

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



December 3, 2009

Advice Letter 1608-E-C

Akbar Jazayeri
Vice President, Regulatory Operations
Southern California Edison Company
P O Box 800
Rosemead, CA 91770

**Subject: Supplement to the Performance Based Ratemaking (PBR)
Performance Report for 2001**

Dear Mr. Jazayeri:

Advice Letter 1608-E-C is effective November 20, 2009 per Resolution E-4282.

Sincerely,

A handwritten signature in blue ink, appearing to read "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division

August 21, 2009

ADVICE 1608-E-C
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Supplement to the Performance Based Ratemaking (PBR)
Performance Report for 2001

Pursuant to SCE's Preliminary Statement, Part BB, PBR Distribution Rate Adjustment Mechanism, and Part CC, PBR Distribution Rate Performance Mechanism (PDRPM), SCE files a report for each year that the PDRPM is in effect. In compliance with Decision (D.) 96-09-092, D.02-04-055, D.08-09-038, and D.09-05-027, Southern California Edison Company (SCE) files its 2001 Performance Report (PBR Report). Advice 1608-E-C replaces Advice (AL) 1608-E-B in its entirety.

In AL 1608-E-B, filed August 18, 2003, SCE supplemented AL 1608-E-A to incorporate the effect of the following:

- In April 2002, the California Public Utilities Commission (Commission) issued D.02-04-055 which modified SCE's PBR mechanism to be consistent with Public Utilities Code Section 739.10. As a result of D.02-04-055, SCE's PBR revenues were based on a revenue index effective June 14, 2001 and the \$43.947 million that were later recorded in the Electric Distribution Revenue Adjustment Memorandum Account in 2002 for the period June 14, 2001 through December 31, 2001 were included in 2001 PBR distribution revenue.¹
- The Job Creation and Worker Assistance Act of 2002 (HR 3090), enacted on March 9, 2002, authorized additional first-year depreciation for qualifying property

¹ Pursuant to Public Utilities Code Section 739.10 and D.02-04-055, the Commission established a methodology for setting SCE's Distribution PBR revenue requirement for the period from June 14 through December 31, 2001 and ordered SCE to establish a balancing account to ensure that errors in estimates of electricity sales do not result in material over- or under-collections of the revenues authorized by the adopted methodology (D.02-04-055, Conclusion of Law #1, and Ordering paragraphs #2 and #3). Advice letters 1619-E and 1619-E-A, implementing D.02-04-055, were approved on June 17, 2002.

and applies retroactively to a portion of 2001. The additional tax depreciation increased deferred tax reserves which in turn reduced rate base and therefore increased SCE's 2001 PBR financial performance.

- SCE incurred expenses related to SCE's participation in the Federal Energy Regulatory Commission's (FERC's) investigation of the trading practices of wholesale energy marketers during the California energy crisis. Pursuant to SCE's Settlement Agreement with the Commission,² SCE may recover expenses in its attempt to get refunds for its customers from any refunds actually received as the result of FERC's investigation. Therefore, SCE excluded all such expenses from its PBR financial performance calculation since SCE was authorized to recover these expenses through refunds.
- A minor error in the calculation of synchronized interest.

This revised PBR Report (Attachment A) supplements and revises AL 1608-E-B as follows:

- Makes changes consistent with D.08-09-038 and D.09-05-027 (issued in OII 06-06-014) to the previously reported 2001 results for the Customer Satisfaction, ACMI, Outage Frequency, and Employee Health and Safety incentive mechanisms.
- Revises the PBR Distribution Rate Revenue Sharing Mechanism results to reflect the impact of adjusted rate base in 2001 resulting from a 2009 tax settlement with the Internal Revenue Service (IRS).

PURPOSE

This filing is SCE's PBR Report for 2001 as required by Preliminary Statement, Part CC, PBR Distribution Rate Performance Mechanism.

BACKGROUND

SCE's annual PBR Report includes: (1) SCE's request, if any, for recognition of and recovery of Potential Z-Factors; and (2) the details of the operation and the results of SCE's performance under the PDRPM; including the derivation of any shared earnings, earned rewards or assessed penalties resulting from application of the separate performance mechanisms for Net Revenue Sharing, Customer Satisfaction, ACMI, Outage Frequency, and Employee Health and Safety.

² Pursuant to Section 3.3 of the October 2, 2001 Settlement Agreement between SCE and the Commission, refunds net of costs of recovery, including litigation, professional and other similar costs, were applied as credits to the Procurement Related Obligation Account (PROACT).

2001 PBR PERFORMANCE OVERVIEW

(1) Recovery of Potential Z-Factors

SCE is not seeking recovery of any Potential Z-Factors for 2001.

(2) PBR Performance

For 2001, SCE's prior calculation of PBR Net Revenue Sharing resulted in an amount owed to SCE (negative sharing) from its customers of \$21.942 million and rewards totaling \$18 million for the Customer Satisfaction, ACMI, Outage Frequency, and Employee Health and Safety performance mechanisms. These calculations have been revised as indicated below so that no amount is owed by ratepayers.

(A) PBR Financial Performance³

SCE's calculation of 2001 PBR financial performance reported in AL 1608 E-B was 114 basis points below the benchmark PBR Distribution Return on Equity (ROE) of 11.6 percent primarily due to the sales impact of California's aggressive efforts to conserve electricity during the state's energy crisis.⁴ Since this result was below the deadband (more than 50 basis points below the benchmark ROE), net revenue sharing would have been triggered and would have resulted in a ratepayer contribution of \$21.942 million. However, a settlement achieved with the IRS in May 2009 reduced the tax basis of certain distribution assets. This had the effect of reducing recorded rate base for 2001 thereby increasing the ROE from SCE's prior calculation. Recorded PBR Distribution ROE, including both California and federal tax changes, is 11.52 percent, which is eight basis points below the benchmark ROE and falls within the deadband of the Net Revenue Sharing mechanism. Therefore no revenue sharing is triggered. For more detailed information, refer to Section III of the Report.

(B) Customer Satisfaction and Employee Health & Safety

The Customer Satisfaction Rating measures overall customer satisfaction with four measured components of SCE's service based on survey results obtained by an outside consultant. Rewards or penalties for employee safety are determined based on SCE's performance related to the frequency of all industrial injuries and illnesses, including first aid treatments. SCE calculated a reward of \$8 million associated with SCE's 2001

³ Beginning in April 1998, SCE's nongeneration PBR became a distribution PBR. As filed in Advice 1344-E, revenues and costs associated with ISO-controlled transmission facilities are excluded in calculating the financial performance.

⁴ Among these programs were the Governor's 20/20 program, strongly inverted residential rates, a variety of utility demand-side management programs, the state-sponsored "Flex Your Power" advertising program encouraging the public to conserve, the many conservation programs created and funded by ABX1-29, and new load management programs authorized by the Commission and the Legislature. Includes \$43.947 million of additional revenue, pursuant to D.02-04-055. (See footnote 1, above.)

Customer Satisfaction measure and a reward of \$5 million associated with SCE's Employee Health and Safety measure. As a result of D.08-09-038, SCE was ordered to forgo recovery of all customer satisfaction and employee safety health and safety rewards SCE had calculated or requested for the period 2001 through 2003.⁵ Thus, SCE has forgone recovery of such rewards and no further action is required with respect to the Customer Satisfaction and Employee Health and Safety incentive measures.

(C) Reliability Measures, ACMI & Outage Frequency

The ACMI measures customer service interruptions in terms of the average minutes of service interruptions per customer, excluding all events which exceed 5.0 minutes of ACMI in a 24-hour period. Outage Frequency measures the number of circuit interruptions excluding all events which exceed 5.0 minutes of ACMI in a 24-hour period. These measures are based on two-year rolling averages. The two-year average ACMI index was within the deadband of its mechanism and thus no reward was earned or penalty was assessed. For the two-year Outage Frequency performance, SCE calculated a reward of \$5 million.

D.09-05-027 adopted a settlement agreement, which required SCE to forgo the net system reliability reward of \$2 million for the period 2001 – 2003, which is comprised of a reward of \$5 million for Outage Frequency in 2001 and a penalty of \$3 million for ACMI in 2003.⁶ Thus, the Outage Frequency reward of \$5 million calculated for 2001 has already been accounted for in the settlement adopted in D.09-05-027 and no further action is required with respect to the Reliability Measures for the period 2001 through 2003.⁷ For more detailed information on the Reliability Measures, refer to Section IV of the Report.

PBR DISTRIBUTION RATE PERFORMANCE MEMORANDUM ACCOUNT

In accordance with D.96-09-092, D.97-10-057, and Resolution E-3514, SCE established the PBR Distribution Rate Performance Memorandum Account (PDRPMA) to record revenue sharing resulting from the PBR net revenue sharing mechanism and all rewards and penalties resulting from the application of the service quality performance mechanisms. Because there is no revenue sharing amount nor any rewards or penalties resulting from the service quality performance mechanisms, no entries should be recorded to the PDRPMA for 2001.

⁵ D.08-09-038, Conclusion of Law No. 7, Ordering Paragraph No. 2. This order affirmed SCE's earlier offer to refund all employee health and safety rewards SCE had received from 1997 through 2000 and to forgo collection of \$15 million of rewards for the period 2001 through 2003.

⁶ D.09-05-027, p. 8; Ordering Paragraph 3, p. 16.

⁷ SCE is concurrently filing a supplemental advice letter for PBR results for 2002 and its initial advice letter for PBR results for 2003.

COST OF CAPITAL TRIGGER MECHANISM

The Cost of Capital Trigger Mechanism was established to adjust SCE's Authorized ROE for changes in interest rates and to adjust PBR Distribution Rates to account for changes in the Authorized ROE. The Trigger Mechanism uses an index which tracks changes in Aa Utility Bond rates. In a November 1, 2001, letter to Mr. Paul Clanon, Energy Division Director, SCE reported that the Aa Utility Bond rate for the 12-month period ending September 2001 was 7.69 percent. Since this was less than 100 basis points above the then current Trigger Value of 7.50 percent, the Trigger Mechanism was not activated. For more detailed information, refer to Section V of the Report.

DISTRIBUTION FACILITY FAILURE RATE DATA

In D.98-08-015, the Commission ordered SCE to gather data on distribution component and cable connection failure rates and to report such information during the term of the existing PBR.

SCE has assembled data relative to equipment failure rates for its major distribution facilities. In compliance with D.98-08-015, SCE is reporting the number of failures for specific utility distribution facilities listed in General Order 165 and cable connections that resulted in circuit interruptions during 2001. For more detailed information, refer to Section VI of the Report.

DATA REPORTING COMMITMENTS ADOPTED IN D.99-12-035

In D.99-12-035, the Commission ordered SCE to report data relative to busy conditions on inbound customer telephone trunk lines, streetlight repairs, service guarantee commitments, and customer erroneous disconnects. SCE has gathered this data and is reporting it in compliance with D.99-12-035. For more detailed information, refer to Section VII of the Report.

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

TIER DESIGNATION

Advice 1608-E was filed on April 2, 2002, under the rules of General Order (GO) 96-A. As previously clarified by the Energy Division, a supplement will be processed under the rules applicable when the original advice letter was filed, therefore, no tier designation is identified for this supplemental advice filing.

EFFECTIVE DATE

This advice letter will become effective upon Commission approval.

NOTICE

Anyone wishing to protest this advice filing may do so by letter via U.S. Mail, facsimile, or electronically, any of which must be received no later than 20 days after the date of this advice filing. Protests should be mailed to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, California 94102
E-mail: nj@cpuc.ca.gov and mas@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004 (same address above).

In addition, protests and all other correspondence regarding this advice letter should also be sent by letter and transmitted via facsimile or electronically to the attention of:

Akbar Jazayeri
Vice President of Regulatory Operations
Southern California Edison Company
2244 Walnut Grove Avenue
Rosemead, California 91770
Facsimile: (626) 302-4829
E-mail: AdviceTariffManager@sce.com

Bruce Foster
Senior Vice President, Regulatory Affairs
c/o Karyn Gansecki
Southern California Edison Company
601 Van Ness Avenue, Suite 2040
San Francisco, California 94102
Facsimile: (415) 929-5540
E-mail: Karyn.Gansecki@sce.com

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 GO 96-A, SCE is serving copies of this advice filing to the interested parties shown on the attached GO 96-A and OII.06-06-014 service lists. Address change requests to the GO 96-A service list should be directed by electronic mail to AdviceTariffManager@sce.com or at (626) 302-4039. For changes to all other service lists, please contact the Commission's Process Office at (415) 703-2021 or by electronic mail at Process_Office@cpuc.ca.gov.

Further, in accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping the advice filing at SCE's corporate headquarters. To view other SCE advice letters filed with the Commission, log on to SCE's web site at <http://www.sce.com/AboutSCE/Regulatory/adviceletters>.

For questions on the Report, Susan Reed may be reached at (626) 302-1965 or by electronic mail at Susan.Reed@sce.com.

Southern California Edison Company

Akbar Jazayeri

AJ:sr:jm
Enclosures

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.: Southern California Edison Company (U 338-E)

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: James Yee

Phone #: (626) 302-2509

E-mail: James.Yee@sce.com

E-mail Disposition Notice to: AdviceTariffManager@sce.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
 PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 1608-E-C

Tier Designation: N/A

Subject of AL: Supplement to the Performance Based Ratemaking (PBR) Performance Report for 2001

Keywords (choose from CPUC listing): Compliance, Performance Based Ratemaking

AL filing type: Monthly Quarterly Annual One-Time Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D.96-09-092, D.02-04-055, D.08-09-038, and D.09-05-027

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: _____

Summarize differences between the AL and the prior withdrawn or rejected AL¹: _____

Confidential treatment requested? Yes No

If yes, specification of confidential information:

Confidential information will be made available to appropriate parties who execute a nondisclosure agreement.

Name and contact information to request nondisclosure agreement/access to confidential information:

Resolution Required? Yes No

Requested effective date: Upon Commission Approval

No. of tariff sheets: -0-

Estimated system annual revenue effect: (%): _____

Estimated system average rate effect (%): _____

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: None

Service affected and changes proposed¹: _____

Pending advice letters that revise the same tariff sheets: None

¹ Discuss in AL if more space is needed.

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
inj@cpuc.ca.gov and mas@cpuc.ca.gov

Akbar Jazayeri
Vice President of Regulatory Operations
Southern California Edison Company
2244 Walnut Grove Avenue
Rosemead, California 91770
Facsimile: (626) 302-4829
E-mail: AdviceTariffManager@sce.com

Bruce Foster
Senior Vice President, Regulatory Affairs
c/o Karyn Gansecki
Southern California Edison Company
601 Van Ness Avenue, Suite 2040
San Francisco, California 94102
Facsimile: (415) 673-1116
E-mail: Karyn.Gansecki@sce.com

Attachment A

**SOUTHERN CALIFORNIA EDISON COMPANY
(U 338-E)**

**SCE'S DISTRIBUTION PERFORMANCE BASED
RATEMAKING (PBR) MECHANISM**

REVISED

2001 PERFORMANCE REPORT

**Before the
Public Utilities Commission
of the
State of California**

August 21, 2009

**SCE'S DISTRIBUTION PERFORMANCE BASED
RATEMAKING (PBR) MECHANISM**

2001 PERFORMANCE REPORT

(January 1, 2001 through December 31, 2001)

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I. Introduction

2001 was the fifth year of operation for Southern California Edison's (SCE or Company) Distribution Performance Based Ratemaking (PBR) mechanism.¹ The purpose of this report is to summarize SCE's 2001 Distribution PBR performance.

This report is filed pursuant to California Public Utilities Commission Decision No. 96-09-092 (D.96-09-092); SCE's Preliminary Statements Parts BB, CC, and XX; and D.02-04-055,² D.08-09-038, and D.09-05-027. This filing includes financial data from SCE's distribution operations and details of the operation of SCE's current PBR Distribution Revenue Requirement Performance Mechanism (PDRRPM).

The purpose of the PDRRPM is to implement the net revenue sharing mechanism for PBR distribution rate revenues and to provide for rewards and penalties based on SCE's recorded performance measured against established criteria in the following four categories: (1) Customer Satisfaction, (2) Outage Duration, or Average Customer Minutes of Interruption (ACMI), (3) Outage Frequency, and (4) Employee Health and Safety.

The PBR Net Revenue Sharing results were affected by several changes occurring after the close of the 2001 calendar year as follows:

- Based on D.02-04-055, which modified the PBR mechanism from a rate index to a revenue index, SCE calculated a revenue requirement for the period from June 14, 2001 through December 31, 2001. As a result, SCE recorded in its 2001 PBR revenue an additional \$43.947 million in Electric Distribution Revenue Adjustment Balancing Account (EDRABA) revenue that was recovered in 2002.³
- The Job Creation and Worker Assistance Act of 2002 (HR 3090), enacted on March 9, 2002, authorized additional first-year depreciation for qualifying property and applies retroactively to a portion of 2001. The additional tax depreciation increased deferred tax reserves which in turn reduced rate base and therefore increased SCE's 2001 PBR financial performance.
- SCE incurred expenses related to SCE's participation in the Federal Energy Regulatory

¹ SCE, in Advice Letter 1344-E, revised references in its Preliminary Statements to change the title of the PBR mechanism from Nongeneration PBR to Distribution PBR. This change reflects that on April 1, 1998, the Federal Energy Regulatory Commission assumed jurisdiction over the portion of SCE's transmission system subject to operational control by the California Independent System Operator (ISO).

² On May 4, 2001, SCE filed a petition to modify D.96-09-092 (Southern California Edison Company's Expedited Petition for Modification of D.96-09-092). In its petition, SCE requested, among other things, an immediate modification of its PBR mechanism to comply with the new requirements of ABX1-29, signed into law on April 11, 2001. ABX1-29 added Section 739.10 to the Public Utilities Code.

³ Pursuant to Public Utilities Code Section 739.10 and D.02-04-055, the Commission established a methodology for setting SCE's Distribution PBR revenue requirement for the period from June 14 through December 31, 2001 and ordered SCE to establish a balancing account to ensure that errors in estimates of electricity sales do not result in material over- or under-collections of the revenues authorized by the adopted methodology (D.02-04-055, Conclusion of Law #1, and Ordering paragraphs #2 and #3). Advice letters 1619-E and 1619-E-A, implementing D.02-04-055, were approved on June 17, 2002.

Commission's (FERC's) investigation of the trading practices of wholesale energy marketers during the California Energy crisis. Pursuant to SCE's settlement with the Commission,⁴ SCE may recover expenses in its attempt to get refunds for its customers from any refunds actually received as the result of FERC's investigation. Therefore, SCE excluded all such expenses from its PBR financial performance calculation since SCE was authorized to recover these expenses through refunds.

- A minor error in the calculation of synchronized interest was corrected.

These adjustments were previously included in SCE's PBR Report for 2001 filed in AL 1608-E-B, and yielded a PBR Net Revenue Sharing result more than 114 basis points less than the benchmark ROE of 11.6 percent. Since this result was more than 50 basis points below the benchmark ROE, net revenue sharing was triggered, and would have resulted in SCE recovering \$21.942 million from customers.

SCE has now revised the PBR Net Revenue Sharing results to reflect the impact of a May 2009 tax settlement with the Internal Revenue Service which reduced the tax basis of certain distribution assets. This had the effect of reducing recorded rate base for 2001, thereby increasing the ROE from SCE's prior calculation. Recorded PBR Distribution ROE, including both California and federal tax changes, is 11.52 percent, which is eight basis points below the 11.60 percent benchmark and falls within the deadband of the net revenue sharing mechanism. Therefore no PBR Net Revenue Sharing is triggered. The calculations supporting this result are provided in Section III of this report.

Moreover, the rewards previously requested for service quality mechanisms for (1) Customer Satisfaction, (2) Outage Duration, or Average Customer Minutes of Interruption (ACMI), (3) Outage Frequency, and (4) Employee Health and Safety have been revised. As a result of D.08-09-038, SCE was ordered to forgo recovery of all Customer Satisfaction and Employee Health and Safety rewards SCE had calculated or requested for the period 2001 through 2003⁵ and that no PBR penalties should be imposed on SCE. SCE is making concurrent filings for 2002 and 2003 which confirm this outcome. SCE has forgone recovery of such rewards and no further action with respect to Customer Satisfaction and Employee Health and Safety rewards or penalties is required.

Finally, D.09-05-027 adopted a settlement agreement, which required SCE to forgo the net system reliability reward of \$2 million for the period 2001 – 2003, which is comprised of a reward of \$5 million for Outage Frequency in 2001 and a penalty of \$3 million for ACMI in 2003.⁶ SCE is making concurrent advice letter filings for 2002 and 2003 which confirm this outcome. No further action is required with respect to reliability rewards or penalties.

Thus, pursuant to D.08-09-038 and D.09-05-027, there are no rewards or penalties for the four PBR service quality performance incentive mechanisms.

⁴ Pursuant to Section 3.3 of the October 2, 2001 Settlement Agreement between SCE and the Commission, refunds net of costs of recovery, including litigation, professional and other similar costs, would be applied as credits to PROACT.

⁵ D.08-09-038, Conclusion of Law No. 7, Ordering Paragraph No. 2.

⁶ D.09-05-027, p. 8; Ordering Paragraph 3, p. 16.

SCE also includes in this report the following information as ordered by the Commission: (1) the composition of the Cost of Capital Trigger Mechanism's bond index; (2) distribution facility failure rate data; and (3) other data as required by D.99-12-035 (SCE's Distribution PBR midterm review decision). In D.96-09-092, the Commission directed SCE to implement a Cost of Capital Trigger Mechanism and to track the monthly composition of the bonds that comprise the mechanism's index. This information is provided in Section V of this report. In D.98-08-015 (the "PBR Service Reliability Decision"), the Commission directed SCE to report the frequency of circuit interruptions resulting from the failure of the types of equipment listed in General Order 165 and cable connections. Section VI of this report provides this information. In D.99-12-035, the Commission directed SCE to report data relative to busy conditions on inbound customer telephone trunk lines, streetlight repairs, service guarantee commitments, and customer service erroneous disconnects. This information is provided in Section VII of this report.

II. PBR Distribution Rate Adjustment Mechanism

The PBR Distribution Rate Adjustment Mechanism (PDRAM) contains an Update Rule that provides for an annual adjustment to PBR Distribution Rate levels.⁷ This adjustment, calculated as the PBR Distribution Rate Adjustment Factor (PDRAF), is derived from the forecast Consumer Price Index (CPI) and modified by a productivity pledge (expressed as X). After the first year of operation, a correction factor is applied to reflect the difference between the forecast and recorded escalation in the previous year. The PDRAF is reported annually in November of each year that the PBR is in effect through an advice letter to the Commission. Table II.1 summarizes these factors and adjustments.

⁷ Effective with the approval of Advice Letters 1619-E and 1619-E-A, the PBR Distribution Rate Adjustment Mechanism (PDRAM) is now termed the PBR Distribution Revenue Requirement Adjustment Factor (PDRRAF). See SCE's Preliminary Statement, Part BB.

Table II.1

PBR Distribution Rates Update				
	<u>CPI</u>	<u>X</u>	<u>Correction Factor</u>	<u>Update Rule</u>
1997 ⁸	3.03%	1.2%	---	1.0183
1998 ⁹	2.43%	1.4%	0.9925	1.0027
1999 ¹⁰	2.70%	1.6%	0.9926	1.0035
2000 ¹¹	2.67%	1.6%	0.9936	1.0042
2001 ¹²	1.94%	1.6%	1.0101	1.0135

III. PBR Distribution Net Revenue Sharing Mechanism

A. Description

The PBR Distribution Net Revenue Sharing Mechanism comprises the principal financial element of SCE's Distribution PBR mechanism.¹³ This mechanism establishes a benchmark based on SCE's authorized return on common equity and puts SCE shareholders at risk for variations within 50 basis points of this benchmark. When results vary from the benchmark by more than 50 basis points, the net revenues are shared between SCE shareholders and customers.

This part of the Performance Report provides SCE's financial results for distribution operations under PBR. This information is then used to calculate a return on equity for determining net revenue sharing.

B. Results of Operations

Financial data from the 12-month period ending December 31, 2001 are presented in this section. Table III.B.1 provides SCE's financial results for its Distribution PBR. PBR operating revenues are derived from revenues associated with SCE's tariffed distribution rates, and include \$43.947 million that was transferred to recorded 2001 PBR revenue from SCE's EDRABA, and

⁸ Data reported in Advice Letter 1191-E-A.

⁹ Data reported in Advice Letter 1256-E.

¹⁰ Data reported in Advice Letter 1345-E-A.

¹¹ Data reported in Advice Letter 1414-E.

¹² Data reported in Advice Letter 1494-E.

¹³ Effective with the approval of Advice Letters 1619-E and 1619-E-A, the PBR Distribution Rate Revenue Sharing Mechanism is now termed the PBR Distribution Net Revenue Sharing Mechanism. See SCE's Preliminary Statement, Part CC.

Other Operating Revenues.¹⁴ Revenues that have their own ratemaking mechanisms, such as flexible pricing option contracts or the incremental revenues from non-tariffed products and services subject to the Gross Revenue Sharing Mechanism approved in D.99-09-070, as provided in SCE's Preliminary Statement, Part G, were also excluded.

PBR Distribution expenses exclude generation and ISO-related costs and are reported in Column 1 of Table III.B.1, Results of Operations. Expenses for PBR exclusions are also removed. This includes the removal of costs that receive separate balancing account treatment. The incremental costs associated with non-tariffed products and services subject to the Gross Revenue Sharing Mechanisms approved in D.99-09-070 were also excluded. Column 2, labeled "PBR Distribution – Jurisdictional," presents retail customers' results of operations. The separation used to identify the retail component of Column 2 is based on the 1995 GRC retail jurisdictional factor of 99.95%.

¹⁴ The \$43.947 million in EDRABA revenue is the additional revenue that results from balancing account treatment for the difference between recorded revenue and revenue requirement for the period June 14 through December 31, 2001 (D.02-04-055, Ordering Paragraphs 2 and 3). See also footnote 3 on page 1 of this report.

TABLE III.B.1
SOUTHERN CALIFORNIA EDISON COMPANY
PBR RESULTS OF OPERATIONS REPORT
12 Months Ended December 31, 2001
(Thousands of Dollars)

Description	PBR Distribution	
	System (1)	Jurisdictional (2)
Operating Revenues:		
Total Revenue	1,963,501	1,963,501
EDRABA Revenue 1	43,947	43,947
Subtotal	2,007,448	2,007,448
Other Operating Revenue	112,083	112,027
Total Operating Revenues	2,119,530	2,119,474
Operating Expenses: 2		
Fuel		
Purchased Power		
Power Exchange		
Prov-Reg Adj. Clause		
Subtotal	0	0
Production Other	0	0
Transmission (Non-ISO)	75,215	75,178
Distribution	281,749	281,609
Customer Accounts	224,199	224,087
Uncollectibles	6,286	6,282
Cust. Serv & Info	29,080	29,065
Administrative & General	143,947	143,875
Franchise Fees	19,596	19,586
Subtotal	780,073	779,682
Depreciation	478,234	477,995
Taxes Other	64,303	64,271
Taxes Income	268,660	268,526
Subtotal	332,963	332,797
Total Operating Expenses	1,591,270	1,590,474
Net Revenue	528,261	529,000
Rate Base	5,600,857	5,598,056
Rate of Return	9.43%	9.45%

Note:

1 EDRABA is the Electric Distribution Revenue Adjustment Balancing Account filed in Advice Letter 1619-E and 1619-E-A in compliance with Ordering Paragraph 3 of D.02-04-055. Advice Letters 1619-E and 1619-E-A were approved on June 17, 2002.

2 Pensions and Benefits expenses and Payroll Taxes are assigned to direct operating expense categories (e.g., Transmission, Distribution, Customer Accounts) instead of being shown in the Administrative & General and Other Taxes categories, respectively.

SCE's capital structure used for determining the PBR Distribution Return on Equity is listed in Table III.B.2.

Table III.B.2

Capital Structure (Utility)¹⁵	
	<u>Capital Ratio</u>
Long-Term Debt	47 %
Preferred Stock	5 %
Common Equity	48 %

The Recorded PBR Distribution Return on Equity is calculated by subtracting SCE's costs of providing distribution services (including income taxes and a component for Franchise Fees and Uncollectible Accounts expense) from the distribution-related revenues received by SCE and then dividing by the Recorded PBR Distribution Common Equity.

Table III.B.3

Recorded PBR Distribution Return on Equity	
a. Distribution-related revenues from Table III.B.1, preliminary:	2,119,474
b. Distribution-related costs from Table III.B.1, plus	1,590,474
Synchronized Interest (Auth WTCD)	201,015
Preferred Debt (Auth Pref):	18,350
	1,810,019
c. Recorded PBR Distribution Common Equity = Recorded PBR Distribution Rate Base (From Table III.B.1) X Fractional Share of Common Equity (Percent from Table III.B.2)	2,687,067
d. Preliminary PBR Distribution Return on Equity = (line a - line b) / line c :	11.52%

¹⁵ D.96-11-060, p. 33.

C. Quantification of Net Revenue Sharing Mechanism Results

To determine the net revenues, if any, to be shared with customers requires a comparison of the 2001 Recorded PBR Distribution Return on Equity with the Benchmark Return on Equity. SCE's 2001 Recorded PBR Distribution Return on Equity of 11.52 percent was provided above in Section III.B. The Benchmark Return on Equity is 11.60 percent. Thus, the Recorded PBR Distribution Return on Equity is within 50 basis points of the Benchmark Return on Equity, and no revenue sharing is triggered.

**TABLE III.C.2
NET REVENUE SHARING CALCULATION
TWELVE MONTHS ENDING DECEMBER 2001**

NET REVENUE SHARING CALCULATION	
(\$000s)	
1. Recorded PBR Distribution Rate Base:	
2. Recorded Rate Base	5,598,056
3. Recorded PBR Distribution Common Equity:	
4. Authorized Common Equity	48.00%
5. Recorded PBR Distribution Common Equity	<u>2,687,067</u>
6. Recorded PBR Distribution Return on Equity:	
7. Distribution-related Revenues including	
8. EDRABA revenue	2,119,474
9. Distribution-related Expenses	1,590,474
10. Synchronized Interest (Auth WTCD)	201,015
11. Preferred (Auth Pref)	<u>18,530</u>
12. Subtotal	1,810,019
13. Recorded PBR Distribution ROE	11.52%
14. Benchmark Return on Equity	<u>11.60%</u>
15. Equity Return Variance (ERV)	0.08%
16. If ERV is greater than 0.5% but less than 3.0%	<u>0.00%</u>
17. Ratepayer Equity Sharing Percent (RESP)	0.08%
18. Ratepayer Equity Factor (REF)	0.00%
19. Net to Gross Multiplier	1.8045
20. Net Revenue Subject to Sharing	0

Note:

1. EDRABA revenue: See footnote 1 on page 8 of this report.
2. The Equity Return Variance ERV = Line 13 minus Line 14; the value of the ERV, if less than zero, is multiplied by -1.
3. If the ERV (Line 15) is less than or equal to 0.5% (50 basis points) then no sharing is applicable and lines 17, 18 and 20 are zero.
4. The Ratepayer Equity Sharing Percent, RESP = Line 15 minus Line 16, or zero if line 15 is less than 0.5% (50 basis points).
5. The Ratepayer Equity Factor, REF = [(Line 17) x 0.75] minus [(Line 17) x (Line 17) x 15], as provided in Edison's Tariff, Preliminary Statement Part CC, Section 3.
6. If the ERV, (Line 15), is greater than 3.00% (300 basis points), the REF, (Line 18), shall equal 0.9375 percent. The RESP, (Line 17), cannot exceed 2.50%.
7. The Net-to-Gross Multiplier, (Line 19), is 1.8045 as adopted in Decision , D.96-01-011.
8. The Net Revenue Subject to Sharing, (Line 20), = (Line 5) x (Line 18) x (Line 19). If the Recorded PBR Distribution ROE, (Line 13), is less than the Benchmark PBR Distribution ROE, (Line 14), then multiply the value in (Line 20) by -1.

D. Summary of Net Revenue Sharing Results

SCE's financial performance resulted in a PBR Distribution ROE of 11.52 percent. This ROE is eight basis points below the benchmark ROE and is within the net revenue sharing deadband. Thus, revenue sharing is not triggered for 2001 results.

IV. Service Quality Performance Mechanisms

A. Customer Satisfaction and Employee Health & Safety

The Customer Satisfaction Rating measures overall customer satisfaction with four measured components of SCE's service based on survey results obtained by an outside consultant. Rewards or penalties for employee safety are determined based on SCE's performance related to the frequency of all industrial injuries and illnesses, including first aid treatments. SCE calculated a reward of \$8 million associated with SCE's 2001 Customer Satisfaction measure and a reward of \$5 million associated with SCE's Employee Health and Safety measure.

In Phase 1 of OII 06-06-014, the Commission reviewed the results obtained for Customer Satisfaction and the Employee Health and Safety performance. As a result of that review, in D.08-09-038 the Commission ordered SCE to refund all PBR Customer Satisfaction rewards it had received for the period 1997 through 2000 and to forgo recovery of all customer satisfaction and employee safety health and safety rewards SCE had calculated or requested for the period 2001 through 2003.¹⁶ The Commission determined that no penalties pursuant to these PBR mechanisms should be imposed on SCE. Thus, all potential issues related to rewards or penalties under the Customer Satisfaction and the Employee Health and Safety mechanisms were addressed in D.08-09-038. SCE has forgone recovery of the \$13 million of previously calculated rewards for 2001 and no further action by the Commission is required.

B. Reliability Measures

Average Customer Minutes of Interruption (ACMI)

ACMI measures customer service interruptions in terms of the average minutes of service interruptions per customer excluding all events which exceed 5.0 minutes of ACMI in a 24-hour period. The ACMI is calculated as the rolling average of two successive years. The ACMI has a performance standard of 59 minutes for the initial year of operation for SCE's Nongeneration PBR Mechanism (1997) and declines by two minutes per year thereafter through 2001. The standard has a deadband of 6 minutes on both sides in which there is no reward or penalty.

Outage Frequency

The Outage Frequency measures the number of circuit interruptions excluding all events that contribute interruptions which exceed 5.0 minutes of ACMI in a 24 hour period. The Outage Frequency Performance Rating is calculated as the rolling average of two successive

¹⁶ D.08-09-038, Conclusion of Law No. 7, Ordering Paragraph No. 2.

years. The Outage Frequency has a performance standard of 10,900 interruptions with a deadband of 1,100 on both sides in which there is no reward or penalty.

C. Reliability Results

The ACMI reliability measure was 52 minutes for 2001.¹⁷ As the ACMI reliability measure requires a rolling average of two successive years, and given that the 2000 figure was 48 minutes ACMI, the two-year rolling average to be used in determining whether a reward is earned or penalty assessed is 50 minutes ACMI. This result falls within the deadband for the ACMI index, which is from 46 to 58 minutes for 2001. A reward will be earned annually for a two-year rolling average Outage Frequency Performance Rating that is below 9,800 (above 12,000). Based on the Outage Frequency Index, SCE calculated a reward of \$5 million for the year 2001.

D.09-05-027 adopted a settlement agreement in Phase 2 of OII 06-06-014, which required SCE to forgo the net system reliability reward of \$2 million for the period 2001 – 2003, which is comprised of a reward of \$5 million for Outage Frequency in 2001 and a penalty of \$3 million for ACMI in 2003.¹⁸ Thus, SCE has forgone recovery of the calculated Outage Frequency reward of \$5 million for 2001. The settlement agreement adopted by D.09-05-027 also provides that SCE shall not be liable for any PBR penalties related to Phase 2. Therefore, all potential issues related to rewards or penalties under the ACMI and Outage Frequency mechanisms were addressed in D.09-05-027. No further action by the Commission is required.

V. Cost of Capital Trigger Mechanism

A. Description

In D.96-09-092, the Commission directed SCE to implement a Cost of Capital Trigger Mechanism (Trigger Mechanism). The Trigger Mechanism was established to adjust SCE's Authorized Return on Equity for changes in interest rates and to adjust PBR Distribution Base Rates to account for changes in the Authorized Return on Equity.

The Trigger Mechanism uses an index which tracks changes in Aa utility bond rates. In implementing the Trigger Mechanism, SCE selected Moody's Long Term Corporate Bond Yield Average for Aa Public Utilities which is reported in "Moody's Credit Perspectives," a publication of Moody's Investor Service. The Commission ordered SCE to track the monthly composition of this index in its annual report (D.96-09-092, p. 40).

¹⁷ Total ACMI for 2001 was 60.8 minutes less 8.7 minutes recorded for the ISO-directed outages on 3/19/01, 3/20/01, 5/7/01, and 5/8/01. This resulted in an ACMI of 52.1 minutes or 52 minutes rounded to the nearest minute. ISO-directed outages were excluded in accordance with D.98-07-077, Conclusion of Law number 1.

¹⁸ D.09-05-027, p. 8; Ordering Paragraph 3, p. 16.

B. Composition of the Cost of Capital Trigger Mechanism Bond Index

Table V.B.1 lists the bonds that made up Moody's Long Term Corporate Bond Yield Average for Aa Public Utilities, as reported in Moody's "Credit Survey" and on Moody's Internet Web site.¹⁹

Table V.B.1

Composition of the Cost of Capital Trigger Mechanism Bond Index				
<u>Company Name</u>	<u>Coupon</u>	<u>Maturity</u>	Moody's Bond Rating	
			<u>Beginning 2001</u>	<u>End 2001</u>
<i>Bonds Included in the Index at the Beginning and End of 2001</i>				
Bell Telephone Company of Pennsylvania	7.375%	03/15/2033	Aa1	Aa2
Florida Power & Light Co. Aa3	7.050%	12/01/2026	Aa3	
Illinois Bell Telephone Co.	7.250%	03/15/2024	Aa1	Aa2
Michigan Bell Telephone Co.	7.500%	02/15/2023	Aa1	Aa2
Bonds Removed from the Index During 2001				
Dayton Power & Light Co.	7.875%	02/15/2024	Aa3	
Duke Energy Corp.	7.375%	03/01/2023	Aa3	
Duke Energy Corp.	6.750%	08/01/2025	Aa3	
Florida Power & Light Co.	7.000%	09/01/2025		Aa3
Florida Power Corp.	7.000%	12/01/2023	Aa3	
National Rural Utilities Coop. Fin.	7.350%	11/01/2026	Aa3	
New England Tel. & Tel. Co.	6.875%	10/01/2023	Aa2	
Northern States Power Co. Wisconsin	7.375%	12/01/2026	Aa3	
Southwestern Bell Telephone Co.	7.625%	03/01/2023	Aa3	
Southwestern Bell Telephone Co.	6.625%	09/01/2024	Aa3	
US West Communications Inc.	6.875%	09/15/2033	Aa3	
US West Communications Inc.	7.125%	11/15/2043	Aa3	
Wisconsin Electric Power Co.	7.750%	01/15/2023	Aa2	
Bonds Added to the Index During 2001 and Included at the End of 2001				
Chesapeake & Potomac Telephone Co., VA	7.000%	07/15/2025		Aa2
Duke Energy Corp.	7.000%	07/01/2033		Aa3
Florida Power & Light Co. Aa3	7.050%	12/01/2026		
New Jersey Bell Telephone Co.	7.250%	03/01/2023		Aa2
Pacific Bell	7.375%	06/15/2025		Aa3
Southwestern Bell Telephone Co.	7.375%	07/15/2027		Aa2
Wisconsin Electric Power Co.	6.875%	12/01/2095		Aa3

¹⁹ Moody's "Credit Survey" ceased publication on January 29, 2001 and SCE has not located any other published source of this information for the period between January 29, 2001 and the end of 2001.

In a November 1, 2001 letter to Mr. Paul Clanon of the Energy Division, SCE reported the Aa Utility Bond rate for the 12-month period ending September 2001 was 7.69 percent, which is less than 100 basis points above the Trigger Value of 7.50 percent, as set forth in SCE's Preliminary Statement DD, Section 3.e. Thus, the Trigger Mechanism was not activated to cause a change to SCE's Authorized Return on Equity.

VI. Data on Failures of Distribution Facilities Listed in General Order 165 and Cable Connections

In D. 98-08-015, the Commission directed SCE to report the frequency of circuit interruptions resulting from the failure of the types of equipment listed in General Order (G.O.) 165 and cable connections. SCE reports this information in Table VI.1.²⁰ This data excludes all circuit interruptions occurring during events that have a circuit interruption duration totaling more than 5.0 minutes of ACMI.

Table VI.1

Number of Non-Catastrophic Circuit Interruptions Resulting from Equipment Failure (By Distribution Equipment Type Listed in G.O. 165) 2001	
G.O. 165 Facility Type	
Transformers	108
Switching/Protective Devices	347
Regulators/Capacitors	12
OH Conductors	196
UG Cables	398
UG Terminations	124
Streetlighting	4
Wood Poles	22

²⁰ Effective August 1998, SCE modified its internal outage reporting guidelines to better identify instances in which structure or equipment failure (including cable connections) cause a circuit interruption. The revised procedures require that an Equipment and Maintenance (E&M) Engineer review and validate equipment failures, complete material failure reports, and investigate incomplete or questionable data. Final validation of the outage report by the E&M Engineer ensures that the cause codes of the circuit interruptions have been accurately recorded.

VII. Data Reported in Compliance With D.99-12-035

In D.99-12-035, the Commission directed SCE to report data relative to busy conditions on inbound customer telephone trunk lines, streetlight repairs, service guarantee commitments, and customer service erroneous disconnects. In Tables VII.1 and VII.2, SCE reports this information for 2001. SCE’s service guarantee program is a voluntary program funded by shareholders. On January 15, 2001, SCE discontinued service guarantees as a result of resource limitations imposed by the energy crisis.

Table VII.1

Street Light Outage Data	
<p>On an annual basis, for the street light outages <u>not</u> caused by a source energy feed problem (e.g., broken cable), the percentage of streetlights repaired within three working days and the percentage repaired within five working days.²¹</p> <p style="text-align: right;">Repairs made within three working days:-</p> <p style="text-align: right;">Repairs made within five working days:</p>	<p>97.2%</p> <p>99.5%</p>
<p>On an annual basis, for street light outages caused by a source energy feed problem (e.g., broken cable), the percentage of streetlights repaired within 17 working days.</p> <p style="text-align: right;">Repairs made within 17 working days:²²</p>	<p>72.5%</p>

²¹ Based on the time between when a customer reports a streetlight out and when the streetlight is repaired or replaced. Streetlight repairs made when customers have not reported an outage are not included.

²² This statistic reports permanent repairs made within 17 days. When including temporary repairs with permanent repairs, over 95% of streetlights that had source feed problems were restored to operation within 17 days. This reflects SCE's repair practice as modified in 2000. In the case of source energy feed problems, SCE now performs temporary repairs in order to promptly restore service. Permanent repairs are then completed during a follow-up visit by an electrical contractor.

Table VII.2				
PBR Data Reporting and Gathering Requirements (D.99-12-035) 2002				
Call Center Performance		Service Guarantee Program**		
Month	Percent of time all primary inbound trunk lines at SCE's call centers are busy	Service Guarantees Not Met	Annual Number	Annual Paid Out
January	0.00%	New Meter Installation and Service Initiation	--	--
February	0.00%	Responding Quickly to Service Disruptions	--	--
March	0.00%	Restoring Service Within 24 Hours of Notification	--	--
April	0.00%	Total	--	--
May	0.00%	Erroneous Disconnects		
June	0.05%	Number of occurrences in which a customer's service was erroneously disconnected		
July	0.00%	Total	1,022	
August	0.00%	Credit-related	1,022	
September	0.00%	Percentage of erroneous disconnects as a percentage of disconnects*	0.29%	
October	0.02%			
November	0.00%			
December	0.02%			

* This percent is credit-related disconnects in error versus total credit-related disconnects. Erroneous disconnects can also occur as a result of a turn-off order. Adding turn-off orders into this calculation is not meaningful because a turn-off order is not generally a disconnect. It is instead either matched to a turn-on order or is simply a meter read.

** Due to the resource limitations imposed by California's energy crisis, this voluntary program was suspended beginning on January 15, 2001.