket ISRs appear to NorthStar to be joint employment-like arrangements that do not comply with the intent of Rule V.G.1. NorthStar recommended in the 2000 and 2001 Affiliate Transactions Audit Reports that SCE prohibit this practice. SCE agreed to implement this recommendation although the Company believes that "blanket" ISRs do not violate Rules V.G.1 or V.G.2.e. Nevertheless, SCE has continued this practice.

The boards of directors of EIX and SCE consist of the same individuals, who do not serve as a director or officer of any Class A affiliate. A number of individuals serve as officers of both EIX and SCE. Only one individual serves as a director and/or officer of both SCE and one or more Class A (covered) affiliates. Barbara E. Mathews serves as Vice President and Corporate Secretary for Southern California Edison and Corporate Secretary for Class A affiliates Edison Mission Group, Inc., Edison Source and its subsidiary, Edison Source Norvik Company.

In regard to director/officer compliance with Rule V.G.1, not only do the Boards of Directors of EIX and SCE consist of the same individuals, the board meetings and minutes are recorded as Joint Regular Meetings of the Boards of Directors of Edison International and Southern California Edison Company. While the directors and officers (other than the Corporate Secretary) do not serve as officers or directors of any Class A affiliate, Mr. Ted Craver, Edison Mission Group Chairman, President and CEO was in attendance at all regular joint board meetings held during CY2006. Based upon the nature of information shared and decisions reached in these board meetings (e.g., forward looking prices for natural gas and power, generation supply reserves, readiness of the SCE grid to support the summer peak, upcoming New Generation RFO, and SCE's plans to build five generation peaking projects, etc.), NorthStar believes that Mr. Craver's attendance violates Rule V.G.1 and Rule IV – Disclosure and Information.

As previously discussed, Mr. Jeff Barnett was hired as a Vice President of Tax for EMG (a Class A affiliate) in June, 2006 and he was provided unrestricted access to utility facilities, access to utility information systems and performed work on behalf of SCE's Tax Department for the second half of CY2006. SCE's position is that Mr. Barnett's

responsibilities fell within a shared services function permitted by Rule V.E (DR 164). NorthStar believes that Mr. Barnett's position as an officer of EMG and the shared services support provided during the second half of CY2006 does not comply with Rule V.E or V.G.1.

## **Rules V.G.2 through V.G.2.d**

**V.G.2.** All employee movement between a utility and its affiliates shall be consistent with the following provisions:

**V.G.2.a.** A utility shall track and report to the Commission all employee movement between the utility and affiliates. The utility shall report this information annually pursuant to our Affiliate Transaction Reporting Decision, D.93-02-016, 48 CPUC2d 163, 171-172 and 180 (Appendix A, Section I and Section II H.).

**V.G.2.b.** Once an employee of a utility becomes an employee of an affiliate, the employee may not return to the utility for a period of one year. This Rule is inapplicable if the affiliate to which the employee transfers goes out of business during the one-year period. In the event that such an employee returns to the utility, such employee cannot be retransferred, reassigned, or otherwise employed by the affiliate for a period of two years. Employees transferring from the utility to the affiliate are expressly prohibited from using information gained from the utility in a discriminatory or exclusive fashion, to the benefit of the affiliate or to the detriment of other unaffiliated service providers.

**V.G.2.c.** When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 25% of the employee's base annual compensation, unless the utility can demonstrate that some lesser percentage (equal to at least 15%) is appropriate for the class of employee included. In the limited case where a rank-and-file (non-executive) employee's position is eliminated as a result of electric industry restructuring, a utility may demonstrate that no fee or a lesser percentage than 15% is appropriate. The Board of Directors must vote to classify these employees as "impacted" by electric restructuring and these employees must be transferred no later than December 31, 1998, except for the transfer of employees working at divested plants. In that instance, the Board of Directors must vote to classify these employees as "impacted" by electric restructuring and these employees must be transferred no later than within 60 days after the end of the O&M contract with the new plant owners. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment (i.e. credited to the Electric Revenue Adjustment Account or the Core and Non-core Gas Fixed Cost Accounts, or other ratemaking treatment, as appropriate), on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision will not apply to clerical workers. Nor will it apply to the initial transfer of employees to the utility's holding company to perform corporate support functions or to a separate affiliate performing corporate support functions, provided that that transfer is made during the initial implementation period of these rules or pursuant to a § 851 application or other Commission proceeding. However, the rule will apply to any subsequent transfers or assignments between a utility and its affiliates of all covered employees at a later time.

**V.G.2.d.** Any utility employee hired by an affiliate shall not remove or otherwise provide information to the affiliate which the affiliate would otherwise be precluded from having pursuant to these Rules.

## **Findings and Conclusions**

SCE is in partial compliance with Rules V.G.2 through V.G.2.d.

NorthStar reviewed all employee movement from SCE to affiliates and from affiliates to SCE during 2006 applicable to Rule V.G.2. Rule V.G.2.a requires that all employee movement between SCE and its affiliates be tracked and reported to the Commission. During 2006, ten employees terminated their employment with SCE and became affiliate employees (DR 47). SCE reports this information each year as “Movement of Utility Employees to Affiliates (2006)” under Tab H of the Affiliate Transactions Annual Report for 2006 to be filed no later than May 1, 2007. The movement of employees between SCE and its affiliates is shown in Table 3.

**Table 3  
List of Employee Movement (2006)**

<b>Empl.</b>	<b>Title</b>	<b>From</b>	<b>To</b>	<b>End Date</b>	<b>Start Date</b>	<b>Payroll Change</b>
06-01	Dir Corp Fin Plng	SCE Treasurers Exec	EIX	4/2/06	4/3/06	4/3/06
06-02	Dir, EH&S	SCE Pwr Gen & Spec Proj	EME	10/1/06	10/2/06	10/2/06
06-03	Project Manager	SCE Gen Bus Plng	EME	5/28/06	5/29/06	5/29/06
06-04	Project Manager	SCE Gen Bus Plng	EME	4/2/06	4/3/06	4/3/06
06-05	Project Manager	SCE Gen Bus Plng	EME	3/5/06	3/6/06	3/6/06
06-06	Analyst-Financial 1	SCE FP&A	EIX	4/16/06	4/17/06	4/17/06
06-07	Equipment Operator	SCE Mohave	Midwest Gen.	10/15/06	10/16/06	10/16/06
06-08	Analyst-Financial 3	EIX Finance Group	SCE	3/5/06	3/6/06	3/6/06
06-09*	Dir Business Analytics	EIX Execs	SCE	4/2/06	4/3/06	4/3/06
06-10	Mgr-Project/Product 3	EIX Risk Mgmt	SCE	8/20/06	8/21/06	8/21/06
06-11	Analyst-Financial 3	SCE Corp Finance	EIX	12/10/06	12/11/06	12/11/06
06-12	Equipment Operator	SCE Generation	Midwest Gen	12/10/06	12/11/06	12/11/06
06-13	VP Tax, EIX/SCE	EME	SCE	12/13/06	12/14/06	12/14/06
06-14	Strategic Planning Mgr 2	SCE Corp Finance	EIX	12/24/06	12/25/06	12/25/06
06-15	Analyst-Business 2	EME	SCE	10/15/06	10/16/06	10/16/06
06-16*	Manager 1	EME Midwest Gen	SCE	5/14/06	5/15/06	5/15/06
06-17	Auditor-Corporate 1	EME Midwest Gen	SCE	6/11/06	6/12/06	6/12/06

\*Previously worked for the utility; transferred from the utility to affiliate in CY2000. (DR 47)

During 2006, seven affiliate employees became SCE employees. SCE’s report of “Movement of Affiliate Employees to Utility (2006)” will be incorporated in Tab H of the Affiliate Transactions Annual Report for 2006, to be filed by May 1, 2007.

Rule V.G.2.b prohibits employees who transfer to an affiliate from returning to the utility for one year, except in limited circumstances. Of the seven affiliate employees who moved to SCE from an affiliate, only two individuals had previous SCE employment, in both cases seven years prior, exceeding the one-year residency requirement.

Rule V.G.2.c requires that a transfer fee must be paid by the affiliate for SCE employees transferring to an affiliate. SCE charged affiliates these fees on six occasions during 2006 (DR 48 and 49).

- Six of the ten SCE employees transferred to EME or Midwest Generation. Six transfer fees were charged.

- Four of the ten SCE employees became EIX employees. As EIX is not covered by the Rules during 2006, transfer fees were not charged.

SCE's compliance with Rule V.G.2.d requires that employees are reminded in an exit interview of the Rules and the prohibition of providing information to affiliates. SCE's ATR Manual contains exit interview material related to affiliate transactions and utility information that is presented to, and signed by utility employees when they move to an affiliate (DR 3). NorthStar's audit confirming utility policies and procedures and inspection of HR records showed that only half of the employee exit interview records contained information required by Rule V.G.2.d and the ATR Manual. NorthStar does not consider half of the required records satisfactory compliance with the Rules governing employee movement.

## **Rule V.G.2.e**

**V.G.2.e.** A utility shall not make temporary or intermittent assignments, or rotations to its energy marketing affiliates. Utility employees not involved in marketing may be used on a temporary basis (less than 30% of an employee's chargeable time in any calendar year) by affiliates not engaged in energy marketing only if:

**V.G.2.e.i.** All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 10% of direct labor cost, or fair market value. When the affiliate obtains the services of an executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value.

**V.G.2.e.ii.** Utility needs for utility employees always take priority over any affiliate requests;

**V.G.2.e.iii.** No more than 5% of full time equivalent utility employees may be on loan at a given time;

**V.G.2.e.iv.** Utility employees agree, in writing, that they will abide by these Affiliate Transaction Rules; and

**V.G.2.e.v.** Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers.

## **Findings and Conclusions**

SCE is in partial compliance with Rule V.G.2.e.

Temporary or intermittent assignments of SCE personnel are directly requested by affiliates. Affiliates submit a form called an Intercompany Service Request (ISR) to request temporary personnel assistance from SCE. The Affiliate Officer (or designee) must approve each ISR before the temporary assignment can occur. The Affiliate Officer (or designee) is responsible for determining that the requested temporary assignment is allowed under Rule V.G.2.e, that it is in accordance with all aspects of the Compliance Plan (CP05), and that it does not take priority over any critical utility assignments. The signed and approved ISR also serves as the employee's acknowledgement of the relevant Rules.



Rule V.G.2.e prohibits SCE from making temporary assignments of its employees to its energy marketing affiliates. The terms “energy marketing affiliate” and “marketing” have not been specifically defined by the Commission within the context of the Rules, or other directives. SCE has defined the term energy marketing affiliate to include those of its affiliates that actively broker commodity electricity on a competitive basis in California’s regional market.

With respect to SCE’s definition of terms and compliance with the Rules, the utility has introduced additional issues. The Rules do not address or define commodity electricity. “Commodity electricity” was not found in any of the Commission’s Rules, Decisions or Resolutions related to Affiliate Transactions Compliance. SCE’s definition of energy marketing affiliate excludes all forms of energy other than “commodity electricity” although SCE affiliates are involved in many forms of energy and numerous energy industry segments. Furthermore, the Rules do not restrict compliance requirements to “competitive” energy marketing or California’s regional market.

SCE’s definition of energy marketing affiliates within California’s regional market is also inconsistent with its classification and reporting of Class A affiliates, as the utility has recognized national and international entities regardless of their distance from the California regional market as covered by the Rules.

For the purpose of Rule V.G.2.e, SCE determined that for 2006, the following affiliates meet its definition of “energy marketing affiliate” as included in its compliance plans. NorthStar’s review of all ISR forms processed in 2006 showed that SCE did not allow temporary assignments to these affiliates in 2006.

- Edison Mission Marketing and Trading
- Coalinga Cogeneration Company
- Kern River Cogeneration Company
- March Point Cogeneration Company
- Mid-Set Cogeneration Company
- Midway-Sunset Cogeneration Company
- Salinas River Cogeneration Company
- Sargent Canyon Cogeneration Company
- Sunrise Power Company
- Sycamore Cogeneration Company
- Watson Cogeneration Company

SCE’s designation of energy marketing affiliates does not include affiliate entities such as:

- Aguila Energy Company – owns power generation in West Virginia and American Hydro Power Company.
- Anacapa Energy Company – owns Salinas River Cogeneration facility.
- Camino Energy Company – owns Watson Cogeneration facility.
- CL Power Sales – restructures power contracts.
- Del-Mar Energy Company – owns Mid-Set Cogeneration facility.
- Edison Mission Energy Petroleum – gas-related contracts with Texaco Gas Marketing, Inc.

- March Point Cogeneration Company – owns power generation facility in Washington.
- Midwest Generation Energy Services, LLC – retail sales of power.
- Midwest Generation, LLC – owns and operates power generation facilities in Illinois.
- San Gabriel Energy Company – assignee of gas contract.
- Silverado Energy Company – owns interest in Coalinga Cogeneration in California.
- Viejo Energy Company – owns interest in Sargent Canyon Cogeneration in California.
- Walnut Creek Energy, LLC. – will own a 500 MW generation facility operation in California (2008).

SCE did allow temporary assignments to affiliate entities such as wind power projects, Midwest Generation and power projects that have yet to reach commercial operation, although these affiliates are not covered by SCE’s definition of energy marketing affiliate.

Rule V.G.2.e prohibits utility employees involved in marketing from being used for temporary assignments. SCE’s ATR Manual defines employees involved in marketing as an employee who actively engages in any or all of the following (DR 3):

- Selling (approaching, presenting, answering questions, closing sales)
- Market research and intelligence
- Consultative services regarding utility products and services
- Prospecting (finding and cultivating new customers)

NorthStar’s review of ISR forms processed for temporary assignments, direct charges to affiliates, SCE organization charts and Loaned Labor Reports showed that SCE did not allow temporary assignments of utility employees involved in marketing during 2006 (DR 50, 51, and 52).

Rule V.G.2.e also limits temporary assignments to 30 percent of an employee’s chargeable time. NorthStar reviewed SCE’s labor reporting process and the Loaned Labor Report (DR 52), which records hours charged to “directly requested” (Rule V.G.2.e) and “corporate support activities” (Rule V.E). Our review indicated that SCE employees did not exceed the 30 percent limitation in 2006. Several additional employees charged more than 30 percent of their hours to affiliates but these employees were in the category of shared corporate support (Rule V.E), allowable under the Rules.

Charges for time spent on directly requested services is billed to affiliates on the same invoice that corporate support is billed. Time spent on directly requested services is recorded on the employee’s timesheet under a project number that is unique to the affiliate receiving the benefit. These labor charges, as well as the appropriate labor loadings, are billed to the affiliate receiving the benefit. In addition to fringe benefit related loadings, Rule V.G.2.e requires that a fee of 10 percent of direct labor, or 15 percent of direct labor in the case of executive time, must be charged to the affiliate.

NorthStar reviewed the accounting process by which costs were assigned to affiliates by selecting examples of transactions at each step in the process. NorthStar analyzed the



method by which affiliate costs were recorded and the invoices to SCE's affiliates were prepared. The review revealed that the process of assigning costs to and billing of affiliates is largely manual and occurs outside the corporate accounting system with extensive reliance on spreadsheets. Despite the reliance on external processes, NorthStar found that billing for directly requested services was timely with one exception. The additional 5 percent labor mark up charged for time of executives was not charged each month for one executive for the months of January thru September 2006. The entire amount of this labor mark up for the year to date was billed to the affiliates with the billing for October charges (DR 185). This delayed charge is the result of a failure to charge affiliates on a contemporaneous basis (DR 209). As described under Rule V.E, the spreadsheets used by SCE to bill its affiliates are complex and changes are made without adequate testing.

NorthStar's detailed evaluation of SCE's timekeeping process, ISR forms, information processed, management reports and controls revealed the following:

- SCE used "blanket" ISRs in a manner that results in joint employment, prohibited by Rule V.G.1.
- SCE did not charge affiliates contemporaneously for directly requested labor plus appropriate loadings (DR 209).
- SCE processed 29 ISRs in 2006. Most of the ISR documents (23 out of 29) indicated that work for the affiliate had scheduled start dates before SCE management approval was obtained. Thus, pre-screening the work request for allowable affiliates and activities, chargeable time requirements and utility priority was effectively not done during 2006 (DR 51).
- SCE's management reporting and control tool for affiliate transactions, the Loaned Labor Report was found to be faulty. The report requires manual intervention in order to identify and post corrections to directly charged hours to affiliates (DR 52). This increases the potential for error and results in management information that is late. SCE plans to implement a new accounting system in early 2008 that should eliminate the current manual processes.

## **Recommendation**

18. Discontinue the use of "blanket" Intercompany Service Requests for joint employment.

## **Rule V.H**

**V.H. Transfer of Goods and Services:** To the extent that these Rules do not prohibit transfers of goods and services between a utility and its affiliates, and except for as provided by Rule V.G.2.e, all such transfers shall be subject to the following pricing provisions:

**V.H.1.** Transfers from the utility to its affiliates of goods and services produced, purchased or developed for sale on the open market by the utility will be priced at fair market value.

**V.H.2.** Transfers from an affiliate to the utility of goods and services produced, purchased or developed for sale on the open market by the affiliate shall be priced at no more than fair market value.

**V.H.3.** For goods or services for which the price is regulated by a state or federal agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods or services, this Commission's pricing provisions govern.

**V.H.4.** Goods and services produced, purchased or developed for sale on the open market by the utility will be provided to its affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.

**V.H.5.** Transfers from the utility to its affiliates of goods and services not produced, purchased or developed for sale by the utility will be priced at fully loaded cost plus 5% of direct labor cost.

**V.H.6.** Transfers from an affiliate to the utility of goods and services not produced, purchased or developed for sale by the affiliate will be priced at the lower of fully loaded cost or fair market value.

### **Findings and Conclusions**

SCE is in compliance with Rule V.H.

There were no property transfers between SCE and its covered affiliates during 2006 (DR 27).

## RULE VI. REGULATORY OVERSIGHT

Rule VI requires SCE to demonstrate that it complies with the Rules by filing a formal compliance plan applicable to transactions with all affiliates as of the end of 1997, annually thereafter if there have been changes, and upon the creation of a new affiliate covered by these Rules. Annual audits, conducted at shareholder expense, are required to independently verify compliance with the Rules, and affiliate officers and employees must be made available for testimony as necessary or required by the California Public Utilities Commission (CPUC or Commission).

NorthStar reviewed SCE's Compliance Plans and other related documentation required by the CPUC in accordance the Affiliate Transaction Rules. We also examined whether SCE's implementation of the Rules was consistent with its Compliance Plans. The following evaluative criteria were used in auditing SCE's compliance with Rule VI:

- Compliance plans filed with the CPUC are thorough, accurate, and timely.
- SCE has identified all affiliates that are covered by the Rules.
- SCE's internal control procedures are effective in identifying, monitoring and controlling affiliate transactions.
- SCE has an effective process for informing employees of the Affiliate Transaction Rules and monitoring compliance.
- When compliance shortcomings are noted, remediation efforts are actively pursued.
- The CPUC is notified of the creation of new affiliates.
- An annual affiliate transaction audit is conducted at shareholder expense.

### Rule VI.A

**VI.A. Compliance Plans:** No later than December 31, 1997, each utility shall file a compliance plan demonstrating to the Commission that there are adequate procedures in place that will preclude the sharing of information with its affiliates that is prohibited by these Rules. The utility should file its compliance plan as an advice letter with the Commission's Energy Division and serve it on the parties to this proceeding. The utility's compliance plan shall be in effect between the filing and a Commission determination of the advice letter. A utility shall file a compliance plan annually thereafter by advice letter served on all parties to this proceeding where there is some change in the compliance plan (i.e., when a new affiliate has been created, or the utility has changed the compliance plan for any other reason).

### Findings and Conclusions

SCE is in compliance with Rule VI.A.

### Compliance Plans

Rule VI.A requires SCE to file a compliance plan annually with the CPUC when a new affiliate has been created or the utility has changed the compliance plan for any other reason. Effectively, this requires SCE to file an updated compliance plan on an annual basis.

Decision 97-12-088 established standards of conduct governing affiliate transactions and these Rules. SCE filed its initial Compliance Plan with the Commission on December 31, 1997, as required. SCE subsequently filed a Supplemental Compliance Plan on January 30, 1998. Commission Decision 98-08-035 granted certain Petitions for Modifications of the Rules. On September 17, 1998, the Commission responded to SCE's Supplemental Compliance Plan in Resolution E-3539. This resolution clarified the Commission's intent and interpretation of a number of the Rules, and it ordered changes in the way SCE had implemented certain Rules.

SCE has filed compliance plans annually that meet the filing requirements specified in Rule VI.A. SCE's Affiliate Transactions Compliance Plan Update for 2005 (CP05) is applicable for all of CY2006, covering movement of employees, transfer of information, transmission of documents and electronic communications, and temporary assignments of SCE employees to EIX or to other affiliates (DR 110). CP05 was submitted to the Commission on December 23, 2005 as Appendix A of Advice Letter 1949-E.

As with previous SCE Compliance Plans, CP05 presents SCE's understanding and interpretation of the Affiliate Transaction Rules and describes SCE's approach and procedures for implementing the Rules. NorthStar frequently referred to CP05 during the audit.

SCE revised its 2005 Compliance Plan one year later, and submitted it to the Commission on December 23, 2006 as Appendix A of Advice Letter 2081-E (DR 110). SCE's Affiliate Transactions Compliance Plan Update for 2006 (CP06) has the following changes:

- Brief footnote discussion of the CPUC's March 22, 2006 approval of Advice Letter 1872-E and pending 2006 Advice Letters (1970-E and 1992-E) regarding new affiliates in Rule II.
- An updated affiliate list of major Class A and Class B affiliates in Rule II. Footnote comment on affiliates dissolved.
- Identification of internal procurement procedures aligned with D. 04-12-048. Specifically, the use of an Independent Evaluator and the implementation of the "California Activity Procedures." These procedures reinforce non-preferential treatment of affiliates in power procurement situations. Additionally, SCE's Power Procurement Business Unit retains all documentation of procurement bids and activity. These items are referenced in Rules III.B and IV.G.
- Discussion in Rule V.G.2.b-d of the measures taken to ensure good faith negotiations for affiliate QF contracts, as outlined in D. 06-05-034.

## **Compliance Monitoring and Control**

Previous affiliate transactions audits found that SCE had strong and effective internal controls (DR 1, 2, 3 and 115). NorthStar's audit of SCE's compliance with the Rules in 2006 indicated that there has been serious degradation in the control environment.

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission defined internal control as a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliable financial reporting
- Effective and efficient operations
- Compliance with applicable laws and regulations

NorthStar's audit of SCE's compliance with the Rules in CY2006 noted a significant increase in the number of compliance issues, as discussed in this audit report. The problems with the control environment can be attributed to the following:

- Personnel changes, staff reductions and reorganizations have occurred in key areas of SCE that impact the effectiveness of the utility's Affiliate Transaction Rules compliance efforts. In effect, institutional knowledge regarding the Rules has declined over time.
- Legacy accounting systems in many cases predate the Rules and require extensive manual intervention to record, track, control and report on affiliate transactions. In several cases NorthStar's inquiries into accounting processes surfaced errors that had to be addressed in order to satisfy audit requirements.
- SCE's approach to training with regard to the Rules is primarily an abbreviated slide presentation and has been relatively informal. SCE has not updated its approach to training or its materials to reflect the utility's dynamic business environment in the context of the Rules. Similarly, SCE's training fails to address changes in personnel directly involved. Audit interviews with key employees found that many lack basic knowledge of the Rules. Compliance training has shifted from an emphasis on California Affiliate Transaction Rules to FERC Standards and Code of Conduct.
- The Commission has not responded to any of SCE's Compliance Plans since Resolution E-3539, dated September 17, 1998.
- SCE's approach to affiliate compliance has become more reactive. For example, the utility and particularly the Regulatory Policy and Affairs Department found no compliance issues on its own during CY2006 – fewer than previous years. Conversely, the audit found more compliance issues than any previous year.

## **Recommendations**

19. Strengthen the Regulatory Policy and Affairs Department's Affiliate Transaction Rules compliance function to provide a stronger monitoring role, increase its presence and influence over affiliate rules compliance issues across the EIX family of companies.

## **Rule VI.B**

**VI.B. New Affiliate Compliance Plans:** Upon the creation of a new affiliate which is addressed by these Rules, the utility shall immediately notify the Commission of the creation of the new affiliate, as

well as posting notice on its electronic bulletin board. No later than 60 days after the creation of this affiliate, the utility shall file an advice letter with the Energy Division of the Commission, served on the parties to this proceeding. The advice letter shall demonstrate how the utility will implement these Rules with respect to the new affiliate.

### Findings and Conclusions

SCE did not comply with Rule VI.B.

Rule VI.B. requires three actions by SCE upon the creation of a new Class A affiliate: (1) Immediate written notice to the CPUC, (2) Immediate posting on SCE’s electronic bulletin board on the world wide web, and (3) An advice letter filing with the Energy Division of the Commission within 60 days of the creation of the new affiliate. The CPUC has defined “immediate” in 1 and 2 above as three business days in Ordering Paragraph 26 of Resolution E-3539 (DR 5).

As shown in Table 4, SCE informed the Commission about 23 new Class A affiliates during calendar year 2006 (DR 7, 166 and 167). With respect to Rule VI.B requirements:

- Immediate written notice to the CPUC was provided for only two of the 23 affiliates created. Both written notices submitted to the CPUC exceeded the three business day limit.
- Posting on SCE’s electronic bulletin board was not immediate for any of the affiliates created.

**Table 4**  
**SCE Class A Affiliates Created in 2006**

New Affiliate	Key Dates			
	Created/ Acquired	CPUC Notice	Bulletin Board	Advice Letter
1. DegreeffDP, LLC.	3/24/06		4/18/06	4/21/06
2. Power Beyond, LLC	10/17/06		4/18/06	4/21/06
3. Tair Windfarm, LLC	11/15/05	3/8/06	3/7/06	
4. Hillcrest Windfarm, LLC	11/15/05	3/8/06	3/7/06	
5. ALP Wind, LLC	10/17/05		4/18/06	4/21/06
6. Bendwind, LLC	11/15/05		4/18/06	4/21/06
7. HyperGen, LLC	10/17/05		4/18/06	4/21/06
8. JMC Wind, LLC	10/17/05		4/18/06	4/21/06
9. LimiEnergy, LLC	10/17/05		4/18/06	4/21/06
10. Maiden Winds, LLC	10/17/05		4/18/06	4/21/06
11. MD & E Wind, LLC	10/17/05		4/18/06	4/21/06
12. Power Blades Windfarm, LLC	10/17/05		4/18/06	4/21/06
13. Stony Hills Wind Farm, LLC	10/17/05		4/18/06	4/21/06
14. Tower of Power, LLC	10/17/05		4/18/06	4/21/06
15. Whispering Wind Acres, LLC	10/17/05		4/18/06	4/21/06
16. White Caps Windfarm, LLC	10/17/05		4/18/06	4/21/06
17. Windom Transmission, LLC	10/17/05		4/18/06	4/21/06
18. East Ridge Transmission LLC	11/15/05		4/18/06	4/21/06
19. Sierra Wind, LLC	11/15/05		4/18/06	4/21/06
20. Larswind, LLC	11/15/05		4/18/06	4/21/06
21. DegreeffPA, LLC	11/15/05		4/18/06	4/21/06
22. Groen Wind LLC	11/15/05		4/18/06	4/21/06
23. San Juan Mesa Wind, LLC	12/27/05		1/4/06	2/24/06

Source: DR 7, 167 and [www.sce.com/AboutSCE/Regulatory/affiliate](http://www.sce.com/AboutSCE/Regulatory/affiliate) notices

SCE's position with regard to the use of dates establishing an affiliate covered by the Rules is documented in the Company's Compliance Plan and the ATR Manual (DR 166).

The Commission does not define "creation" for the purposes of this Rule. Incorporation and other organizational steps required to legally form a new corporate entity may be completed far in advance of a determination of whether or not the new affiliate is subject to these Rules – i.e., the determination of precisely what products or services it will provide – and even farther in advance of initial offering of those products or services to customers. From time-to-time, entities are formed simply for the purposes of reserving a corporate name and forming a legal "shell" to house undefined future ventures. By its terms, Rule VI.B requires reporting of a new affiliate only if it is "addressed by these Rules" – i.e., when it begins providing products or services that would render it an affiliate as defined in the Rules. Hence, in the interest of providing the Commission with relevant information, SCE will report the creation of new affiliates under Rule VI.B when they begin to offer products or services to customers."

Therefore "Date Affiliate Created/Acquired" is the date of the acquisition or establishment of an affiliate and the "In Service Date" is the date an affiliate begins providing products and services.

SCE's notices to the Commission upon the creation of a new affiliate include the "Date Affiliate Created/Acquired." The terminology used by SCE is consistent with Rule VI.B. Furthermore, these affiliates, electric generation and transmission projects for the most part, were recognized by SCE as covered by the Rules. NorthStar is not aware of any SCE affiliates created that were formed for the purpose of reserving a corporate name and forming a legal shell to house undefined future ventures as is described in SCE's position above – which would suggest consideration for a delay in their Commission notice (DR 141).

- Advice letters were provided for only two affiliates within the 60-day time window. For the remainder of SCE's affiliates, advice letters were filed in excess of 60 days from the date created/acquired. In the case of two other affiliates, no advice letter was produced (DR 7 and 167).
- NorthStar finds no justification for SCE's position to report the creation of new affiliates under Rule VI.B when they begin to offer products or services to customers. Even so, advice letters provided to the Commission using SCE's "In Service Date" would have complied in only the same two out of 23 affiliates for CY2006.

SCE's position with respect to newly created affiliates and their compliance with the Rules are described in each of the advice letters. SCE states that no unusual or unique circumstances exist that would require Affiliate Transaction Rule implementation measures for the new affiliates that differ from those already identified for other affiliates. Therefore, SCE will apply the provisions of the prevailing compliance plans to all transactions with these affiliates (DR 7).



## Rule VI.C

**VI.C. Affiliate Audit:** No later than December 31, 1998, and every year thereafter, the utility shall have audits performed by independent auditors that cover the calendar year which ends on December 31, and that verify that the utility is in compliance with the Rules set forth herein. The utilities shall file the independent auditor's report with the Commission's Energy Division beginning no later than May 1, 1999, and serve it on all parties to this proceeding. The audits shall be at shareholder expense.

### Findings and Conclusions

SCE is in compliance with Rule VI.C.

SCE selected NorthStar Consulting Group, an independent auditor, to perform the 2006 Affiliate Transactions Compliance Audit. Work on this audit commenced in November 2006. SCE charged the cost of the 2005 Affiliate Transactions Audit to a shareholder funded account in CY2006 (DR 114). The 2006 audit is expected to be completed and submitted to the Commission by May 1, 2007.

SCE retained the services of three different audit firms since the enactment of the Affiliate Transaction Rules as described in D.97-12-088.<sup>14</sup> The audits produced nearly 80 recommendations to improve SCE's compliance practices and policies since 1998. The recommendations are largely confined to facility and computer system separation, corporate identification and advertising, joint employment, and new affiliate notification (DR 38 and 115). SCE's implementation of many recommendations in these areas has been less than effective. As shown in this audit report, the utility continues to experience compliance issues in:

- Joint employment of utility employees through the use of "blanket" Inter-Company Service Requests.
- Reporting new covered affiliates to the CPUC within 60 days.
- Managing affiliate access to utility facilities and computer systems.
- Proper use of disclaimers on marketing and advertising materials.

## Rule VI.D

**VI.D. Witness Availability:** Affiliate officers and employees shall be made available to testify before the Commission as necessary or required, without subpoena, consistent with the provisions of Public Utilities Code Section 314.

### Findings and Conclusions

SCE is in compliance with Rule VI.D.

SCE states in its ATR Manual and Compliance Plan (CP05) that it will comply with Rule VI.D (DR 3 and 110). At no time during 2006 were affiliate officers or employees requested to testify before the Commission (DR 198).

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<sup>14</sup> Amended by 98-08-035, 98-12-075, 99-09-002 and 02-02-046.



## RULE VII. UTILITY PRODUCTS AND SERVICES

Rule VII sets forth the requirements under which SCE can offer new products and services. Under Rule VII, SCE is required to file an advice letter with the CPUC before offering any new category of nontariffed products and services and is also required to file periodic reports describing its nontariffed products and services.

In reviewing SCE's compliance with Rule VII, NorthStar used the following evaluative criteria:

- The products and services offered for sale by SCE meet the requirements set forth in Rule VII.C.
- All conditions precedent to offering new nontariffed products and services, including accounting, reporting, and auditing systems are being met.
- Advice letters and periodic reports are complete and filed on time.

In conducting its compliance review, NorthStar examined the following:

- SCE's periodic reports to CPUC Energy Division describing each nontariffed product and service offering.
- New SCE nontariffed product and service offerings for 2006.
- Advice letters submitted to the CPUC during 2006.
- Employee training materials related to the procedures for offering new nontariffed products and services.

### Rules VII.A and VII.B

**VII.A. General Rule:** Except as provided for in these Rules, new products and services shall be offered through affiliates.

**VII.B. Definitions:** The following definitions apply for the purposes of this section (Section VII) of these Rules:

**VII.B.1.** "Category" refers to a factually similar group of products and services that use the same type of utility assets or capacity. For example, "leases of land under utility transmission lines" or "use of a utility repair shop for third party equipment repair" would each constitute a separate product or service category.

**VII.B.2.** "Existing" products and services are those which a utility is offering on the effective date of these Rules.

**VII.B.3.** "Products" include use of property, both real and intellectual, other than those uses authorized under General Order 69-C.

**VII.B.4.** "Tariff" or "tariffed" refers to rates, terms and conditions of services as approved by this Commission or the Federal Energy Regulatory Commission (FERC), whether by traditional tariff, approved contract or other such approval process as the Commission or the FERC may deem appropriate.

## Findings and Conclusions

Rules VII.A and VII.B are definitional in nature and do not require any specific action on the part of SCE.

## Rule VII.C

**VII.C. Utility Products and Services:** Except as provided in these Rules, a utility shall not offer nontariffed products and services. In no event shall a utility offer natural gas or electricity commodity service on a nontariffed basis. A utility may only offer for sale the following products and services:

- VII.C.1.** Existing products and services offered by the utility pursuant to tariff;
- VII.C.2.** Unbundled versions of existing utility products and services, with the unbundled versions being offered on a tariffed basis;
- VII.C.3.** New products and services that are offered on a tariffed basis; and
- VII.C.4.** Products and services which are offered on a nontariffed basis and which meet the following conditions:
  - VII.C.4.a.** The nontariffed product or service utilizes a portion of a utility asset or capacity;
  - VII.C.4.b.** such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;
  - VII.C.4.c.** the involved portion of such asset or capacity may be used to offer the product or service on a nontariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;
  - VII.C.4.d.** the products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and
  - VII.C.4.e.** the utility's offering of such nontariffed product or service does not violate any law, regulation, or Commission policy regarding anticompetitive practices.

## Findings and Conclusions

SCE is in compliance with Rule VII.C. However, the utility was not able to provide information to adequately review all requirements of Rule VII.C.4.d.

NorthStar reviewed SCE's 2005 Annual Report of Nontariffed Products and Services (NTP&S) filed on April 13, 2006 (DR 104). SCE's 2006 Annual NTP&S Report is not expected to be filed until April 2007. The filing of the 2006 NTP&S report is close to the filing of the 2006 Affiliate Transaction Audit. Despite the filing date for the 2006 NTP&S report, NorthStar reviewed NTP&S transactions between the utility and its affiliates for 2006.

SCE does not offer natural gas or electricity commodity service on a non-tariffed basis. All tariffed products and services met the criteria set forth in Rules VII.C.1 through VII.C.3 (DR 104). SCE's compliance was addressed by the CPUC in Resolution E-3639, issued on January 6, 2000. As a result of Resolution E-3639, the CPUC conditionally approved Advice Letter 1286-E and ordered SCE to file a supplementary advice letter with many modifications. SCE submitted Advice Letter 1286-E-A on April 5, 2000. SCE's letter was approved by the CPUC on September 29, 2003 retroactive to May 15, 2000.

Nontariffed products and services offered by SCE met the conditions set forth in VII.C.4a through VII.C.4c.

- Each NTP&S category offered by SCE utilizes some portion of utility asset or capacity such as land, transmission towers, distribution poles, facilities and/or equipment.
- Utility assets or capacity used to provide NTP&S are used in day-to-day utility operations.
- In most cases, the portion of utility assets, capacity used to provide non-tariffed products and services are negligible and do not have any adverse affect on the cost, quality, or reliability of tariffed products and services. NorthStar did find three NTP&S categories with a significant percentage of asset/capacity being utilized. These categories relate to the secondary use of utility right of ways and land. NorthStar reviewed these categories and found the high percentages did not have any adverse affect or reliability of tariffed products and services. Lease of vacant utility right-of-ways decreases the need for vegetation management, discourages illegal trash dumping, and other property management concerns that would arise if the land was vacant.

NorthStar was unable to determine if SCE met all of the conditions set forth in Rule VII.C.4.d. More discussion is provided in Rule VII.D.

- SCE was unable to provide NTP&S marketing cost data for CY 2006. SCE only provided marketing costs for CY 2005 (DR 152).
- SCE eliminates much of the NTP&S business risk to ratepayers by charging incremental costs to shareholder accounts. NorthStar reviewed all transactions that represented incremental costs charged to Corporate Real Estate for Secondary Land Use (DR 210). The transactions selected showed appropriate incremental costs and were recorded appropriately. However, the audit surfaced at least one instance where charges were not recorded appropriately. NorthStar requested further documentation from SCE demonstrating how incremental costs are charged to shareholders for other NTP&S categories. SCE was unable to provide the appropriate documentation (DR 157).

During the audit, NorthStar did not find evidence of undue management attention to the provision of NTP&S. Furthermore, NorthStar did not find any evidence to suggest SCE offered NTP&S in violation of any laws or CPUC policies.

## **Rule VII.D**

**VII.D. Conditions Precedent to Offering New Products and Services:** This Rule does not represent an endorsement by the Commission of any particular nontariffed utility product or service. A utility may offer new nontariffed products and services only if the Commission has adopted and the utility has established:

**VII.D.1.** A mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tarified basis and those it would provide on a nontarified basis;

**VII.D.2.** A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle.

**VII.D.3.** Periodic reporting requirements regarding pertinent information related to nontarified products and services; and

**VII.D.4.** Periodic auditing of the costs allocated to and the revenues derived from nontarified products and services.

## **Findings and Conclusions**

SCE is partially in compliance with Rule VII.D.

NorthStar's review of SCE's NTP&S accounting found areas for improvement. SCE's NTP&S accounting relies on the various business units to accurately record the incremental costs associated with NTP&S activities and exclude these costs from the utility's revenue requirement. Despite data requests, NorthStar was unable to obtain any reports that summarized incremental costs for NTP&S in accordance with management responsibilities (DR 104, 152, and 157). As a result of a NorthStar data request, SCE found at least one instance where charges were not recorded as a shareholder expense. Therefore, charges were not properly excluded from SCE's 2006 General Rate Case (DR 157). Currently, SCE is conducting an audit of NTP&S incremental costs, this effort and the migration to a new corporate accounting system provides the utility some opportunities to improve its accounting practices.

The SCE's gross revenue sharing mechanism (D. 99-09-070) enacted in September 1999 includes the treatment of revenues from NTP&S as required by Rule VII.D.2. The guidelines for this mechanism provide for two sharing allocations:

- A 90:10 (shareholder:ratepayer) sharing allocation of "active" products and services.
- A 70:30 (shareholder:ratepayer) sharing allocation for "passive" products and services in excess of \$16.7 million forecast revenues in SCE's 1995 GRC.

SCE is supposed to file its annual report related to NTP&S with the CPUC in April 2007 in accordance with Rules VII.D.3 and VII.H. The report should cover the period from January 1 through December 31, 2006. While the CPUC has not defined "periodic," the report is not filed in a timely manner for review during the annual Affiliate Transaction Audit. More discussion is provided in Rule VII.H.

Rule VII.D.4 requires the utility to conduct periodic audits of costs and revenues associated with NTP&S. SCE's Audit Services Department (Audit Services) has completed two audits of NTP&S. The first audit reviewed SCE's 2000 NTP&S Annual Report to the CPUC and was completed on January 30, 2002. The second audit reviewed SCE's 2004

NTP&S Annual Report to the CPUC and was completed on January 17, 2006. These audits focused on financial, operational, and business controls associated with NTP&S (DR 1, 2 and 36). Audit Services is conducting a third Non-Tariffed Products and Services - Incremental Costs Review (DR 36). The final report is expected in April 2007 and was not reviewed by NorthStar.

## **Recommendation**

20. Revise NTP&S accounting standards to improve accuracy and timely reporting.

## **Rule VII.E**

**VII.E. Requirement to File an Advice Letter:** Prior to offering a new category of nontariffed products or services as set forth in Section VII.C above, a utility shall file an advice letter in compliance with the following provisions of this paragraph.

**VII.E.1.** The advice letter shall:

**VII.E.1.a.** demonstrate compliance with these rules;

**VII.E.1.b.** address the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or service will not result in a degradation of cost, quality, or reliability of tariffed goods and services;

**VII.E.1.c.** demonstrate that the utility has not received competition transition charge (CTC) recovery in the Transition Cost Proceeding, A.96-08-001, or other related CTC Commission proceeding, for the portion of the utility asset dedicated to the non-utility venture; and

**VII.E.1.d.** address the potential impact of the new product or service on competition in the relevant market, including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect that market.

**VII.E.1.e.** be served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the rules governing the Commission's advice letter process.

**VII.E.2.** For categories of nontariffed products or services targeted and offered to less than 1% of the number of customers in the utility's customer base, in the absence of a protest alleging non-compliance with these Rules or any law, regulation, decision, or Commission policy, or allegations of harm, the utility may commence offering the product or service 30 days after submission of the advice letter. For categories of nontariffed products or services targeted and offered to 1% or more of the number of customers in the utility's customer base, the utility may commence offering the product or service after the Commission approves the advice letter through the normal advice letter process.

**VII.E.3.** A protest of an advice letter filed in accordance with this paragraph shall include:

**VII.E.3.a.** An explanation of the specific Rules, or any law, regulation, decision, or Commission policy the utility will allegedly violate by offering the proposed product or service, with reasonable factual detail; or

**VII.E.3.b.** An explanation of the specific harm the protestant will allegedly suffer.

**VII.E.4.** If such a protest is filed, the utility may file a motion to dismiss the protest within 5 working days if it believes the protestant has failed to provide the minimum grounds for protest required above. The protestant has 5 working days to respond to the motion.

**VII.E.5.** The intention of the Commission is to make its best reasonable efforts to rule on such a motion to dismiss promptly. Absent a ruling granting a motion to dismiss, the utility shall begin offering that category of products and services only after Commission approval through the normal advice letter process.

### **Findings and Conclusions**

SCE is in compliance with Rule VII.E.

SCE did not offer any new categories of NTP&S and therefore did not file any related advice letters to the CPUC (DR 103).

### **Rule VII.F**

**VII.F. Existing Offerings:** Unless and until further Commission order to the contrary as a result of the advice letter filing or otherwise, a utility that is offering tariffed or nontariffed products and services, as of the effective date of this decision, may continue to offer such products and services, provided that the utility complies with the cost allocation and reporting requirements in this rule. No later than January 30, 1998, each utility shall submit an advice letter describing the existing products and services (both tariffed and nontariffed) currently being offered by the utility and the number of the Commission decision or advice letter approving this offering, if any, and requesting authorization or continuing authorization for the utility's continued provision of this product or service in compliance with the criteria set forth in Rule VII. This requirement applies to both existing products and services explicitly approved and not explicitly approved by the Commission.

### **Findings and Conclusions**

SCE is in compliance with Rule VII.F.

Rule VII.F did not require any compliance action from SCE during the 2006 audit period. Advice 1286-E filed on January 30, 1998 established SCE's existing tariffed and non-tariffed utility products and services and requested authorization to continue offering these products and services subject to Rule VII. At the Commission's direction, SCE filed an updated version of its first Advice Letter (Advice 1286-E-A) on April 5, 2000. SCE's letter was approved by the CPUC on September 29, 2003 retroactive to May 15, 2000.

### **Rule VII.G**

**VII.G. Section 851 Application:** A utility must continue to comply fully with the provisions of Public Utilities Code Section 851 when necessary or useful utility property is sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered as part of a nontariffed product or service offering by the utility. If an application pursuant to Section 851 is submitted, the utility need not file a separate advice letter, but shall include in the application those items which would otherwise appear in the advice letter as required in this Rule.

### **Findings and Conclusions**

SCE is in compliance with Rule VII.G.

SCE did not engage in any activities that would require the filing of a Section 851 application (DR 27). SCE did not sell, lease, assign, mortgage, dispose of or otherwise

encumber any utility assets deemed necessary or useful in the performance of its duties to the public.

## Rule VII.H

**VII.H. Periodic Reporting of Nontariffed Products and Services:** Any utility offering nontariffed products and services shall file periodic reports with the Commission's Energy Division twice annually for the first two years following the effective date of these Rules, then annually thereafter unless otherwise directed by the Commission. The utility shall serve periodic reports on the service list of this proceeding. The periodic reports shall contain the following information:

**VII.H.1.** A description of each existing or new category of nontariffed products and services and the authority under which it is offered;

**VII.H.2.** A description of the types and quantities of products and services contained within each category (so that, for example, "leases for agricultural nurseries at 15 sites" might be listed under the category "leases of land under utility transmission lines," although the utility would not be required to provide the details regarding each individual lease);

**VII.H.3.** The costs allocated to and revenues derived from each category; and

**VII.H.4.** Current information on the proportion of relevant utility assets used to offer each category of product and service.

### Findings and Conclusions

SCE is in partial compliance with Rule VII.H. SCE's periodic filing of nontariffed products and services for 2006 was not available to be reviewed as part of this audit.

SCE filed its latest periodic report on nontariffed products and services covering 2005 transactions on April 13, 2006 (DR 104). NorthStar reviewed the report and found that it satisfied the requirements of Rule VII.H, albeit for transactions occurring one year prior. The report included the following:

- Existing categories of NTP&S
- Description of the products and services contained in each category (referred to Advice Letter 1286-E-A for details)
- Quantity of products and services offered in each category
- Incremental cost and revenue derived from each category
- Current proportion of relevant utility assets used to provide each category (Physical as well as Labor)

SCE's periodic NTP&S reports to the CPUC have become less timely with respect to the period covered. These reports and filing dates are shown in **Table 5** on the following page.



**Table 5**  
**Periodic Reporting of Nontariff Products and Services (since 1999)**

<b>Report</b>	<b>Period Covered</b>	<b>Filing Date</b>
1	January 1, 1998 - June 30, 1998	September 15, 1998
2	July 1, 1998 - December 31, 1998	March 15, 1999
3	January 1, 1999 - June 30, 1999	September 15, 1999
4	July 1, 1999 - December 31, 1999	March 20, 2000
5	January 1, 2000 - December 31, 2000	March 22, 2001
6	January 1, 2001 – December 31, 2001	March 28, 2002
7	January 1, 2002 – December 31, 2002	March 25, 2003
8	January 1, 2003 – December 31, 2003	March 31, 2004
9	January 1, 2004 – December 31, 2004	March 13, 2005
10	January 1, 2005 – December 31, 2005	April 13, 2006

Source: ATR Audits for 1999 - 2005; DR 2 and 104.

SCE's Annual Report of Nontariffed Product and Services for 2006 will not be filed until after the Affiliate Transactions Audit covering 2006 is completed. While the CPUC does not mandate a filing date, SCE did not have the report available for review during the ATR audit.

**Recommendation**

21. The Annual Report of Nontariffed Product and Services should be developed and submitted to the CPUC on a timely basis.

**Rule VII.I**

**VII.I. Offering of Nontariffed Products and Services to Affiliates:** Nontariffed products and services which are allowed by this Rule may be offered to utility affiliates only in compliance with all other provisions of these Affiliate Rules. Similarly, this Rule does not prohibit affiliate transactions which are otherwise allowed by all other provisions of these Affiliate Rules.

**Findings and Conclusions**

SCE is in compliance with Rule VII.I.

The category of Equipment and Machinery Repair, Testing, Maintenance and Calibration includes products and services provided to affiliated and non-affiliated entities by SCE's wholly owned subsidiary Edison ESI (ESI) (DR 12 and 150). ESI provided inspection, operation and maintenance, testing, modification, upgrade, removal and repair covered by five on-going Service Agreements that pre-date the Rules. Under these agreements and on an individual level, ESI performed eight Job Orders for affiliates during 2006 (Watson Cogen - 6, Midway Sunset - 1, and Mountainview Power - 1) (DR 150). The services provided by Edison ESI to covered affiliates were conducted in compliance with the Rules.



## **RULE VIII. COMPLAINT PROCEDURES AND REMEDIES**

Rule VIII establishes the process for following up and resolving complaints received by the CPUC regarding violation of the Affiliate Transaction Rules and describes the remedies available to the CPUC for enforcing the Rules. It is important to note that only a few parts of Rule VIII require specific compliance action by SCE, with the remainder of the Rule defining the resolution process and available remedies.

In reviewing SCE's compliance with Rule VIII, NorthStar used the following evaluative criteria:

- The utility has designated an Affiliate Compliance Manager and established formal responsibilities.
- The utility has properly notified the CPUC Energy Division of any complaints and any actions taken as a result of such resolutions, as required by the Rules.
- The utility is following the procedures for informal contacts described in Rules VIII.C.6.a and VIII.C.6.b.

In conducting its compliance review, NorthStar examined the following:

- Data requests covering all formal and informal complaints received by SCE during 2006.
- SCE's Affiliate Transactions Compliance Plan Update for 2005 (CP05) and Affiliate Transaction Rules (ATR) Manual (DR 3 and 110).
- SCE's compliance training materials.

### **Rules VIII.A through VIII.C.1**

**VIII.A.** The Commission shall strictly enforce these rules. Each act or failure to act by a utility in violation of these rules may be considered a separate occurrence.

#### **VIII.B. Standing:**

**VIII.B.1.** Any person or corporation as defined in Sections 204, 205, and 206 of the California Public Utilities Code may complain to the Commission or to a utility in writing, setting forth any act or thing done or omitted to be done by any utility or affiliate in violation or claimed violation of any rule set forth in this document.

**VIII.B.2.** "Whistleblower complaints" will be accepted and the confidentiality of complainant will be maintained until conclusion of an investigation or indefinitely, if so requested by the whistleblower. When a whistleblower requests anonymity, the Commission will continue to pursue the complaint only where it has elected to convert it into a Commission-initiated investigation. Regardless of the complainant's status, the defendant shall file a timely answer to the complaint.

#### **VIII.C. Procedure:**

**VIII.C.1.** All complaints shall be filed as formal complaints with the Commission and complainants shall provide a copy to the utility's designated officer (as described below) on the same day that the complaint is filed.

## Findings and Conclusions

Rules VIII.A, VIII.B, and VIII.C.1 do not require any specific action on the part of SCE.

## Rules VIII.C.2 through VIII.C.4

**VIII.C.2.** Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate rules and the utility's compliance plan adopted pursuant to these rules. Such officer shall also be responsible for receiving, investigating, and attempting to resolve complaints. The Affiliate Compliance Manager may, however, delegate responsibilities to other officers and employees.

**VIII.C.2.a.** The utility shall investigate and attempt to resolve the complaint. The resolution process shall include a meet-and-confer session with the complainant. A Commission staff member may, upon request by the utility or the complainant, participate in such meet-and-confer sessions and shall participate in the case of a whistleblower complaint.

A party filing a complaint may seek a temporary restraining order at the time the formal complaint is filed. The defendant utility and other interested parties may file responses to a request for a temporary restraining order within 10 days of the filing of the request. An assigned commissioner or administrative law judge may shorten the period for responses, where appropriate. An assigned commissioner or administrative law judge, or the Commission shall act on the request for a temporary restraining order within 30 days. The request may be granted when: (1) the moving party is reasonably likely to prevail on the merits, and (2) a temporary restraining order relief is necessary to avoid irreparable injury, will not substantially harm other parties, and is consistent with the public interest.

A notice of temporary restraining order issued by an assigned commissioner or administrative law judge will only stay in effect until the end of the day of the next regularly-scheduled Commission meeting at which the Commission can issue a temporary restraining order or a preliminary injunction. If the Commission declines to issue a temporary restraining order or a preliminary injunction, the notice of temporary restraining order will be immediately lifted. Whether or not a temporary restraining order or a preliminary injunction is issued, the underlying complaint may still move forward.

**VIII.C.2.b.** The utility shall prepare and preserve a report on each complaint, all relevant dates, companies, customers and employees involved, and if applicable, the resolution reached, the date of the resolution and any actions taken to prevent further violations from occurring. The report shall be provided to the Commission and all parties within four weeks of the date the complaint was filed. In addition, to providing hard copies, the utility shall also provide electronic copies to the Commission and to any party providing an e-mail address.

**VIII.C.2.c.** Each utility shall file annually with the Commission a report detailing the nature and status of all complaints.

**VIII.C.2.d.** The Commission may, notwithstanding any resolution reached by the utility and the complainant, convert a complaint to an investigation and determine whether the utility violated these rules, and impose any appropriate penalties under Section VIII.D or any other remedies provided by the Commission's rules or the Public Utilities Code.

**VIII.C.3.** The utility will inform the Commission's Energy Division and Consumer Services Division of the results of this dispute resolution process. If the dispute is resolved, the utility shall inform the Commission staff of the actions taken to resolve the complaint and the date the complaint was resolved.

**VIII.C.4.** If the utility and the complainant cannot reach a resolution of the complaint, the utility will so inform the Commission's Energy Division. It will also file an answer to the complaint within 30 days of the issuance by the Commission's Docket Office of instructions to answer the original complaint. Within 10 business days of notice of failure to resolve the

complaint, Energy Division staff will meet and confer with the utility and the complainant and propose actions to resolve the complaint. Under the circumstances where the complainant and the utility cannot resolve the complaint, the Commission shall strive to resolve the complaint within 180 days of the date the instructions to answer are served on the utility.

## **Findings and Conclusions**

SCE is in compliance with Rules VIII.C.2 through VIII.C.4.

Throughout 2006, SCE recognized an Affiliate Compliance Manager and an Affiliate Compliance Officer responsible for ensuring that the policies and rules described in the Compliance Plan and ATR Manual were interpreted and implemented (DR 3 and 105). During CY2006, SCE's Affiliates Officer was John R. Fielder, President.

SCE's Affiliate Compliance Officer is responsible for complaint investigation, resolution, and reporting (DR 3). SCE has included the procedures described in Rules VIII.C.2.a through VIII.C.2.d, VIII.C.3, and VIII.C.4 in its ATR Manual (DR 3). During 2006, SCE did not receive any formal complaints through the CPUC concerning its compliance with the Affiliate Transaction Rules (DR 106 and 107).

## **Rule VIII.C.5**

**VIII.C.5.** The Commission shall maintain on its web page a public log of all new, pending and resolved complaints. The Commission shall update the log at least once every week. The log shall specify, at a minimum, the date the complaint was received, the specific allegations contained in the complaint, the date the complaint was resolved and the manner in which it was resolved, and a description of any similar complaints, including the resolution of such similar complaints.

## **Findings and Conclusions**

Rule VIII.C.5 does not require any specific action on the part of SCE.

## **Rule VIII.C.6**

### **Rule VIII.C.6. Preliminary Discussions:**

**VIII.C.6.a.** Prior to filing a formal complaint, a potential complainant may contact the responsible utility officer and/or the Energy Division to inform them of the possible violation of the affiliate rules. If the potential complainant seeks an informal meeting with the utility to discuss the complaint, the utility shall make reasonable efforts to arrange such a meeting. Upon mutual agreement, Energy Division staff and interested parties may attend any such meeting.

**VIII.C.6.b.** If a potential complainant makes an informal contact with a utility regarding an alleged violation of the affiliate transaction rules, the utility officer in charge of affiliate compliance shall respond in writing to the potential complainant within 15 business days. The response would state whether or not the issues raised by the potential complainant require further investigation. (The potential complainant does not have to rely on the responses in deciding whether to file a formal complaint.)

## Findings and Conclusions

SCE is in compliance with Rule VIII.C.6.

SCE received no complaints regarding an alleged violation of the Affiliate Transaction Rules in CY2006 (DR 107).

## Rules VIII.D through VIII.D.2.b.i

### VIII.D. Remedies:

**VIII.D.1.** When enforcing these rules or any order of the Commission regarding these rules, the Commission may do any or all of the following:

**VIII.D.1.a.** Order a utility to stop doing something that violates these rules;

**VIII.D.1.b.** Prospectively limit or restrict the amount, percentage, or value of transactions entered into between the utility and its affiliate(s);

**VIII.D.1.c.** Assess fines or other penalties;

**VIII.D.1.d.** Prohibit the utility from allowing its affiliate(s) to utilize the name and logo of the utility, either on a temporary or a permanent basis;

**VIII.D.1.e.** Apply any other remedy available to the Commission.

**VIII.D.2.** Any public utility which violates a provision of these rules is subject to a fine of not less than five hundred dollars (\$500), nor more than \$20,000 for each offense. The remainder of this subsection distills the principles that the Commission has historically relied upon in assessing fines and restates them in a manner that will form the analytical foundation for future decisions in which fines are assessed. Before discussing those principles, reparations are distinguished.

**VIII.D.2.a. Reparations:** Reparations are not fines and conceptually should not be included in setting the amount of a fine. Reparations are refunds of excessive or discriminatory amounts collected by a public utility. PU Code §734. The purpose is to return funds to the victim which were unlawfully collected by the public utility. Accordingly, the statute requires that all reparation amounts are paid to the victims. Unclaimed reparations generally escheat to the state, Code of Civil Procedure §1519.5, unless equitable or other authority directs otherwise, e.g., Public Utilities Code §394.9.

**VIII.D.2.b. Fines:** The purpose of a fine is to go beyond restitution to the victim and to effectively deter further violations by this perpetrator or others. For this reason, fines are paid to the State of California, rather than to victims.

Effective deterrence creates an incentive for public utilities to avoid violations. Deterrence is particularly important against violations which could result in public harm, and particularly against those where severe consequences could result. To capture these ideas, the two general factors used by the Commission in setting fines are: (1) severity of the offense and (2) conduct of the utility. These help guide the Commission in setting fines which are proportionate to the violation.

**VIII.D.2.b.i. Severity of the Offense:** The severity of the offense includes several considerations. Economic harm reflects the amount of expense which was imposed upon the victims, as well as any unlawful benefits gained by the public utility. Generally, the greater of these two amounts will be used in establishing the fine. In comparison, violations which caused actual physical harm to people or property are generally considered the most severe, with violations that threatened such harm closely following.

The fact that the economic harm may be difficult to quantify does not itself diminish the severity or the need for sanctions. For example, the Commission has recognized that

deprivation of choice of service providers, while not necessarily imposing quantifiable economic harm, diminishes the competitive marketplace such that some form of sanction is warranted.

Many potential penalty cases before the Commission do not involve any harm to consumers but are instead violations of reporting or compliance requirements. In these cases, the harm may not be to consumers but rather to the integrity of the regulatory processes. For example, compliance with Commission directives is required of all California Public Utilities:

“Every public utility shall obey and comply with every order, decision, direction, or rule made or prescribed by the Commission in the matters specified in this part, or any other matter in any way relating to or affecting its business as a public utility, and shall do everything necessary or proper to secure compliance therewith by all of its officers, agents, and employees.” Public Utilities Code §702.

Such compliance is absolutely necessary to the proper functioning of the regulatory process. For this reason, disregarding a statutory or Commission directive, regardless of the effects on the public, will be accorded a high level of severity.

The number of the violations is a factor in determining the severity. A series of temporally distinct violations can suggest an on-going compliance deficiency which the public utility should have addressed after the first instance. Similarly, a widespread violation which affects a large number of consumers is a more severe offense than one which is limited in scope. For a “continuing offense,” PU Code §2108 counts each day as a separate offense.

## Findings and Conclusions

Rules VIII.D through VIII.D.2.b.i do not require any specific action on the part of SCE.

### Rule VIII.D.2.b.ii.

**VIII.D.2.b.ii. Conduct of the Utility:** This factor recognizes the important role of the public utility’s conduct in (1) preventing the violation, (2) detecting the violation, and (3) disclosing and rectifying the violation. The public utility is responsible for the acts of all its officers, agents, and employees:

“In construing and enforcing the provisions of this part relating to penalties, the act, omission, or failure of any officer, agent or employee of any public utility, acting within the scope of his [or her] official duties or employment, shall in every case be the act, omission, or failure of such public utility.” Public Utilities Code §2109.

**VIII.D.2.b.ii.(1) The Utility’s Actions to Prevent a Violation:** Prior to a violation occurring, prudent practice requires that all public utilities take reasonable steps to ensure compliance with Commission directives. This includes becoming familiar with applicable laws and regulations, and most critically, the utility regularly reviewing its own operations to ensure full compliance. In evaluating the utility’s advance efforts to ensure compliance, the Commission will consider the utility’s past record of compliance with Commission directives.

**VIII.D.2.b.ii.(2) The Utility’s Actions to Detect a Violation:** The Commission expects public utilities to monitor diligently their activities. Where utilities have for whatever reason failed to meet this standard, the Commission will continue to hold the utility responsible for its actions. Deliberate as opposed to inadvertent wrong-doing will be considered an aggravating factor. The Commission will also look at the management’s conduct during the period in which the violation occurred to ascertain particularly the level and extent of involvement in or tolerance of the offense by management personnel. The Commission will closely scrutinize any attempts by management to attribute wrong-doing to rogue employees. Managers will be considered, absent clear evidence to the contrary, to have condoned day-to-day actions by employees and agents under their supervision.

**VIII.D.2.b.ii.(3) The Utility's Actions to Disclose and Rectify a Violation:** When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes "prompt" will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.

Prompt reporting of violations furthers the public interest by allowing for expeditious correction. For this reason, steps taken by a public utility to promptly and cooperatively report and correct violations may be considered in assessing any penalty.

## Findings and Conclusions

SCE did not comply with Rule VIII.D.2.b.ii.

Rule VIII.D.2.b.ii specifically focuses on the utility's role and conduct in enforcing compliance with the provisions of the Rules. A summary of the Affiliate Compliance Audit findings include:

- SCE did not comply with Rules II, IV.B, V.C, V.E, V.G and VI.B. Only partial compliance was noted in a number of areas.
- Compliance issues raised during the audit are directly related to the highest SCE management levels.
- SCE has a large internal audit function that periodically examines accounting and management practices. NorthStar found few internal audits conducted during CY2006 were relevant to affiliate transactions and compliance with the Rules (DR 36 and 137).
- SCE's monitoring controls have deteriorated and its approach to affiliate compliance has become more reactive. SCE found no compliance issues on its own during CY2006. The audit found more compliance issues than any previous year.

## Rules VIII.D.2.b.iii through VIII.D.2.b.v

**VIII.D.2.b.iii. Financial Resources of the Utility:** Effective deterrence also requires that the Commission recognize the financial resources of the public utility in setting a fine which balances the need for deterrence with the constitutional limitations on excessive fines. Some California utilities are among the largest corporations in the United States and others are extremely modest, one-person operations. What is accounting rounding error to one company is annual revenue to another. The Commission intends to adjust fine levels to achieve the objective of deterrence, without becoming excessive, based on each utility's financial resources.

**VIII.D.2.b.iv. Totality of the Circumstances in Furtherance of the Public Interest:** Setting a fine at a level which effectively deters further unlawful conduct by the subject utility and others requires that the Commission specifically tailor the package of sanctions, including any fine, to the unique facts of the case. The Commission will review facts which tend to mitigate the degree of wrongdoing as well as any facts which exacerbate the wrongdoing. In all cases, the harm will be evaluated from the perspective of the public interest.

**VIII.D.2.b.v. The Role of Precedent:** The Commission adjudicates a wide range of cases which involve sanctions, many of which are cases of first impression. As such, the outcomes of cases are not usually directly comparable. In future decisions which impose sanctions the parties and, in turn, the Commission will be expected to explicitly address those previously issued decisions which involve the most reasonably comparable factual circumstances and explain any substantial differences in outcome.

## **Findings and Conclusions**

Rules VIII.D.2.b.iii through VIII.D.2.b.v do not require any specific action by SCE.

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## APPENDIX A

### 2006 Affiliate Transactions Audit Document Request Log

The following list of document/information requests were submitted for the 2006 ATR audit. SCE's responses determined to be incomplete or non-responsive are noted with an asterisk (\*) and those without a response are noted with two asterisks (\*\*).

No.	Document(s) Requested
1	Provide a complete listing of all documents and information requested in any previous affiliate transactions audit and copies of responses as provided in audits since 1/1/2002, and unrestricted access to manuals, reports, files or other materials similarly provided.
2	Provide a copy of any previous affiliate transactions audit report.
3	Provide a copy of SCE's Affiliate Transaction Rules (ATR) Manual that documents SCE's ATR policies and procedures. Highlight any changes made between 2005 and 2006.
4	Provide a copy of each tariff under which services are provided to affiliates of SCE. (discussed in meeting on 11/28/06)
5	Provide a copy of all relevant Commission decisions related to SCE's affiliate transactions.
6	Provide copies of any advice letters filed by SCE requesting a waiver from an affiliate transactions rule.
7	Provide any advice letters filed by SCE with the Commission identifying the creation of a new affiliate in 2006.
8	Provide access to the articles of incorporation for all SCE affiliates.
9	Provide any advice letters filed by SCE with the Commission identifying violations of the Affiliate Transaction Rules.
10**	Provide current organization charts for SCE and each affiliate which provides/receives services from SCE.
11	Provide the names of any SCE officers that are also officers EIX or any affiliates.
12	Provide a copy of any Service Agreements or Contracts, between SCE and its affiliates (Master Service Agreements).
13	Provide all records of competitive bids for the provision of work, products or services to and from SCE to its affiliates, demonstrating an open, competitive bidding process and proper maintenance of contracts and related bids.
14**	For each affiliate entity that provides/receives services to/from SCE, briefly explain the type of business performed by the affiliate and the nature of services provided by/to SCE to/from each affiliate.
15*	Provide a listing of and an analysis of the number and dollar value of all transactions between SCE and its affiliates from 1/1/2006 to 12/31/2006.
16	Provide access to the minutes of the CY 2006 meetings of the SCE Board of Directors, the EIX Board of Directors, Audit Committee of SCE Board of Directors, and the Audit Committee of the EIX Board of Directors. (Access to complete sets).
17	Provide any materials-related to Affiliate Compliance from Audit Committee meetings when Affiliate compliance was discussed.
18	List all office and work facilities occupied by SCE and their affiliates. Include the address, type of use, square footage, ownership (specify if owned or leased by SCE, or an affiliate), and cost per square foot.
19*	List facilities occupied solely by SCE.
20	List facilities occupied by a covered affiliate.
21*	List facilities jointly occupied by SCE and affiliates.
22	Provide one listing of all accounting manuals, plus a table of contents for each, as well as access to all manuals on an unrestricted basis. Highlight any significant changes made in 2006.
23	Explain the manner by which the utilities calculate the fully loaded costs of services provided to affiliates. Note any revisions for 2006.
24	Provide details on how SCE calculates fully loaded costs of services provided to affiliates. Note any revisions for 2006.
25	Provide an expense report form(s) for all covered affiliates.
26*	Provide SCE's Annual Report of Affiliated Company Transactions for the 2005 calendar year. When available, also provide a preliminary 2006 Affiliate Transactions Report for any months that data are available.

No.	Document(s) Requested
27	List all 2006 property transfers involving SCE and any covered affiliate, including date, value, and reason for the transaction (Sec 851).
28	List all 2006 asset transfers from SCE to any covered affiliate, including date, value, and reason for the transaction.
29	Provide a high-level descriptive overview of the manner in which affiliate charges are identified, accumulated, assigned, and allocated. Note any revisions for 2006.
30	Describe the process and forms for billing time and expense from affiliates to SCE. Also provide a high-level descriptive overview of all application systems including transaction flow analyses and related documentation.
31	Provide a description of the approach employed by SCE related to the maintenance of contemporaneous records documenting all transactions with its affiliates and vice-versa.
32	Provide an overall description of time reporting by SCE, affiliates and EIX.
33	Provide a copy (or copies as may be appropriate) of time report forms, including standard time sheets and affiliate transaction time reports.
34	Provide access to a complete chart of accounts.
35	Provide a copy of the SCE's trial balance as of the end of December 2006.
36	List all audits completed or planned during 2006 by internal and external auditors.
37	Provide access to all internal audit reports related to competitive services and affiliate transactions.
38	Provide access to copies of all audit reports conducted by external entities related to affiliate transactions.
39	Identify any discounts or waivers offered to affiliates by SCE during 2006.
40	Provide details of each instance in which SCE provided public information or notices on its website related to discounts, rebates, or other waivers of any charges or fees associated with services provided by SCE to its affiliates
41	Provide one listing of all purchasing manuals, plus a table of contents for each, as well as access all manuals on an unrestricted basis. Identify specific policies that deal with affiliate transactions. Note any revisions for 2006.
42	Provide a listing of all corporate policy manuals, plus a table of contents for each, as well as access to all manuals on an unrestricted basis. Identify specific policies that deal with affiliate transactions. Examples include advertising, human resources, communications and administrative policies. Note any revisions for 2006.
43	Describe the affiliate transaction rules training provided to employees of SCE, its subsidiaries and affiliates.
44	Provide all training materials related to affiliate transactions and list the organizations and number of employees where training was provided in 2006.
45	Summarize all joint purchasing arrangements, including a listing of all joint purchases during 2006, between SCE and affiliates.
46	Identify the number and type of work performed by employees that are jointly employed by SCE and its affiliates.
47	List all employee transfers among Edison and affiliates during 2006, indicating name, title, transfer date, and the department or affiliate 'from and to' location.
48	Identify all affiliate payments to SCE associated with the transfer of employees to an affiliate, including an identification of the employee, the affiliate to which the employee transferred, and the base salary of the employee prior to the transfer.
49	Provide a description of the process employed by SCE to account for the affiliate payments made to SCE associated with employee transfers.
50*	Identify any SCE employees who are on temporary or intermittent assignments, or rotations to its affiliates.
51	Provide all Inter-Company Service Request forms, management approval documentation, and any summary reports for service transactions. Provide copies not just access.
52	Provide a copy of the Loaned Labor Report produced for each month of CY 2006. Provide the report in the format organized by employee name listed alphabetically such as that utilized by SCE's RP&A Department.
53	Please confirm the labor loading amounts for "directly requested services" specifically addressing the 5%, 10% and 15% loading factors when applied to Class A covered affiliates versus Class B non-covered affiliates.
54	Provide copies of all employee communications related to affiliate transactions released during 2006 (e.g SCE and EIX News).
55	Provide advertising materials for products or services provided by SCE's affiliates that were placed in local media in SCE's service territory during 2006, plus copies of all brochures for products and services provided by the SCE's covered affiliates.
56	Identify any known occurrence in which SCE participated in joint advertising or joint marketing with its affiliates.

No.	Document(s) Requested
57	Provide copies of any advertising space provided to affiliates in SCE's billing envelopes or any other form of SCE's customer written communication.
58	Describe the process which SCE provides access to utility information, services, and unused capacity or supply for all similarly situated market participants.
59	Provide a list of instances during 2006 in which SCE tied its products/services with an affiliate's products/services.
60	Instances of SCE providing assistance to affiliates on Business Development, market evaluations, or other information.
61	Describe the techniques employed by SCE to obtain affirmative customer written consent to release information to third parties (affiliated and unaffiliated entities). Provide examples.
62	Describe the nature of customer information that SCE provides to third parties (affiliates and unaffiliated entities). Provide examples.
63	Describe how SCE offers or provides customers advice or assistance with regard to its affiliates or other service providers.
64	Identify any SCE customers assigned to an affiliate during 2006.
65	Provide an annotated listing (including title, brief description, total budget and project manager) of all SCE Research and Development (R&D) projects open anytime during 2006.
66	Provide a list of R&D projects funded jointly by SCE and its affiliates.
67	Identify any known instances in which SCE shared or subsidized costs, fees, or payments with its affiliates associated with R&D activities or investment in advanced technology research.
68	Provide electronic source locations for Commission decisions/utility filings/compliance plans, etc.
69	List all SCE contact personnel involved in this audit including mailing address, telephone, and e-mail.
70	Provide summary level descriptions of and documentation related to SCE's affiliate entities created during 2006. Provide the rationale for whether or not these affiliate entities are considered to be covered by the Rules.
71	Provide list of principal affiliates covered and not covered by the Affiliate Transaction Rules.
72	Provide a written overview of SCE's computer system structure including mainframe and distributed systems in operation during 2006.
73	Provide a copy of any audits or studies of SCE's IT security.
74	Provide details of IT security administration procedures governing requests and approvals for obtaining access to all utility computer systems
75	Provide a description of computer system access and security for any employees who have remote computer access.
76	Provide details for all affiliate employee access (employee name, employee title, affiliate company name, application name, application description) to SCE computer systems
77*	Describe the tier levels of SCE Help Desk support. Also, provide statistical reports on SCE computer Help Desk activity, specifically, note quantity of requests from affiliates by type of help desk request (i.e. tier 1, tier 2, tier 3).
78	Provide documentation and related charts covering the architecture of computer hardware for 2006.
79	<p>For each person identified in DR 47 who transferred from SCE to an affiliate, provide dates:</p> <ul style="list-style-type: none"> <li>• Physically departed from position at utility</li> <li>• Physically reported to position at affiliate</li> <li>• Payroll changed from utility to affiliate</li> <li>• IT access to utility network terminated</li> <li>• IT access to utility email terminated</li> <li>• IT access to utility remote access terminated (if applicable)</li> <li>• IT access to affiliate network initiated</li> <li>• IT access to affiliate email initiated</li> <li>• IT access to affiliate remote access initiated (if applicable)</li> </ul>
80	<p>For each person identified in DR 47 who transferred from an affiliate to SCE, provide dates:</p> <ul style="list-style-type: none"> <li>• Physically departed from position at the affiliate</li> <li>• Physically reported to position at the utility</li> <li>• Payroll changed from the affiliate to the utility</li> <li>• IT access to affiliate network terminated</li> <li>• IT access to affiliate email terminated</li> <li>• IT access to affiliate remote access terminated (if applicable)</li> <li>• IT access to utility network initiated</li> <li>• IT access to utility email initiated</li> <li>• IT access to utility remote access initiated (if applicable)</li> </ul>
81	Provide access to all Customer Information Service Request (CISR) forms and any summary reports for transactions. Also provide sample year 2006 forms submitted on behalf of end-use customers.

No.	Document(s) Requested
82	Please provide a detailed flow chart of CISR processing. Please note any changes in 2006.
83	Provide a master list of corporate support functions.
84	Diagram and/or describe SCE's audit risk assessment methodology.
85	Provide a copy of professional ethics letters, memorandums, or affidavits to management employees.
86	Provide the approximate number of employees who receive the annual ethics letter or other related information.
87	Provide the approximate number and type of employees required to complete any ethics affidavit.
88	Provide the following with respect to any direct access service requests: <ul style="list-style-type: none"> <li>• Process description</li> <li>• Processing Time Data Base</li> <li>• (New) Number of transactions in Data Base</li> <li>• Access to files for transaction review</li> </ul>
89	Provide examples (formats) of all SCE bill statements during 2006.
90	Provide copies of all SCE customer bill inserts during 2006 (electronic and hardcopy).
91	Provide copies of all SCE marketing/advertising materials distributed during 2006 (electronic and hardcopy).
92	Provide a list of any affiliates participating in any capacity in the 2006 SCE Energy Efficiency program. Include a description of the affiliate activities.
93	Provide a list of all affiliate websites.
94	Provide access to records for service requests. Service requests include reporting of outages, establishing new service, billing inquiries, requesting ESP lists and discontinuing service.
95	List all Holding Company employees' names; titles; office location; brief description of responsibilities.
96	List of persons with dedicated space or telephone extensions housed within SCE facilities who are employees of SCE covered or uncovered affiliates. Provide name, title, office location, employer, and a brief description of responsibilities.
97	With respect to Supplier Information, provide a description of any non-public information or data received from suppliers and provided to SCE's affiliates. For all cases, provide written affirmative authorization for the supplier.
98	Provide a list of the 100 largest customers (in terms of consumption), including the account name, the utility account representative and current generation supplier.
99	Provide a copy of the ESP list provided to customers upon customer's request. Identify the source of the ESP list.
100	Provide copies of RFPs/RFQs issued by major accounts for market energy services and products and the associated responses by SCE. Provide the total number of similar RFPs/RFQs received by SCE for calendar year 2006.
101	Provide a list of all requests by affiliates for non-customer specific non-public information. For each request listed, describe how the information requested was made available to other service providers and the public.
102	List all non-tariff products and services offered by SCE.
103	Identify any new non-tariff products and services offered by Edison during 2006. Include all associated advice letters notifying the CPUC of any new non-tariff products and services or new category of non-tariff product or service.
104	Provide the non-tariff products and services reports filed by SCE with the CPUC during 2006.
105	Describe the responsibilities of the Affiliate Compliance Manager.
106	Provide SCE's policies and procedures for investigation and remediation of affiliate transaction related complaints.
107	List all affiliate transaction non-compliance complaints received in 2006.
108	Describe the resolution of all affiliate transaction non-compliance complaints received during 2006.
109	Provide year 2006 annual reports for all EIX Companies.
110	Provide an electronic copy of SCE's modified compliance plan(s) and its compliance plan updates from 2002 to present in MS Word format.
111	Provide all communications issued by the Regulatory Policy & Affairs Department during 2006, as well as any other communications to employees related to affiliate transactions.
112	Provide a summary transaction listing and access to the documentation supporting power transactions between SCE and its affiliates.

No.	Document(s) Requested
113	Provide the following information on all meetings in 2006 between personnel from SCE and any energy marketing affiliate: <ul style="list-style-type: none"> <li>• Date of meeting</li> <li>• Purpose of meeting</li> <li>• Names and titles of persons attending the meeting</li> <li>• Description of any presentations made or documents exchanged</li> </ul>
114	Provide the account number(s) to which the 2005 Affiliate Transaction Audit was charged. Indicate if these accounts are borne by the utility customers or shareholders.
115	Provide a listing of the recommendations contained in the 2001, 2002, 2003, 2004, and 2005 SCE Affiliate Transactions Audits along with detailed explanation of SCE's actions taken to implement each recommendation or explanation for lack of implementation.
116	A copy of the SCE and EIX 10K and annual reports for 2005 and 2006 (when available).
117	Provide a copy of any marketing presentations, handouts, etc provided to major customers or industry meetings.
118	Provide the following call center statistics: <ul style="list-style-type: none"> <li>• Number of calls received to date during 2006.</li> <li>• Classification of calls by call type received to date during 2006.</li> </ul>
119	Provide a current list of all "Expense Project Numbers" and their description such as those shown on the Loaned Labor Report.
120	Provide a detailed explanation of the process, systems and controls in place that prohibit an affiliate employee from charging time to the regulated utility.
121	Provide a detailed explanation of the process, systems and controls in place that prohibit an SCE employee, who is not a member of the shared corporate services functions, from working for and charging time to an affiliate without an approved Intercompany Service Request Form or Corporate Support Authorization Form.
122**	Upon completion of year-end transactions, provide a copy of Schedules C & D which show the 2006 (full year) charges to and from SCE and affiliates.
123	Provide Schedule C and D data covering the first 3 quarters of 2006 as soon as available. Provide the first 3 quarters of 2006 data by natural account/cost element, rather than FERC Account.
124	Provide a copy of the two most recent advice letters to the CPUC where the ESP lists for SCE are submitted.
125	Provide a summary list and access to all affiliate compliance transactions posted on the SCE Web Pages.
126	Provide information on all 2006 Affiliate Transaction Rules investigations and violations that have come to the attention of the Affiliate Compliance Department. Include the rule, relevant facts of the violation and resolution.
127	For each person identified on the final list for the year responding to DR47 who transferred from an affiliate to Edison, identify whether they had previously worked for the utility. For each person who had previously worked for the utility, provide the date of their transfer from the utility to the affiliate.
128	For each Edison employee who was loaned and subsequently transferred to (or employed by) a covered affiliate during 2006, provide the following information: <ul style="list-style-type: none"> <li>• Name, title, and employee number</li> <li>• Originating and final department and company</li> <li>• Dates on which the employee was loaned</li> <li>• Date on which the transfer was made</li> <li>• Dates on which the employee was offered and accepted the transfer</li> </ul>
129*	Provide a description of accounts and allocation factors used to allocate overheads and other non direct charged costs and the basis for each allocation method.
130	Provide copies of invoices from SCE to each affiliate for the month of August 2006. Provide detailed reports that describe the charges that are represented by each invoice. If the response is voluminous the reports can be made available for inspection.
131	Provide a listing of SCE Corporate Shared Service cost centers along with the allocation percentages for each cost center.
132	Provide a list of the sponsoring participants in the following EPRI collaborative research projects: EMF Health Targets Energy Storage for Distributed Energy Resources, Renewable T&D Applications



No.	Document(s) Requested
133	Provide access to the WES system files concerning communications between Affiliates and Energy Procurement as discussed in interview with Paul Amero on 11/28/06.
134	Provide the work products of the third-party observer to the Kern River QF Contract negotiations.
135	Provide the "Mountainview Generating Station" descriptive document referred to by Paul Klapka in his interview on November 29.
136	Provide the cost report for AOR 5500 for the month of October.
137	As DR-36 provides the Audit Plan for May 1, 2006 to April 30, 2007, please provide the Audit Plan for May 1, 2005 to April 30, 2006
138	Provide the supporting documentation (paper or electronic copies) for at least two examples of corrections made to the loaned labor report during 2006 to add labor that was previously not included in the previous report.
139	Provide a copy of the intercompany invoice from SCE to each billed affiliate for the month of August 2006. Include all supporting detail provided to the billed affiliate. Make available for inspection additional detail that identifies the source transactions for one or two invoices to be identified after review of this response.
140	Upon receipt of DR-47, make available for inspection HR exit forms and associated accounting records.
141	Per CP05 - footnote #56, provide a listing of all affiliate entities formed for the purpose of reserving a corporate name and forming a legal shell to house undefined future ventures.
142**	Provide a list of Class B affiliates that have existing contracts for products and services but are not presently in "commercial operation."
143	Provide copies of all communications between SCE personnel and Edison Mission Energy (EME) between the period of advertisement of the RFO and receipt of EME's offer concerning SCE's most recent RFO for generating resources.
144	Provide copies of SCE's day-ahead generation dispatch schedule for the following days: Thursday, August 17, 2006, Monday, April 3, 2006, Wednesday May 24, 2006, Tuesday, October 10, 2006 and Friday, December 15, 2006, Saturday, July 15, 2005, and Sunday, May 28, 2006. Identify generators dispatched and available units that were not dispatched.
145	Provide a list of all counterparties where SCE has had enabling agreements with to buy or sell natural gas commodity and natural gas pipeline capacity.
146	Provide access to SCE's natural gas risk control database.
147	Provide a list of all counterparties involved in electricity balancing "third-party" blind transactions.
148	Provide an explanation as to why the following special rates are not eligible to direct access customers: Scheduled Load Reduction (SLRP) Critical Peak Pricing – Volumetric (CPP-VCD) Critical Peak Pricing – Generation Capacity (CPP-GCCD)
149	Provide a copy of ISSM_Approvals.doc, ID_Suspension_and_Deletion.doc, Suspensions.doc (Global) and Affiliate_Approvals.doc as noted in DR 74.
150	For affiliates that purchased NTP&S from SCE in 2006, provide affiliate name, NTP&S category, description of the product/service, and any relevant documentation (e.g. service agreements, invoices, etc).
151	Provide copies of ISSM and approval documentation for J. Barnett and G. Lain.
152	Provide any marketing/advertising materials for NTP&S used by SCE during 2006. Also, itemize the costs by NTP&S category associated with developing and distributing these materials.
153	Provide copies of presentation materials given by Z. Buhler regarding NTP&S in 2006.
154	Provide a copy of the "incremental cost policy" described by Z. Buhler on 11/29/2006.
155	List all business units involved in the provision of NTP&S and the revenues derived from these products/services.
156	Describe the process used to reconcile NTP&S accounting between SCE's Controller's Office and business units that offer products/services.
157	Provide the account number(s) to which the incremental costs of NTP&S are charged. Provide an explanation and documentation demonstrating how these amounts will be charged to shareholders.
158	Provide a copy of IT policies and procedures (e.g. ESM or other documentation).
159	Identify SCE IT systems with "System IDs" contained in the Global database. .
160	Provide a list of SCE organizations with "Instant Messaging" or "Same Time" capabilities. Provide a copy of the SCE policy regarding the use of this technology.

No.	Document(s) Requested
161	Provide a breakdown of application environments listed in DR 76. Categorize each application as Mainframe, Client/Server, Web or Other.
162	Provide floor plans for the following shared facilities. Also, describe how the facility conforms to Rule V.C for physical and IT separation. EME Irvine EME Chicago EIX Washington DC offices
163	Describe the basis for assigning the Washington DC office expenditures between SCE and the affiliates. Describe how these relate to functions performed for the utility and those for affiliates.
164	Describe the rationale for approving J. Barnett Vice President, EME for access to SCE computer systems (see DR 151)
165	Provide access to review articles of incorporation and all existing contracts/agreements for products and services provided by the following affiliates: Edison Mission Midwest, Inc.   Wildorado Wind, LLP Edison Mission Wind, Inc.   Stonycreek Windpower, LLC Mission Bingham Lake Wind LLC   Lookout Windpower, LLC Mission Wind Maine, Inc.   Forward Windpower, LLC Mission Wind New Mexico, Inc.   San Juan Mesa Wind Project LLC
166*	Provide Edison's definition of "In Service Date" as shown on Edison Affiliate Transaction Compliance Notice: New Affiliate Reports submitted to the CPUC. Describe the process, organizations and management positions involved in determining the "In Service Date" as shown on these notices. Differentiate this definition from "Date Affiliate Created/Acquired" and use of the term "creation" in Rule VI.B.
167	Provide copies of the Advice Letters submitted to the CPUC for the creation of Tair Windfarm, LLC and Hillcrest Windfarm, LLC demonstrating compliance with Rules II and VI.B.
168	Please provide the presentation materials from the interview with Edwin Lanfranco on 12/15/06.
169	Please provide a sample of direct access customer phone calls as discussed in the interview with Edwin Lanfranco on 12/15/06.
170	Please provide blank screens from the "CISR" system used to establish a new customer.
171	Please provide a copy of the original source document referred to in DR139 "Attachment C" to the September 30, 2006 invoice to Edison Source, Payee name is Sprint.
172	Please provide the supporting detail including employee names for the "SCE labor" and the "SCE non-labor" charges for each invoice included in the response to DR139. Please include the "calculation page" which shows calculations of loaders for these charges.
173	Please provide the allocation factors used to allocate the Environmental Principles and Coal Strategy Project costs referred to in the memo attached to Edison Mission Energy in DR139. Explain how these allocation factors were determined and calculated.
174	Please explain how the title of each non-tariffed product and service category (for example "Secondary Use of Transmission Right of Ways and Land") in SCE's Annual Report of Non-Tariffed Products and Services provides a sufficient description required by Rule VII.H.1.
175	Please describe where in SCE's Annual Report of Non-Tariffed Products and Services the utility provides information on the authority for which each product/service category is offered as required by Rule VII.H.1.
176	Please describe the rationale for using affiliate company names on the utility's website and how this practice complies with Rule V.F.1.
177	Please provide a detailed description of all affiliate computers located in SCE's datacenters (include information such as the type of server, applications, nature of information, accessibility, etc) and their utilization.
178*	List all trade shows, conferences, marketing event or other occasion held in California that were attended by representatives of SCE and one or more of SCE's affiliates in 2006. In each of these cases, provide a list of attendees and describe how SCE participation was separated from affiliate participation.
179	Please list all relevant information requests pursuant to Rule IV.F (i.e., by parties other than EIX corporate entities or NorthStar) during 2006, whether SCE met or failed to meet this requirement and describe the circumstances.



No.	Document(s) Requested
180	Provide copies of the record schedules and all other supporting record management documentation for the following items: Master Service Agreements (DR 12) Competitive bids (DR 13) WEMS files/Energy Procurement (DR 133) IT Security files (DR 151) RFP/RFQ (DR 100) All NTP&S contracts with affiliates
181	In reference to ES&M's August 14, 2006 RFO for New Generating Resources provide the following: List of all proposers. Short-list. Attendees at bidders conference. Also explain how potential suppliers would know of this conference since the date of the bidders conference (July 27) predates the issuance of the RFO and the SCE press release.
182	In reference to ES&M's August 31, 2006 RFO for All Generating Resources provide the following: List of all proposers. Short-list.
183	As a follow-up of the review of the WES system, provide a copy of the identified communication. Provide background information on the necessity of the meeting between SCE and its affiliate and the nature of the material discussed.
184	Please provide the journal entries used to charge corporate support for the month of August 2006 to Mountainview Power company (MVL).
185	As a follow up to DR's 139 and 172, please explain each line item ("total amount" column) in the top 7 lines of data on page 199 (EME Dir Req).
186	Provide a copy of the intercompany invoice from SCE to each billed affiliate for the month of August 2006. Please provide an explanation of whether these amounts were charged to MVL and if so, describe the mechanism by which MVL was charged. Was any affiliate other than MVL charged by SCE by any means other than an invoice during 2006?
187*	Provide a detailed description of the server "GO2NTWEB06" including the types of applications and nature of data that resides on it.
188	Provide a list of all "exceptions" provided to these Class A affiliate employees (i.e. security badges, parking spaces, parking stickers, etc.). Provide documentation of management approval and the rationale for these "exceptions".
189	Provide the names of Class A affiliate employees with security badges that access utility facilities. For each individual provide the date, facility location, card reader location, time of entrance, and time of exit.
190	Describe the responsibilities of the affiliate's Information Technology (IT) function and location of affiliate data centers.
191*	Provide samples of any branded "give-away" items provided in 2006 by any Class A affiliate.
192	Provide details on how SCE's IT Security Administration organization conducts periodic reviews of affiliate access privileges (provide any supporting policy and procedure documentation). Also, include the date, approach and results from the most recent completed review.
193	Provide a copy of each electronic "push" marketing/advertising done by the affiliates or SCE in 2006 (i.e. email distribution)
194	Provide copies of CTAC or AgTAC contracts and pricing agreements with affiliates (i.e. conference center rental, etc.) in 2006.
195	Please provide a copy of the "Nucleus" portfolio flow chart.
196	Please provide copies of the KRCC invoices for June, July, and August 2006.
197	Please provide copies of the Watson cogeneration invoices for June, July, and August 2006.
198	Please provide a summary of any time during CY2006 that affiliate officers were requested to testify before the Commission.
199	Please provide work product examples, a complete description of the work performed and what affiliate entity used the work product under ISR 06-014.

No.	Document(s) Requested						
200	Please provide work product examples, a complete description of the work performed and what affiliate entity used the work product under ISR 06-001 and 06-028.						
201	Please provide work product examples and a complete description of the work performed under ISR 06-010 and 06-025. Provide a detailed listing of individuals that used the web based training work products and their affiliate.						
202	Please provide the ISRs for Caren Cannon, Polly Gault, Alicia Hernandez, Edward Hume and Laura Livoy covering directly requested work performed and charged during 2006. In the event that there are no ISRs for these employees, please explain in detail what work was performed that resulted in their labor charges, why this work was not covered by an approved ISR, who authorized corrections to the Loaned Labor Report and the rationale used for these corrections.						
203	Please provide all facility security access authorization(s) provided to Mr. Jeff Barnett from June 1, 2006 to December 13, 2006. Include a list of all facilities for which access was provided.						
204	Please explain why CL Power Sales Six, Harbor Cogeneration, Nevada Sun-Peak Limited Partnership and Saguario Power Company are no longer considered energy marketing affiliates.						
205	The 2005 ATR audit states there were 3 Edison Capital servers located at SCE's IOC datacenter (Baryenbruch, pg. 65). Provide the date when these servers were removed.						
206	A December 9, 2002 memo to all EIX companies reinforced the use of the disclaimer described in Rule V.F.1. This memo stated that the EIX Vice President of Corporate Communications must sign off on all layout and copy of advertising and promotional materials of affiliates prior to publication. Provide copies or a log record of these materials and approval documentation						
207	For each of the six transferred employees identified in DR048, please provide documentation of the entries which posted the payments listed in DR 048 to the accounting system.						
208	Please provide documentation that shows the date payment voucher CG820909 (provided in DR 197) was entered to the accounting system.						
209	<p>Please clarify the following:</p> <ol style="list-style-type: none"> <li>1. Is the executive referred to in DR 53 the same executive, Polly Gault, referred to in DR 185?</li> <li>2. Assuming the two DR's refer to the same executive, if the error was corrected and billed to EME in October as both DR's seem to state, why was it necessary to process a correcting journal entry in January for the same error? And, if the error was corrected in October, please provide the billing and back up paperwork that document this. (or direct me to the places in the paperwork already provided that document this.)</li> <li>3. Did the error that affected EME and MWG EME affect any other class A affiliates? Which ones?</li> <li>4. What change in procedure caused this error to occur mid year? If changes were made to the programs that compute these fees, what procedures were used to test the changes before they were implemented? Please provide documentation of test results?</li> <li>5. Is this the first time Polly Gault was recognized as an "executive" in regard to affiliate transactions and related accounting?</li> <li>6. Are these charges the result of manual processes and not "programs" per se?</li> </ol>						
210	<p>Provide a report of all 2006 costs for the following location-functions. Also, provide a detailed description of the process used to post these incremental costs to shareholder accounts.</p> <table data-bbox="250 1444 539 1537"> <tr> <td>0001-2385</td> <td>0003-2240</td> </tr> <tr> <td>0005-2385</td> <td>0004-2240</td> </tr> <tr> <td>0002-2240</td> <td>0005-2240</td> </tr> </table> <p>Provide the shareholder account reports that identify where the "location function" accounts (as listed above) are posted.</p>	0001-2385	0003-2240	0005-2385	0004-2240	0002-2240	0005-2240
0001-2385	0003-2240						
0005-2385	0004-2240						
0002-2240	0005-2240						

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# APPENDIX B

## 2006 Affiliate Transactions Audit Interview List

No.	Date	Interviewee	Topics/ATRs covered
1	11/7/06 12/15/06	Veronica Gutierrez Director, Regulatory Policy & Affairs Robert Ramirez Manager, Regulatory Compliance	<ul style="list-style-type: none"> <li>• Major Corporate organizational changes</li> <li>• Changes in executive management</li> <li>• Changes in ATR rules, compliance plans</li> <li>• All rules</li> </ul>
2	11/7/06	Tom Braun Affiliates General Counsel	<ul style="list-style-type: none"> <li>• Scope and meaning of ATR rules</li> <li>• Support to SCE / EIX</li> </ul>
3	11/8/06	Lynda Ziegler Senior Vice President, CSBU	<ul style="list-style-type: none"> <li>• ATR issues in 2005 / 2006</li> <li>• Customer service</li> </ul>
4	11/8/06	Fred Nandy Manager Operational Audits	<ul style="list-style-type: none"> <li>• Audit planning and results 2006</li> <li>• ATR related audits conducted</li> </ul>
5	11/9/06	Susan DiBernardo ,Project Manager Regulatory Policy & Affairs	<ul style="list-style-type: none"> <li>• Briefing on 2005 ATR Audit issues and results</li> <li>• All rules</li> </ul>
6	12/15/06	Randy Lisbin, Manager Audit, Investigations & Special Projects, Regulatory Policy & Affairs	<ul style="list-style-type: none"> <li>• Rules changes</li> <li>• Organization changes</li> <li>• CPUC Decisions</li> </ul>
7	11/28/06	Ken Stewart Vice President and Chief Ethics and Compliance Officer	<ul style="list-style-type: none"> <li>• Ethics and compliance organization and responsibilities</li> <li>• Employee hotline</li> </ul>
8	11/29/06	Paul Klapka, Project Manager Generation Business Planning & Strategy	<ul style="list-style-type: none"> <li>• Mountainview Plant status</li> </ul>
9	11/28/06	Joseph Llorens, Project Manager Regulatory Policy & Affairs	<ul style="list-style-type: none"> <li>• Intercompany Service Requests</li> <li>• Advice Letters</li> </ul>
10	11/30/06	Olivia Viera Manager, Plant Accounting & Analysis, Controllers	<ul style="list-style-type: none"> <li>• Mountainview accounting and capitalization</li> </ul>
11	11/30/06 12/13/06	Desiree Villalobos Corporate Financial Accountant, Controllers	<ul style="list-style-type: none"> <li>• Affiliate transactions accounting</li> </ul>
12	11/30/06	Maria Charca Affiliate Controller, Controllers	<ul style="list-style-type: none"> <li>• Affiliate transactions accounting</li> </ul>
13	11/30/06	Mary Eckman, Financial Compliance Accountant, Controllers	<ul style="list-style-type: none"> <li>• Affiliate transactions accounting</li> </ul>
14	11/29/06	Clark Palmer, Project Manager Corporate Financial Accounting	<ul style="list-style-type: none"> <li>• Affiliate transactions accounting</li> <li>• MVL accounting</li> </ul>
15	12/14/06	Yvonne Chacon, Project Manager Corporate Real Estate	<ul style="list-style-type: none"> <li>• Office separation</li> </ul>
16	11/8/06	John Minnicucci Manager, R D & D	<ul style="list-style-type: none"> <li>• RD&amp;D</li> </ul>
17	12/12/06	Jeremy Rawitch, Manager Corporate Communications	<ul style="list-style-type: none"> <li>• Preferential treatment, tying, disclaimers, logos, joint advertising &amp; marketing</li> </ul>
18	12/12/06	Mike Tomlin, Project Manager CSBU Regulatory Compliance	<ul style="list-style-type: none"> <li>• Service provider lists</li> </ul>

19	11/28/06	Paul Amero, Manager and Jeffrey Weekly QF Payment and Administration	<ul style="list-style-type: none"> <li>• QF contracts</li> </ul>
20	12/13/06	Robert Schuur Manager, Corporate Real Estate	<ul style="list-style-type: none"> <li>• SCE / affiliate office separation</li> </ul>
21	12/14/06	Barbara Santos Business Analyst, Public Affairs	<ul style="list-style-type: none"> <li>• SCE / affiliate office separation</li> </ul>
22	1/10/07	Thomas Jacobus, Manager Security Operations, Corp Security	<ul style="list-style-type: none"> <li>• Facility access</li> </ul>
23	1/10/07	David Lover, Technical Specialist Security Operations Corporate Security	<ul style="list-style-type: none"> <li>• Facility access</li> </ul>
24	2/13/07	Ed Hafferkamp	<ul style="list-style-type: none"> <li>• FERC Accounting</li> </ul>
25	12/14/06	Linda Luft Major Account Manager,	<ul style="list-style-type: none"> <li>• Major Accounts Managers compliance with ATR</li> </ul>
26	<del>1/10/07</del> 1/11/07	Tom Erickson Manager, Audit Services	<ul style="list-style-type: none"> <li>• Reviewed audits conducted during 2006 related to ATR</li> </ul>
27	12/12/06	Dan Walker Manager, Supply Chain Management	<ul style="list-style-type: none"> <li>• Joint purchasing, supplier information</li> </ul>
28	12/15/06	Ryan Mundy, Operations Manager Customer Communications	<ul style="list-style-type: none"> <li>• Call center compliance with ATR</li> </ul>
29	12/15/06	Edwin Lanfranco QA Supervisor, Customer Communications	<ul style="list-style-type: none"> <li>• Call center compliance with ATR</li> <li>• Facility Tour</li> </ul>
30	11/29/06 12/13/06 1/11/07 2/14/07	Jeanette Yamamoto Supervisor, IT Security Administration	<ul style="list-style-type: none"> <li>• IT access and system security</li> <li>• SAV System</li> </ul>
31	11/29/06 2/14/07	Peter Winne, Project Manager IT Business Services	<ul style="list-style-type: none"> <li>• IT access and system security</li> <li>• SAV System</li> </ul>
32	1/9/07	Dan Ceballos Project Manager, SSID/ESI Administration	<ul style="list-style-type: none"> <li>• ESI proposals, business activities and pricing</li> </ul>
33	1/10/07	Edith Baltierrez Manager, Workforce Mobility, HR	<ul style="list-style-type: none"> <li>• Movement of employees between SCE and affiliates</li> </ul>
34	11/30/06	Doug Parker Manager, Energy Operations, ES&M	<ul style="list-style-type: none"> <li>• Energy trading</li> </ul>
35	12/12/06	Jill Horswell Director, Energy Contracts, ES&M	<ul style="list-style-type: none"> <li>• Energy trading</li> </ul>
36	12/13/06 1/23/07	Sean Baker Manager, SCE Risk Control	<ul style="list-style-type: none"> <li>• Counterparty lists and trading</li> </ul>
37	12/13/06	David Yi Credit Manager, SCE Risk Control	<ul style="list-style-type: none"> <li>• Counterparty lists and trading</li> </ul>
38	1/9/07	Gary Myers Director, Procurement & Materials Management	<ul style="list-style-type: none"> <li>• Joint purchasing, supplier information, record keeping, competitive bidding</li> </ul>
39	11/29/06 12/11/06	Zack Buhler Financial Analyst, Regulatory Policy & Affairs	<ul style="list-style-type: none"> <li>• NTP&amp;S</li> </ul>

40	12/13/06	Bill Bryan, Vice President Customer Services Operations CSBU	<ul style="list-style-type: none"> <li>• Preferential treatment, tying services, business development, customer service</li> </ul>
41	12/11/06	Michael Matejcek	<ul style="list-style-type: none"> <li>• Email Access</li> </ul>
42	12/12/06	Jerry Manditch	<ul style="list-style-type: none"> <li>• Network access control and Data Centers</li> </ul>
43	12/19/06	Mark Wallenrod Manager, CSBU	<ul style="list-style-type: none"> <li>• Demand bidding program</li> </ul>
44	1/3/07	Cheryl Imura Project Manager, CSBU	<ul style="list-style-type: none"> <li>• CISR process</li> </ul>
45	1/11/07	Seth Kiner Interim Director CSBU	<ul style="list-style-type: none"> <li>• CSBU marketing and advertising</li> <li>• Preferential treatment, tying, joint advertising</li> </ul>
46	1/8/07	Letizia Davis Director, Finance and Contract ASD	<ul style="list-style-type: none"> <li>• Facility tour</li> </ul>
47	1/8/07	Carlo Micale IT Manager	<ul style="list-style-type: none"> <li>• Facility tour</li> </ul>
48	1/8/07	Gail Adams Manager CTAC	<ul style="list-style-type: none"> <li>• Facility tour</li> </ul>
49	1/8/07	Janiece Anderson Program/Project Analyst, AgTAC	<ul style="list-style-type: none"> <li>• AgTAC facility</li> <li>• NTP&amp;S</li> </ul>
50	1/11/07 1/26/07	Tim Kryger IT Manager, Network Switching	<ul style="list-style-type: none"> <li>• IT network operations – access control</li> </ul>
51	2/14/07	Kelly Whittemore	<ul style="list-style-type: none"> <li>• IT purchasing</li> </ul>
52	1/23/07	Donna Lopez Business Analyst, Public Affairs	<ul style="list-style-type: none"> <li>• Washington DC office cost allocations</li> </ul>
53	1/23/07	Sean Baker & Usha Kondragunta Project Manager, Risk Control	<ul style="list-style-type: none"> <li>• Risk Management</li> <li>• Trading for Natural Gas</li> </ul>
54	1/23/07	Cheri Hsu & Cynthia Shindle Program/Contract Manager	<ul style="list-style-type: none"> <li>• Affiliate invoices</li> </ul>
55	1/19/07	Susan Gladysz Manager, Controllers	<ul style="list-style-type: none"> <li>• NTP&amp;S accounting</li> </ul>
56	1/19/07	Anthony Yeo Manager, Corp. Communications	<ul style="list-style-type: none"> <li>• Preferential treatment</li> <li>• Tying, advertising</li> </ul>
57	1/10/07	Cheri Hsu & Helen Yan	<ul style="list-style-type: none"> <li>• Electric Energy Wholesale Transactions Databases</li> </ul>
58	2/13/07	Janet Parsky	<ul style="list-style-type: none"> <li>• EIX Communications</li> </ul>
59	2/15/07	Mike Meizner & Bob Schurr	<ul style="list-style-type: none"> <li>• Transmission and Distribution Rights of Way NTP&amp;S (Accounting)</li> </ul>
60	2/27/07 3/9/07	Phil Luebben, Bob Schurr, Karen Barr & Zach Buhler	<ul style="list-style-type: none"> <li>• Incremental Costs NTP&amp;S</li> </ul>
61	1/10/07 2/13/07	Darla Forte & Nihal Perera	<ul style="list-style-type: none"> <li>• Board Minute Access</li> </ul>
62	1/11/07 2/14/07	Mary Beth Quinlan Project Manager, ATR Audit	<ul style="list-style-type: none"> <li>• GO Facility Tour</li> <li>• Computer Access –Affiliate Training on-line</li> </ul>