

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

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| |) | Docket Nos. ER11-3697-000 |
| Southern California Edison Company |) | ER11-3697-001 |
| |) | ER11-3697-003 |

**SOUTHERN CALIFORNIA EDISON COMPANY'S
EXPLANATORY STATEMENT AND
OFFER OF SETTLEMENT**

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| |) | ER11-3697-003 |

EXPLANATORY STATEMENT

Pursuant to Rule 602 of the Rules of Practice and-Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. § 385.602 (2013), Southern California Edison Company (“SCE”) hereby submits this Explanatory Statement describing the contents of its Offer of Settlement (“Settlement”) that is attached hereto. The Settlement is the result of formal and informal settlement discussions among the participants in this case, as described below, and is intended to resolve all issues in Docket Nos. ER11-3697-000, ER11-3697-001 and ER11-3697-003.

I. PROCEDURAL HISTORY

SCE filed its original Transmission Owner (“TO”) Tariff on March 31, 1997 in Docket No. ER97-2355-000. The TO Tariff specifies, among other things, the rates and charges for transmission access over the California Independent System Operator Corporation (“CAISO”) Controlled Grid. The revenue requirement and rates implemented by the Commission in that docket reflected the shift in jurisdiction over

retail transmission service and rates from the California Public Utilities Commission (“CPUC”) to the Commission, which occurred on April 1, 1998, when SCE transferred operational control of its transmission facilities to the CAISO.

On June 3, 2011, SCE filed revisions to its TO Tariff, FERC Electric Tariff, Second Revised Volume No. 6, to reflect proposed changes to its transmission revenue requirement (“TRR”) and associated transmission rates. This filing is referred to as SCE’s “TO6 Transmission Rate Filing” in that it is the fifth transmission rate case filed at FERC by SCE since the Commission first accepted, subject to refund, the first TRR for SCE in Docket No. ER97-2355-000. In its filing, SCE proposed to implement formula rates to replace SCE’s then existing stated rates, in order to provide timely recovery of SCE’s changing costs.

On August 2, 2011, the Commission issued an order conditionally accepting and suspending the filing and proposed rates until January 1, 2012, subject to refund, and establishing settlement judge procedures. *Southern California Edison Co.*, 136 FERC ¶ 61,074 (2011) (“August 2 Order”). The Commission directed SCE to submit a compliance filing modifying the rate of return on equity (“ROE”) in the formula rate, which SCE filed in Docket No. ER11-3697-001 and which the Commission accepted subject to the outcome of this case. *Southern California Edison Co.*, 137 FERC ¶ 61,173 (2011).

On August 10, 2011, the Honorable H. Peter Young was appointed Settlement Judge. Judge Young conducted numerous settlement conferences in the proceeding from August 31, 2011 through May 2013. The enclosed Settlement is the result of those

discussions and resolves all issues in Docket Nos. ER11-3697-000 and ER-3697-001, as well as Docket No. ER11-3697-003, which involves SCE's September 15, 2012 Informational Filing under the formula rate. All Parties¹ and FERC Trial Staff have indicated that they either support or do not oppose the Settlement. To properly reflect the September 15, 2012 Informational Filing and other rate change filings by SCE after SCE's formula rate was initially made effective on January 1, 2012,² the Settlement includes three sets of Formula Rate Spreadsheets and four different rate calculations, which are reflected in the terms of and exhibits to the Settlement. SCE and the Parties have worked diligently to develop mechanisms for minimizing the burdens associated with determining and implementing refunds for the various rate periods at issue. Prompt implementation of the Settlement is necessary to avoid the economic burden of higher rates being implemented under the terms of the as-filed formula rate, and the economic and administrative burden of increased overcollections and the resulting refund

¹ The parties to this proceeding are SCE; Pacific Gas and Electric Co.; Golden State Water Co.; Arizona Electric Power Cooperative, Inc., and Southwest Transmission Cooperative, Inc.; San Diego Gas & Electric Co.; Energy Producers and Users Coalition; Atlantic Path 15, LLC; Public Utilities Commission of the State of California; California Department of Water Resources State Water Project; the City of Los Angeles Department of Water and Power; M-S-R Public Power Agency; the Northern California Power Agency; the State Water Contractors; the Cities of Anaheim, Azusa, Banning Colton, Pasadena and Riverside, California; the Cities of Santa Clara and Redding, California; Modesto Irrigation District; and Transmission Agency of Northern California (the parties to this proceeding are each referred to as a "Party" and are collectively referred to as the "Parties").

² In addition to its September 15, 2012 Informational Filing to update its formula rate, SCE submitted the following filings that modify elements of the formula rate: (1) on October 31, 2012, SCE submitted its Transmission Revenue Balancing Account Adjustment filing in Docket No. ER13-226; (2) on March 9, 2013, SCE submitted changes to its retail rate design in Docket No. ER13-1190; and (3) on April 8, 2013, SCE submitted changes to its non-transmission depreciation rates in Docket No. ER13-1253.

obligations. As provided for under Section 5.1 of the Settlement, SCE is simultaneously filing with the Settlement a motion with the Chief Administrative Law Judge seeking authorization to implement reduced interim rates and a request for a waiver of certain currently-effective tariff requirements that are rendered unnecessary as a result of the Settlement pending Commission review of the Settlement.

II. DESCRIPTION OF THE SETTLEMENT

The following is a summary of the terms of the Settlement. This description is provided for the convenience of the Commission in reviewing the Settlement and is not intended to alter the terms of the settlement in any way.

A. Article I – Settlement Rates

Article I describes the components of SCE’s Formula Rate³ that are used to develop the wholesale and retail Base Transmission Revenue Requirement (“Base TRR”) and associated transmission rates specified in the Settlement. SCE’s Base TRR, and associated transmission rates shall be determined by the Formula Rate, as revised in accordance with the terms of this Settlement. SCE’s Base TRR under the Formula Rate is comprised of three principal components, including the Prior Year TRR, the Incremental Forecast Period TRR, and the True Up Adjustment.

³ As specified in Section 1.1 of the Settlement, the Formula Rate Protocols and Formula Rate Spreadsheet collectively comprise Appendix IX to SCE’s TO Tariff and are designated as Attachments 1 and 2, respectively, to Appendix IX to the TO Tariff. Further, the Formula Rate Spreadsheet and Formula Rate Protocols together comprise the “Formula Rate.” In SCE’s original filing to implement a formula rate in this proceeding, the Formula Rate Protocols were not named as such, but Appendix IX to SCE’s TO Tariff included provisions outlining the proposed rules for the formula rate.

SCE's Base TRR and associated transmission rates will be recalculated annually based on historical and projected data, and its Base TRR Trued-Up, under the procedures provided by the Formula Rate Protocols. SCE shall post a draft Annual Update to its website by June 15 each year, and shall file its Annual Update by December 1 of each year.

Article I provides that SCE's rate of return on equity shall consist of a Base TRR of 9.30%, plus an adder for ISO participation of 0.50%, plus project incentive adders as approved by the Commission. Applicable transmission depreciation rates are specified as follows:

| Account | Description | Plant less Salvage | Removal Cost | Rate |
|----------------|------------------------------------|---------------------------|---------------------|-------------|
| 350.1 | Fee Land | 0.00% | 0.00% | 0.00% |
| 350.2 | Easements | 1.66% | 0.00% | 1.66% |
| 352 | Structures and Improvements | 1.80% | 0.77% | 2.57% |
| 353 | Station Equipment | 2.20% | 0.27% | 2.47% |
| 354 | Towers and Fixtures | 1.35% | 1.09% | 2.44% |
| 355 | Poles and Fixtures | 2.00% | 1.67% | 3.67% |
| 356 | Overhead Conductors and Devices | 2.00% | 1.05% | 3.05% |
| 357 | Underground Conduit | 1.65% | 0.00% | 1.65% |
| 358 | Underground Conductors and Devices | 3.26% | 0.61% | 3.87% |
| 359 | Roads and Trails | 1.56% | 0.00% | 1.56% |

Section 1.6 indicates that the Formula Rate Protocols set forth the rights for parties to modify the Formula Rate.

B. Article II - Implementation

Article II specifies that the revised Formula Rate Spreadsheet and Formula Rate Protocols attached to the Settlement replace the Formula Rate Spreadsheet and terms contained in Appendix IX to SCE's TO Tariff as originally filed in this proceeding. The Formula Rate Protocols are attached to the Settlement as Exhibit A to the Settlement, and are effective on the date the Commission approves the Settlement. The Formula Rate Spreadsheets are attached to the Settlement as Exhibits B, C, and D, and are effective January 1, 2012, April 1, 2013, and January 1, 2014, respectively. The Formula Rate Spreadsheets and Formula Rate Protocols (together, the "Formula Rate") terminate December 31, 2017, except as otherwise provided in Section 2 of the Formula Rate Protocols.

C. Article III – Non-Rate Terms

Article III contains provisions applicable to SCE's administration of the Formula Rate. These provisions address administrative and general ("A&G") expense workpapers (Sections 3.1 and 3.3), treatment of Power Procurement Business Unit costs (Section 3.2), certain Tehachapi Segment 8 costs (Section 3.4), FERC Form 1 Account 930.2 expenses (Section 3.5), petitions requesting transmission incentives (Section 3.6), service of requests for accounting waivers (Section 3.7), accounting for depreciation (Section

3.8), income tax rate workpapers (Section 3.9), and workpapers for the Plant Study (3.10).

D. Article IV – Rate Periods and Schedules

Article IV sets forth the schedules and exhibits specifying the rates to be applicable during different time periods under the Formula Rate Spreadsheets. These are as follows:

1. The retail and wholesale Base TRR and transmission rates, as well as the Gross Load, for the period January 1, 2012 through September 30, 2012, shall be as set forth in Exhibit F-1 to the Settlement. The populated Formula Rate Spreadsheet for this period is attached as Exhibit G-1 to the Settlement.
2. The retail and wholesale Base TRR and transmission rates, as well as the Gross Load, for the period October 1, 2012 through December 31, 2012, shall be as set forth in Exhibit F-2 to the Settlement. The populated Formula Rate Spreadsheet for this period is attached as Exhibit G-2 to the Settlement. The reason for the change from Exhibits F-1 and G-1 is because Exhibits F-2 and G-2 reflect the Base TRR and rates associated with SCE's 2013 Annual Update effective for the 12-month period beginning October 1, 2012.
3. The retail and wholesale Base TRR and transmission rates, as well as the Gross Load, for the period January 1, 2013 through March 31, 2013,

shall be as set forth in Exhibit F-3 to the Settlement. The populated Formula Rate Spreadsheet for this period is attached as Exhibit G-3 to the Settlement. The reason for the change from Exhibits F-2 and G-2 is because Exhibits F-3 and G-3 reflect the change in the wholesale transmission revenue requirement and rates resulting from SCE's Transmission Revenue Balancing Account Adjustment filing in Docket No. ER13-226, which was effective on January 1, 2013.

4. The retail and wholesale Base TRR and transmission rates, as well as the Gross Load, for the period beginning April 1, 2013, shall be as set forth in Exhibit F-4 to the Settlement. The populated Formula Rate Spreadsheet for this period is attached as Exhibit G-4 to the Settlement. The reason for the change from Exhibits F-3 and G-3 is because Exhibits F-4 and G-4 reflect SCE's revision to its retail rate design filed in Docket No. ER13-1190, which was effective on April 1, 2013. Finally, a copy of the Formula Rate Spreadsheet effective January 1, 2014 in Excel format is attached to the Settlement as Exhibit G-5. The reason for the change from Exhibit G-4 is because Exhibit G-5 incorporates conforming revisions, consistent with the Formula Rate Protocols, to transition the Rate Year specified in the Formula Rate to a calendar year.
5. Notwithstanding the provisions of Sections 9 and 10 of the Original Formula Rate Protocols, the Base TRR and rates under Appendixes I, II

and III to SCE's TO Tariff shall reflect the provisions of Sections 9 and 10 of the New Formula Rate Protocols effective January 1, 2012. The amounts set forth in Exhibits F-1 through F-4 and G-1 through G-4 of the Settlement properly reflect the provisions of Sections 9 and 10 of the Formula Rate Protocols.

E. Article V – Procedures for Tariff Waiver and Interim Rates

Article V provides that SCE shall file a Motion for Implementation of Interim Settlement Rates and Waiver of Tariff Provisions” with the Chief Administrative Law Judge simultaneously with the filing of the Settlement. If the Chief Administrative Law Judge does not grant SCE's Motion in full by September 6, 2013, such Motion shall be deemed withdrawn. In such event, SCE shall file its Informational Filing with the Commission by September 15, 2013 (the “September 2013 Informational Filing”) in accordance with Appendix IX of SCE's TO Tariff as originally filed, and the Base TRR and rates set forth in such Annual Update shall be effective October 1, 2013.

If the Chief Administrative Law Judge grants the Motion in full no later than September 6, 2013, then SCE shall not file its September 2013 Informational Filing with the Commission as provided for under Appendix IX of SCE's TO Tariff as originally filed. The Settlement sets forth alternate procedures that will be applicable if the Chief Administrative Law Judge does not grant the Motion, depending on the timing of the Commission's approval of the Settlement.

F. Article VI - Refunds

Article VI sets forth the refund procedures for retail and wholesale customers. The refund procedures will depend on the timing of the Commission's action on the Motion and approval of the Settlement. SCE's Motion, if granted, will allow the new lower Base TRR and associated transmission rates specified in this Settlement to become effective as of October 1, 2013, which will reduce the refunds that would otherwise be due.

If the Commission unconditionally approves this Settlement by November 15, 2013, within 20 days SCE will request the CAISO to calculate and make refunds for service provided for the period of January 1, 2012 through September 30, 2013. In such event, SCE's Base TRR and associated transmission rates in the December 1, 2013 Annual Update shall be developed reflecting the reduction in revenues associated with the 2012 refunds, and the Base TRR and rates in the December 1, 2014 Annual Update shall be developed reflecting the reduction in revenues associated with the refunds for January 1, 2013 through September 30, 2013. Any overrecovery for the period beginning October 1, 2013 shall be reflected in the True Up Adjustment for 2013 in the Annual Update filing made on December 1, 2014.

If the Commission unconditionally approves this Settlement after November 15, 2013, SCE shall not submit the Annual Update filing that would ordinarily be required on December 1, 2013 under the Formula Rate Protocols, and the Base TRR and associated transmission rates implemented on October 1, 2013 shall remain in effect until January 1,

2015. Any resulting overrecovery during 2014 would be reflected in the True-Up adjustment in a subsequent Annual Update filing.

G. Article VII – General Provisions

Article VII sets forth additional terms and conditions of the settlement, as follows:

- a. No Precedential Effect:** The Settlement at Section 7.1 contains language regarding the non-precedential nature of the Settlement.
- b. Approval of Settlement and Privileged Nature of Settlement:** The Settlement at Section 7.2 contains language regarding the approval of the Settlement and its privileged nature.
- c. Rejection or Modification:** The Settlement at Section 7.3 contains language regarding the procedure for withdrawing from the Settlement in the event the Commission does not approve any provision of the Settlement or approves the Settlement subject to a modification or condition unacceptable to any Party. The Settlement at Section 7.3 also provides that if the Commission should, by order, condition its approval of the Settlement, or require its modification, any Party may notify the other Parties within ten (10) business days of the issuance of such order that it objects to the Settlement as so conditioned or modified. In such event, the Settlement shall be of no force and effect and the Parties shall have all rights to continue to

pursue their legal remedies before the Commission in the pending dockets.

- d. Integration:** The Settlement at Section 7.4 provides that this Settlement supersedes all previous representations, understandings, negotiations and agreements, either written or oral, between the Parties or their representatives with respect to matters at issue in these proceedings and constitutes the entire offer of settlement with respect to matters at issue in these proceedings.
- e. Standard of Review:** Section 7.5 provides that the standard of review applicable to the Commission’s review and approval of the Settlement shall be the just and reasonable standard. The standard for review for any proposed changes to Sections 1.4 and 1.5 of the Settlement and to the TO Tariff provisions that are permitted under the TO Tariff shall be the just and reasonable test, and the standard of review for any changes to the Settlement (not including Sections 1.4 and 1.5 of the Settlement and the TO Tariff provisions attached to this Settlement) that are proposed by any Party shall be the “public interest” test. Any change to the Settlement proposed by a non-Party or by the Commission shall be governed by the just and reasonable standard.

III.LIST OF EXHIBITS TO SETTLEMENT

As set forth in Section II, the Settlement includes the following exhibits:

| Exhibit | Description | Settlement Section |
|----------------|--|---------------------------|
| A | New Formula Rate Protocols | 1.6 |
| B | Formula Rate Spreadsheet effective January 1, 2012 | 2.2 |
| C | Formula Rate Spreadsheet effective April 1, 2013 | 2.3 |
| D | Formula Rate Spreadsheet effective January 1, 2014 | 2.4 |
| E | Workpaper required under Protocols Section 3(a)(12) | 3.3 |
| F-1 | TRR and transmission rates for the period January 1, 2012 through September 30, 2012 | 4.1 |
| F-2 | TRR and transmission rates for the period October 1, 2012 through December 31, 2012 | 4.2 |
| F-3 | TRR and transmission rates for the period January 1, 2013 through March 31, 2013 | 4.3 |
| F-4 | TRR and transmission rates for the period beginning April 1, 2013 | 4.4 |
| G-1 | Populated Formula Rate Spreadsheet for the period January 1, 2012 through September 30, 2012 | 4.1 |
| G-2 | Populated Formula Rate Spreadsheet for the period October 1, 2012 through December 31, 2012 | 4.2 |
| G-3 | Populated Formula Rate Spreadsheet for the period January 1, 2013 through March 31, 2013 | 4.3 |
| G-4 | Populated Formula Rate Spreadsheet for the period beginning April 1, 2013 | 4.4 |
| G-5 | Excel version of Formula Rate Spreadsheet effective January 1, 2014 | 4.4 |

IV. INFORMATION REQUIRED BY CHIEF ADMINISTRATIVE LAW JUDGE'S OCTOBER 15, 2003 NOTICE AND OCTOBER 23, 2003 ERRATA REGARDING SETTLEMENTS

The Commission has stated that certain additional information should be provided in support of settlements. In order to assist the Commission in its review of the proposed Settlement, SCE addresses the following five questions.

A. What are the issues underlying the settlement and what are the major implications?

The factual and procedural background of this proceeding setting forth the issues underlying the Settlement is summarized above. The Settlement resolves all issues in Docket Nos. ER11-3697-000, ER11-3697-001 and ER11-3697-003. The Settlement has no major implications because it is a negotiated settlement that resolves all issues in these proceedings and will have no precedential value.

B. Whether any of the issues raise policy implications?

Other than furthering the broad public interest in favor of settlements,⁴ the issues presented in the Settlement do not raise any policy implications.

C. Whether other pending cases may be affected?

No pending cases will be affected by the resolution of the present proceeding.

⁴ *Southern Union Gas Co. v. FERC*, 840 F.2d 964, 971 (D.C. Cir. 1988).

D. Whether the settlement involves issues of first impression, or if there are any previous reversals on the issues involved?

The Settlement does not resolve any issues of first impression, and there are no previous reversals on the issues involved in this proceeding.

E. Whether the proceeding is subject to the just and reasonable standard or whether there is *Mobile-Sierra* language making it the standard, i.e., the applicable standard of review?

Under Section 7.5 of the Settlement, the standard of review applicable to the Commission's review and approval of the Settlement shall be the just and reasonable standard. The standard for review for any changes to Sections 1.4 and 1.4 of the Settlement and to the TO Tariff provisions attached to the Settlement that are proposed by any Party and that are permitted under the TO Tariff is the just and reasonable test, and the standard of review for any changes to the Settlement (not including Sections 1.4 and 1.5 of the Settlement and the TO Tariff provisions attached to the Settlement) that are proposed by any Party is the "public interest" test. Any change to the Settlement proposed by a non-Party or by the Commission is governed by the just and reasonable standard.

V. CONCLUSION

The Settlement fairly and fully resolves all issues in Docket Nos. ER11-3697-000, ER11-3697-001 and ER11-3697-003. Commission approval of the Settlement will save not only the Parties, but also the Commission, the expense and effort of continued litigation. For all the foregoing reasons, SCE respectfully requests that the Commission

find that Settlement is fair and reasonable and in the public interest and approve it without modification.

Respectfully submitted,

By: /s/_____

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