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January 6, 2000

**ADVICE 1429-E**  
**(U 338-E)**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
ENERGY DIVISION

**SUBJECT:** Revision of Schedule PX - Power Exchange Energy to  
Modify the Power Exchange Energy Cost Calculation to  
Include Enhancements to the Block-Forward Market

Southern California Edison Company (SCE) hereby transmits for filing the following changes in its tariff schedules. The revised tariff sheets are listed on Attachment A and are attached hereto.

**PURPOSE**

This advice filing revises Schedule PX, Power Exchange Energy, Section 1 to include the cost of additional Block-Forward Market (BFM) enhancements in the calculation of the PX Energy Cost. The California Power Exchange (PX), on behalf of CalPX Trading Services (CTS), a division of the PX, has offered several enhancements to the existing BFM which consists of service covering hours from 6:00 a.m. to 10:00 p.m., Monday through Saturday for an entire month, excluding certain holidays.

**BACKGROUND**

In the Federal Energy Regulatory Commission's (FERC) May 26, 1999 Order (87 FERC ¶61,203), approval was given to CTS' request to establish market-based rate treatment for the BFM. With this FERC authorization, which did not place any size or date restrictions on the UDCs or any other market participant, CTS can offer electric power on a block-forward basis, as an exchange which will match "bids" to buy power with "offers" to sell power. Energy is delivered during predefined hours of the delivery month, with delivery arranged through the PX's day-ahead market.

California Public Utilities Commission (Commission) Resolution E-3618, issued on July 8, 1999, approved revisions to SCE's Schedule PX to include the cost of power incurred to participate in the new BFM in the calculation of the PX Energy Cost, as set forth in Advice 1377-E. On July 9, 1999, SCE filed Advice 1377-E-A to incorporate tariff modifications to SCE's Schedule PX in compliance with Resolution E-3618. On July 14, 1999, Energy Division notified SCE that Advice 1377-E and 1377-E-A were approved.

SCE filed Advice 1393-E on July 16, 1999, requesting authority to establish the Block-Forward Market Memorandum Account (BFMMA) to track costs that will be incurred by SCE to participate in the BFM that will not be billed to SCE by the PX or Independent System Operator (ISO). Advice 1393-E-A was filed on October 18, 1999 to supplement Advice 1393-E and to incorporate modifications outlined in Resolution E-3637. SCE will seek recovery of the amounts recorded in this memorandum account in a future Revenue Adjustment Proceeding as contemplated in Resolution E-3618<sup>1</sup> and Resolution E-3637. The BFMMA was approved by the Commission on October 20, 1999 in Resolution E-3637.

On December 30, 1999, the PX filed with the FERC an application requesting authority to establish BFM enhancements as discussed in more detail below.

### **BFM ENHANCEMENTS**

In Resolution E-3618, the Commission states, "Should the Power Exchange introduce additional forward market products, SCE and PG&E may at that time request Commission authorization for cost recovery." The PX, on behalf of CTS, has requested FERC approval of enhancements to the block-forward services offered by CTS. Among the proposed enhancements is the opportunity to contract for Super Peak Energy and Peak Shoulder Energy. The Super Peak Energy contract will likely cover the hours from 12:00 p.m. to 8:00 p.m., Monday through Saturday (holidays excluded). The Peak Shoulder Energy contract will likely cover the hours from 6:00 a.m. to 12:00 p.m., and from 8:00 p.m. to 10:00 p.m. Additional BFM enhancements will provide SCE with new opportunities to meet the power procurement needs of its bundled customers, including further diversifying the risk of procuring power in the spot market. These enhancements will allow for improved shaping of purchases to meet peak demand requirements and will improve SCE's ability to manage electricity price risk through forward purchases.

Because of these enhancements, SCE must change Schedule PX to expand the hourly PX energy cost calculation to include these additional BFM contracts. Inclusion of the costs associated with these additional products does not change the methodology adopted by the Commission for the development of the hourly PX cost or the Averaged PX Energy Charge, but rather expands the calculation to reflect SCE's planned participation in the new PX markets.

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<sup>1</sup> Resolution E-3618, Page 9, Paragraph 9.

## **TERM**

In Resolution E-3618, the Commission limited its approval to the costs of BFM trades and associated administrative fees for transactions through October 31, 2000, because of the then-innovative nature of the BFM. Given the results of the BFM to date and the negligible impact it has had on the liquidity of the other PX markets, SCE requests that the Commission extend the term of this program through March 31, 2002. Cost recovery beyond the end of SCE's rate freeze period is subject to the outcome of SCE's Post-Transition Ratemaking proceeding (Application No. 99-01-034).

## **QUANTITY**

In Resolution E-3618 the Commission set a cap on the quantity of SCE's transactions at one-third of SCE's historical minimum monthly load. This methodology yields monthly limits between 1,800 MW and 2,000 MW. Based on the positive results of BFM operation to date, the expansion of the BFM services offered, and SCE's need for greater flexibility (particularly with the increase in the ISO price cap from \$250 to \$750) to purchase the BFM products to more fully mitigate energy procurement risk to its customers, SCE requests that its monthly limits for retail energy transactions in the BFM be revised as follows:<sup>2</sup>

Period	Jan – Mar (1 <sup>st</sup> Qtr)	Apr – Jun (2 <sup>nd</sup> Qtr)	Jul – Sep (3 <sup>rd</sup> Qtr)	Oct – Dec (4 <sup>th</sup> Qtr)
Monthly Limit	2,200 MW	2,200 MW	5,200 MW	3,000 MW

SCE's proposed BFM limits are based on its "net-short" position for the relevant quarter.<sup>3</sup> SCE derived its proposed BFM limits as follows:

- (a) For each hour from April 1, 1998 through December 31, 1999, SCE determined its historical "net-short" position.
- (b) Since the BFM contracts are blocks of energy delivered in either the on-peak, super-peak, or shoulder-peak hours, SCE calculated its historical average "net-short" position in the delivery hours for each of these products on a monthly basis.<sup>4</sup> In most months since April 1, 1998, SCE's average "net-short" position has been highest in the super-peak hours.

<sup>2</sup> To the extent that CTS offers additional BFM enhancements that provide an efficient means of protecting SCE and its customers from volatile spot market prices during high-load periods, or SCE's net-short position is projected to significantly increase due to further generation divestiture and/or load growth, SCE will likely seek revisions to the BFM limits requested herein.

<sup>3</sup> SCE's "net-short" position in any hour is the amount by which the demand of SCE's bundled retail customers exceeded the supply SCE provided in that hour, excluding SCE's previous BFM purchases. SCE's "net-short" position is a reasonable basis to calculate SCE's BFM limits because it reflects the risk faced by SCE's bundled customers from procurement in the spot energy markets.

<sup>4</sup> On-peak hours are currently defined by CTS to cover 6:00 a.m. to 10:00 p.m., Monday through Saturday (holidays excluded) for the monthly or quarterly period being traded. Super-peak hours and shoulder-peak hours

- (c) Since SCE desires the flexibility to more fully mitigate the procurement risks faced by its customers due in part to the increase in the ISO price caps, including in the super-peak hours, SCE's proposed limit for its open position in the BFM for any hour is the highest of the values calculated in (b) above for each quarter, rounded to the nearest 100 MW.<sup>5</sup>

By increasing the limits as requested herein, SCE's customers will be able to more fully realize receive the benefits from the BFM market, including being able to mitigate the cost of spot market purchases in those periods when the spot market is susceptible to extreme price shocks.

### **RATEMAKING**

SCE requests similar ratemaking treatment for the costs incurred for these new CTS Products as that authorized for the PX's current 6-by-16 BFM product. SCE believes that any transactions made through the PX market should be considered prima facie prudent, consistent with the Commission's Preferred Policy Decision (D.95-12-063, mimeo p.70) and the Commission's treatment of purchases from the PX BFM in Resolution E-3618. Therefore the associated costs and fees paid to the PX and CTS should not be subject to reasonableness review.

As discussed above, the Commission recognized that costs may be incurred by SCE which will not be billed by the PX or ISO, and thus authorized the establishment of the BFMMA. If such costs are incurred by SCE as a result of its use of the new BFM products, these costs will also be tracked in the BFMMA for future Commission review.

No cost information is required for this advice filing.

This advice filing will not increase any rate or charge, cause withdrawal of service, or conflict with any schedule or rule.

### **EFFECTIVE DATE**

This advice filing becomes effective on the 40<sup>th</sup> calendar day after the date filed, which is February 15, 2000.

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are assumed to cover the periods previously described in the "BFM Enhancements" section of this advice letter filing.

<sup>5</sup> SCE's open position in any hour is the total amount of BFM contracts SCE holds for that hour, and reflects the netting of SCE's purchases and sales (if any) of BFM contracts which require delivery in that hour.

**NOTICE**

Anyone wishing to protest this advice filing may do so by sending a letter or facsimile to SCE and received by SCE no later than 20 days after the date of this advice filing. Protests should be mailed to:

IMC Program Manager  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue, Room 4002  
San Francisco, California 94102  
Facsimile: (415) 703-2200

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004 (same address above), and Donald A. Fellows, Manager of Revenue and Tariffs, Southern California Edison Company, 2244 Walnut Grove Avenue, Rosemead, California 91770, Facsimile (626) 302-4829. There are no restrictions on who may file a protest, but the protest shall set forth specifically the grounds upon which it is based and shall be submitted expeditiously.

In accordance with Section III, Paragraph G, of General Order No. 96-A, SCE is mailing copies of this advice filing to the interested parties shown on the attached service list and R.94-04-031/I.94-04-032. Address change requests should be directed to John Montanye at (626) 302-2308.

Further, in accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping the advice filing open for public inspection at SCE's corporate headquarters.

**Southern California Edison Company**

Donald A. Fellows, Jr.

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Enclosures

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 26983-E	Schedule PX	Revised 25879-E
Revised 26964-E	Table of Contents	Revised 26964-E
Revised 26965-E	Table of Contents	Revised 26965-E

Schedule PX  
POWER EXCHANGE ENERGY

Sheet 1

APPLICABILITY

Applicable to all SCE Bundled Service Customers and Direct Access Customers in the calculation of the Averaged Power Exchange (PX) Energy Charge. The cost recovery mechanism reflected in this schedule will apply to Block-Forward Market trades delivered through March 31, 2002. Cost recovery beyond the end of SCE's rate freeze period is subject to the outcome of SCE's Post-Transition Ratemaking proceeding (A.99-01-034). (C)(D)

TERRITORY

Within the entire territory served.

RATES

All charges, terms, and conditions of the customer's otherwise applicable rate schedule, or contract rate shall apply, except that the customer's total bill shall be adjusted as follows:

1. PX Energy Cost

The PX Energy Cost shall equal SCE's total hourly cost of procuring energy from the PX. The PX Energy Cost shall be calculated for each hour as the sum of the weighted average PX price paid by SCE for energy trades in the Forward Markets which include the day-ahead market, day-of or hour-ahead market, and the California Trading Services (CTS) Block-Forward Market, plus the cost of settlements for imbalance energy, plus uplift charges paid to the PX or ISO by SCE on behalf of SCE Bundled Service Customers.

a. Weighted Average of Forward Markets PX Prices

The weighted average of Forward Markets PX prices shall be calculated for each hour as the sum of the day-ahead PX price times the kWh purchased in the day-ahead energy market for that hour, plus the day-of or hour-ahead PX price times the kWh purchased in the day-of or hour-ahead energy market for that hour, plus the hourly net gain or loss on transactions for all products in the Block-Forward Market, all divided by the total kWh purchased in all Forward Markets for that hour. SCE's total open position in any hour in the CTS Block-Forward Market will be limited to 2,200 MW in the first and second quarters of the year, 5,200 MW in the third quarter, and 3,000 MW in the fourth quarter, and must be delivered through the day-ahead market. (C)

b. Adjustment For Cost of Settlement For Imbalance Energy

An adjustment for settlement costs paid by SCE to the PX or ISO for imbalance energy shall be included in the hourly PX Energy Cost. Approximately 60 days following the date on which energy consumption occurs ("transaction date"), a per kWh adjustment amount will be calculated based on the settlement information provided by the PX or ISO for the transaction date. The settlement information will be used to re-calculate the weighted average PX price for each hour on the transaction date as the sum of the day-ahead PX price multiplied by the kWh purchased in the day-ahead energy market, the day-of or hour-ahead PX price multiplied by the kWh purchased in the day-of or hour-ahead energy market, the net gain or loss on transactions for all products in the Block-Forward Market, and the imbalance energy price multiplied by the kWh purchased in the imbalance energy market, divided by the total kWh purchased of all Forward Markets, and imbalance energy markets for that hour. The adjustment for each hour will be calculated by subtracting the weighted average of all Forward Markets PX prices determined according to Section 1.a (excluding settlement costs) from the weighted average PX price calculated including settlement costs. (T)

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(To be inserted by utility)  
Advice 1429-E  
Decision  
1429TOC.doc

Issued by  
John Fielder  
  
Senior Vice President

(To be inserted by Cal. PUC)  
Date Filed Jan 06, 2000  
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