

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



August 7, 2002

Advice Letter: 1614-E

Akbar Jazayeri
Director of Revenue and Tariffs
Southern California Edison Company
P O Box 800
Rosemead, CA 91770

AUG 14 2002
REVENUE & TARIFFS DEPT.

Reference: Establishment of Utility Retained Generation regulatory mechanism

Dear Mr. Jazayeri:

Advice Letter 1614-E is effective January 1, 2002. A copy of the advice letter is included herewith for your records.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas Long".

Douglas Long
Energy Division

Filed: 4/19/02
Effective: 1/1/02

April 19, 2002

ADVICE 1614-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: **Establishment of Utility Retained Generation (URG)**
 Regulatory Mechanisms

In compliance with Decision (D.) 02-04-016 (URG Decision), Southern California Edison Company (SCE) hereby submits for filing the following changes to its tariff schedules. The revised tariff sheets are listed on Attachment A and are attached hereto.

PURPOSE

This advice filing establishes URG regulatory mechanisms in accordance with the California Public Utilities Commission (Commission) URG Decision.

BACKGROUND

On April 4, 2002, the Commission issued D.02-04-016 that established the ratemaking and calendar year 2002 cost-of-service revenue requirements for SCE's URG.^{1/} Although the URG Decision establishes revenue requirements it also adopts balancing accounts to ensure that reasonably incurred recorded costs will be recovered. This advice letter establishes the necessary URG balancing accounts and modifies the Recoverable Cost section of the Settlement Rates Balancing Account (SRBA) to operate consistent with the establishment of the new ratemaking accounts.^{2/} During the Procurement Related Obligations Account (PROACT) period, SCE will record its actual URG costs in the SRBA. However,

^{1/} This revenue requirement is considered interim until a final decision is rendered in SCE's 2003 Test Year General Rate Case (GRC).

^{2/} Pursuant to Ordering Paragraph 8 of the URG Decision, SCE will file a separate advice letter on April 24, 2002, to update SCE's 2002 interim revenue requirements.

consistent with the URG Decision, for tracking and/or informational purposes only, SCE will track the difference between authorized revenue requirement versus actual costs.

PRELIMINARY STATEMENT MODIFICATIONS

In accordance with the URG Decision, SCE is establishing three balancing accounts (as discussed below) in which actual and reasonably incurred URG expenses^{3/} are recorded associated with: (1) SCE's ownership share of generation facilities; (2) SCE's purchased power-related contracts,^{4/} and (3) the ISO. SCE will also track the difference between actual URG expenses, and the adopted interim 2002 URG revenue requirements.^{5/}

In addition, SCE is establishing a new memorandum account to track the difference between the recorded URG income tax revenue requirements, and actual URG income tax payments.^{6/} The new memorandum account is discussed below.

New Balancing Accounts and Memorandum Account

1. Native Load Balancing Account

The purpose of the Native Load Balancing Account (NLBA) is to record SCE's actual operating expenses^{7/} and actual capital-related expenses^{8/} for its ownership share of fossil, hydro, and nuclear^{9/} generating facilities. In addition, the NLBA tracks the difference between: (1) recorded operating expenses and capital-related expenses; and (2) the interim 2002 authorized revenue requirement for operating expenses and capital-related expenses.^{10/}

2. Purchased Power Balancing Account

The Purchased Power Balancing Account (PPBA) is established to record SCE's actual purchased power expenses. In addition, the PPBA tracks the difference between: (1) recorded purchased power expenses; and (2) the

^{3/} URG Decision, Ordering Paragraph 5.

^{4/} For Qualifying Facilities contracts, Interutility contracts, and Bilateral contracts.

^{5/} URG Decision, Ordering Paragraph 10.

^{6/} URG Decision, Ordering Paragraph 7.

^{7/} Including generation-related expenses such as: Operation and Maintenance (O&M) expenses, Administrative and General (A&G) expenses, fuel expenses, fuel inventory carrying costs, emission credit expenses, scheduling and dispatch expenses, Customer Service and Information (CS&I) expenses, contract administration expenses, and congestion expenses.

^{8/} Including book depreciation, applicable return on rate base, and income-related taxes.

^{9/} The SONGS 2&3 Incremental Cost Incentive Procedure (ICIP) is retained through December 31, 2003, in accordance with Ordering Paragraph 6 of the URG Decision.

^{10/} URG Decision, Ordering Paragraph 10.

interim 2002 authorized revenue requirement for purchased power expenses.^{11/} A sub-account of the PPBA is also established to track Qualifying Facilities (QF) contract purchases^{12/}.

3. Independent System Operator Balancing Account

The ISO Balancing Account (ISOBA) is established to record: (1) SCE's actual ISO payments for ancillary services and uplift charges, and (2) Reliability Must Run (RMR) revenue and ancillary services revenue. The ISOBA also tracks the difference between: (1) actual ISO expenses and revenue, and (2) the authorized interim 2002 ISO revenue requirement.^{13/}

4. URG Income Tax Memorandum Account

The URG Income Tax Memorandum Account (URGITMA) is established to track the difference between: (1) recorded URG income tax revenue requirements, and (2) actual URG income tax payments.^{14/} Entries to the URGITMA will be made in a manner that is consistent with the Tax Code and income tax "normalization" rules. Disposition of amounts tracked in the URGITMA will be determined in a proceeding expressly authorized by the Commission.

Modifications to the Currently Effective SRBA

In Resolution E-3765 (dated January 23, 2002), the Commission authorized SCE to, among other things, establish the PROACT and the SRBA. The purpose of the SRBA is to record the monthly difference (termed "Surplus") between SCE's "Settlement Rates" revenue and "Recoverable Costs." In Advice 1586-E-A (dated February 4, 2002), SCE filed tariff modifications (including the establishment of the SRBA) in compliance with Resolution E-3765. The effective date of the SRBA is September 1, 2001.

SCE records its URG expenses in the "Recoverable Costs" calculation in the SRBA. With the establishment of the NLBA, PPBA, and the ISOBA in this advice filing, the SRBA must be modified to add language to provide for the transfer of monthly activity in the NLBA, PPBA, and the ISOBA to the SRBA. These tariff modifications can be found in Section "Z. Settlement Rates Balancing Account" in Attachment A to this advice filing.

^{11/} URG Decision, Ordering Paragraph 10.

^{12/} URG Decision, Ordering Paragraph 9.

^{13/} URG Decision, Ordering Paragraph 10.

^{14/} URG Decision, Ordering Paragraph 7.

No cost information is required for this advice filing.

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

EFFECTIVE DATE

Pursuant to Ordering Paragraph 9 of the URG Decision, this advice filing is effective January 1, 2002, subject to review by the Energy Division.

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 by the Energy Division and 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
E-mail: jjr@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
Director of Revenue and Tariffs
Southern California Edison Company
2244 Walnut Grove Avenue, Rm. 303
Rosemead, California 91770
Facsimile: (626) 302-4829
E-mail: Emelyn.Lawler@sce.com

Bruce Foster
Vice President of Regulatory Operations
Southern California Edison Company
601 Van Ness Avenue, Suite 2040
San Francisco, California 94102
Facsimile: (415) 673-1116
E-mail: Bruce.Foster@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 General Order No. 96-A, SCE is furnishing copies of this advice filing to the interested parties shown on the attached service list, and A.00-11-038. Address change requests to the attached GO 96-A Service List should be directed to Emelyn Lawler at (626) 302-3985 or by electronic mail at Emelyn.Lawler@sce.com. For changes to all other service lists, please contact the Commission's Process Office at (415) 703-2021 or by electronic mail at ven@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 open for public inspection 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/> and choose Regulatory Info Center/Advice Letters.

For questions, please contact Phil Durgin at (626) 302-6344 or by electronic mail at Phillip.Durgin@sce.com.

Southern California Edison Company

Akbar Jazayeri

AJ:pd
Enclosures

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 31155-E* Original 31156-E	Preliminary Statement Part N Preliminary Statement Part N	Revised 30031-E**
Revised 31157-E Revised 31158-E	Preliminary Statement Part Z Preliminary Statement Part Z	Original 30273-E* Original 30274-E*
Original 31159-E* Original 31160-E	Preliminary Statement Part UU Preliminary Statement Part UU	
Original 31161-E Original 31162-E Original 31163-E* Original 31164-E	Preliminary Statement Part V V Preliminary Statement Part V V Preliminary Statement Part V V Preliminary Statement Part V V	
Original 31165-E Original 31166-E Original 31167-E Original 31168-E Original 31169-E Original 31170-E Original 31171-E Original 31172-E Original 31173-E Original 31174-E Original 31175-E Original 31176-E Original 31177-E Original 31178-E* Original 31179-E Original 31180-E Original 31181-E*	Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW Preliminary Statement Part WW	
Revised 31182-E Revised 31183-E	Table of Contents Table of Contents	Revised 30806-E Revised 30563-E



PRELIMINARY STATEMENT

Sheet 4

(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

2. Definitions. (Continued)

Specified Project (Continued)

Section No.	Specified Project	Interest Bearing Memorandum Account*	
(68)	Distribution Energy Resources Memorandum Account (DERMA)	Yes	
(69)	Not In Use		
(70)	Not In Use		
(71)	Pending		
(72)	Real Time Energy Metering (RTEM) Memorandum Account	Yes	
(73)	Risk Management Memorandum Account	Yes	
(74)	Pending		
(75)	Utility Retained Generation Income Tax Memorandum Account (URGITMA)	Yes	(N) (N)

* Interest shall accrue monthly to interest-bearing Memorandum Accounts by applying the Interest Rate to the average of the beginning and ending balance.

** Interest shall accrue monthly to credit balances only. See specific memorandum accounts for more information.

(Continued)

(To be inserted by utility)

Advice 1614-E
Decision 02-04-016

Issued by
John R. Fielder
Senior Vice President

(To be inserted by Cal. PUC)

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Effective Jan 1, 2002
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PRELIMINARY STATEMENT

Sheet 105

(Continued)

N. MEMORANDUM ACCOUNTS

75. UTILITY RETAINED GENERATION INCOME TAX MEMORANDUM ACCOUNT

1. Purpose:

The Utility Retained Generation (URG) Income Tax Memorandum Account (URGITMA) is established pursuant to Ordering Paragraph No. 7 of Decision No. 02-04-016 (URG decision). The purpose of the URGITMA is to track the consequences of timing differences between: (1) income tax revenue requirements for current income tax recorded in SCE's URG-related balancing accounts; and (2) actual URG-related income tax payments.

2. Operation of the URGITMA

Entries of interest (as described below) to the URGITMA shall be made to track the consequences of timing differences between:

- a. Income tax revenue requirements for current income tax as recorded in Commission-authorized URG-related balancing accounts; and
- b. Actual such URG-related income tax payments made by SCE.

3. Other Items

Interest shall accrue to the URGITMA by applying the Interest Rate (as defined in Preliminary Statement, Part N, Section 2) to the average monthly balance of the cumulative difference between:

- a. Income tax revenue requirements for current income tax as recorded in Commission-authorized URG-related balancing accounts; and
- b. Actual such URG-related income tax payments made by SCE.

Additional interest shall accrue to the URGITMA by applying the Interest Rate (as defined in Preliminary Statement, Part N, Section 2) to the average monthly balance of the URGITMA.

Pursuant to D.02-04-016, entries to the URGITMA shall be made in a manner that is consistent with the tax code, and does not violate income tax "normalization" rules.

Disposition of amounts tracked in the URGITMA shall be determined in a proceeding expressly authorized by the Commission.

(Continued)

(To be inserted by utility)

Advice 1614-E
Decision 02-04-016

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Senior Vice President

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PRELIMINARY STATEMENT

Sheet 5

(Continued)

Z. SETTLEMENT RATES BALANCING ACCOUNT (Continued)

5. Recoverable Costs (Continued)

- c. Debit entry equal to Trust Transfer Amount (TTA) revenues;
- d. Debit entry equal to CDWR-related costs, using the most recent CPUC-authorized methodology;
- e. Debit entry equal to Net Short Procurement Costs;
- f. Debit entry equal to amounts recorded in the Purchased Power Balancing Account; (T)
- g. A debit entry equal to amounts recorded in the ISO Balancing Account;
- h. A debit entry equal to amounts recorded in the Native Load Balancing Account; (T)
- i. Debit entry equal to amounts recorded in the Public Purpose Programs Adjustment Mechanism (PPPAM) Balancing Account;
- j. Debit entry equal to amounts recorded in the PBR Exclusions Distribution Adjustment Mechanism (EDAM) Balancing Account;
- k. Debit entry equal to amounts recorded in the Nuclear Decommissioning Adjustment Mechanism (NDAM) Balancing Account;
- l. Debit entry equal to amounts recorded in the Employee-Related Balancing Account (ERBA);
- m. Debit entry equal to amounts recorded in the Risk Management Memorandum Account ("Hedging" costs), after approval by the CPUC;
- n. A debit entry equal to amounts recorded in the Commission Directed Costs Tracking Account;
- o. Debit or credit entry equal to Rate Reduction Bond (RRB) Memorandum Account activity;

(Continued)

(To be inserted by utility)

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PRELIMINARY STATEMENT

Sheet 6

(Continued)

Z. SETTLEMENT RATES BALANCING ACCOUNT (Continued)

5. Recoverable Costs (Continued)

- p. A credit entry equal to the amortization of amounts recorded in the Demand Reduction and Self-Generation Program Incremental Costs Balancing Account; (D) (T)
- q. Other amounts as expressly authorized by the CPUC. (T)

Interest expense shall not be recorded in the SRBA since the net monthly activity (whether positive or negative) is transferred to the PROACT.

(Continued)

(To be inserted by utility)

Advice 1614-E
Decision 02-04-016

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PRELIMINARY STATEMENT

Sheet 1

UU. INDEPENDENT SYSTEM OPERATOR BALANCING ACCOUNT (ISOBA)

1. Purpose:

The Independent System Operator (ISO) Balancing Account (ISOBA) records: (1) ISO-related costs paid by SCE to the ISO; (2) ISO-related costs paid by SCE to the California Department of Water Resources (CDWR); and (3) ISO-related revenues received by SCE.

The ISOBA also tracks the difference between: (1) amounts recorded in the ISOBA, and (2) adopted Interim ISO-related Revenue Requirement (as adopted in Decision No. 02-04-016 and Decision No. 02-03-058).

2. Definitions:

a. Effective Date

The Effective Date of the ISOBA is January 1, 2002, pursuant to Ordering Paragraph No. 9 of Decision No. 02-04-016 (URG decision).

b. Franchise Fees and Uncollectibles Account Expense

Franchise Fees and Uncollectibles Expense Franchise Fees and Uncollectibles (FF&U) expense shall be calculated based on the current CPUC adopted FF&U Factor.

c. Interim ISO Revenue Requirement

In accordance with Decision No. 02-04-016 and Decision No. 02-03-058, SCE's adopted Interim ISO Revenue Requirement is \$82.698 million (excluding FF&U).

d. ISO-related Costs

ISO-related costs are charges from the ISO including: ancillary services; grid management charges (uplift charges); wheeling charges; demand relief; summer reliability; voltage support; spinning reserve; non-spinning reserve; replacement reserve; neutrality adjustments; black start energy and capacity; long-term voltage support; supplemental reactive energy. Pursuant to Ordering Paragraph No. 1 of Decision No. 02-03-058, only actual and reasonable ISO-related costs paid by SCE to the ISO, or to the CDWR can be recovered.

(Continued)

(To be inserted by utility)

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PRELIMINARY STATEMENT

Sheet 2

(Continued)

UU. INDEPENDENT SYSTEM OPERATOR BALANCING ACCOUNT (ISOBA) (Continued)

3. Operation of the ISOBA

Entries to the ISOBA shall be made monthly as follows:

- a. A debit entry equal to ISO-related costs paid to the ISO;
- b. A debit entry equal to ISO-related costs paid to the CDWR;
- c. A credit entry equal to ISO-related revenues received by SCE associated with:
(1) Reliability Must-Run (RMR) facilities; and (2) the provision of ancillary services;
- d. The sum of items "a.", "b.", and "c." above (whether a net debit or net credit amount) shall be transferred monthly to the Settlement Rates Balancing Account (SRBA).

4. ISOBA Tracking Mechanism

Pursuant to Ordering Paragraph No. 10 of Decision No. 02-04-016, SCE shall track the difference between:

- a. Actual amounts recorded in the ISOBA; and
- b. The interim 2002 ISO-related revenue requirement adopted in Decision No. 02-04-016, and Decision No. 02-03-058;

Interest shall not accrue in the ISOBA because the net monthly activity is transferred to the SRBA.

(To be inserted by utility)

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PRELIMINARY STATEMENT

Sheet 1

V V. PURCHASED POWER BALANCING ACCOUNT (PPBA)

1. Purpose:

The Purchased Power Balancing Account (PPBA) records costs and revenue associated with Southern California Edison Company's (SCE) Qualifying Facilities (QF) Contracts, Interutility Contracts, and Bilateral Contracts. The PPBA includes the following Sub-accounts:

- a. QF Contracts Sub-account;
- b. Interutility Contracts Sub-account
- c. Bilateral Contracts Sub-account

The PPBA also tracks the difference between: (1) recorded purchased power-related costs incurred by SCE, and (2) the 2002 Interim Purchased Power Revenue Requirement as authorized in Decision No. 02-04-016 (URG decision).

2. Definitions:

a. Effective Date

The Effective Date of the PPBA is January 1, 2002.

b. Franchise Fees and Uncollectibles Account Expense

Franchise Fees and Uncollectibles Expense Franchise Fees and Uncollectibles (FF&U) expense shall be calculated based on the current Commission adopted FF&U Factor.

c. Interim Purchased Power Revenue Requirement

In accordance with D. 02-04-016, the authorized 2002 Interim Purchased Power Revenue Requirement (excluding FF&U) is:

	<u>(\$ Thousands)</u>
QF Contracts	2,130,162
Interutility Contracts	161,255
Bilateral Contracts	<u>106,364</u>
Total	2,397,781

(Continued)

(To be inserted by utility)

Advice 1614-E
Decision 02-04-016

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PRELIMINARY STATEMENT

Sheet 2

(Continued)

V V. Purchased Power Balancing Account (PPBA) (Continued)

3. Operation of the PPBA

Entries to the PPBA shall be made monthly as follows:

- a. A debit entry equal to the amount recorded in the QF Contracts Sub-account;
- b. Plus: an entry (either debit or credit) equal to the amount recorded in the Interutility Contracts Sub-account;
- c. Plus: a debit entry equal to the amount recorded in the Bilateral Contracts Sub-account;
- d. The sum of the items above shall be transferred monthly to the Settlement Rates Balancing Account (whether a net debit amount or net credit amount).

4. QF Contracts Sub-account

Entries to the QF Contracts Sub-account shall be made monthly as follows:

- a. Recorded QF payments by SCE for Standard Offer Nos. 1, 2, and 3, Interim Standard Offer No. 4 and Non-Standard Contracts;
- b. Plus: Recorded QF costs for Commission approved restructuring of existing QF contracts through bilateral negotiations between utilities and QFs. These costs include all costs associated with the buy-out, buy-down, or renegotiation of existing QF contracts;
- c. Plus: Recorded Commission approved shareholder incentive for utilities to restructure QF contracts;
- d. Plus: Recorded costs for QF disputes and litigation that result in settlement payments or increased QF payment costs for SCE;
- e. Plus: Recorded administrative costs, and scheduling and dispatch costs for QF contracts to the extent these costs are not recovered elsewhere;
- f. Plus: Cost of Firm Transmission Right acquisitions;
- g. Less: Recorded refunds received as a result of QF disputes and litigation;
- h. Less: Recorded congestion revenue received as the result of SCE holding Firm Transmission Rights or revenues received from the resale of Firm Transmission Rights;
- i. The sum of the items above equals the total monthly amount recorded in the QF Contracts Sub account .

(Continued)

(To be inserted by utility)

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PRELIMINARY STATEMENT

Sheet 3

(Continued)

V V. Purchased Power Balancing Account (PPBA) (Continued)

5. Interutility Contracts Sub-account

Entries to the Interutility Contracts Sub-account shall be made monthly as follows:

- a. Recorded Interutility Contract power purchase payments for both capacity and energy components on unavoidable purchase and must-take obligations;
- b. Plus: Recorded cost of energy returned (delivered) pursuant to Interutility Contracts including associated costs such as exchange and brokerage fees;
- c. Plus: Recorded costs, such as ancillary service costs, attributable to operating the Interutility Contracts through the ISO, or other transmission or control area operator;
- d. Plus: Recorded costs, to the extent these costs are not recovered elsewhere, which are auxiliary to the Interutility Contracts, such as cost sharing agreements for environmental studies;
- e. Recorded costs for buy-out, buy-down, or renegotiation of Interutility Contracts;
- f. Plus: Recorded costs of credit support for Interutility Contracts, such as fees charged by financial institutions and insurers and interest costs;
- g. Plus: Recorded administrative costs, and scheduling and dispatch costs associated with Interutility contracts to the extent these costs are not recovered elsewhere;
- h. Less: Recorded value (Revenue, offsets, or other credits) associated with receiving energy pursuant to Interutility Contracts;
- i. Less: Recorded revenue for discretionary purchases of Discretionary Energy by the ISO or other CPUC-approved entity;
- j. Less: Recorded revenue from power sold under the Interutility Contracts;
- k. The sum of the items above equals the total monthly amount recorded in the Interutility Contracts Sub-account.

6. Bilateral Contracts Sub-account

Entries to the Bilateral Contracts Sub-account shall be made monthly as follows:

- a. Recorded costs and revenues associated with Bilateral Contracts, including administration and associated staffing costs, transaction fees, costs associated with meeting credit and collateral requirements, cost for acquiring and maintaining systems needed to analyze, trade, schedule, settle, and make/receive payments, scheduling and dispatch costs, and generation-related congestion fees, to the extent that such costs are not recovered elsewhere;

(Continued)

(To be inserted by utility)

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PRELIMINARY STATEMENT

Sheet 4

(Continued)

V V. Purchased Power Balancing Account (PPBA) (Continued)

6. Bilateral Contracts Sub-account (Continued)

Entries to the Bilateral Contracts Sub-account shall be made monthly as follows:
(Continued)

- b. Plus: Recorded costs for block-forward market contracts, including administration, scheduling and dispatch costs, early termination fees, and generation-related congestion fees, to the extent that such costs are not recovered elsewhere.
- c. The sum of the items above equals the total monthly amount recorded in the Bilateral Contracts Sub-account.

7. PPBA Tracking Mechanism

Pursuant to Ordering Paragraph No. 10 of Decision No. 02-04-016, SCE shall track the difference between:

- a. Actual amounts recorded in the PPBA; and
- b. The Interim Purchased Power Revenue Requirement;

Interest shall not accrue in the PPBA, because the net monthly activity is transferred to the Settlement Rates Balancing Account.

(To be inserted by utility)

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PRELIMINARY STATEMENT

Sheet 1

WW. NATIVE LOAD BALANCING ACCOUNT

1. Purpose and Overview:

The Native Load Balancing Account (NLBA) records actual Capital-related Expenses and Operating Expenses associated with SCE's ownership share of generating facilities in accordance with Commission Decision No. 02-04-016 (D.02-04-016).

The NLBA also tracks the difference between: (1) recorded Capital-related Expenses and Operating Expenses; and (2) Interim Capital-related Expenses and Operating Expenses Revenue Requirement as adopted in D.02-04-016 (URG decision).

The NLBA contains the following sub accounts to record Capital-related Expenses, Operating Expenses, and other items for SCE's generating facilities:

- a. Hydro;
- b. Four Corners;
- c. Mohave;
- d. Pebbly Beach;
- e. Palo Verde; and
- f. SONGS 2&3.
- g. Miscellaneous Generation

On a monthly basis, the activity in the NLBA shall be transferred to the Settlement Rates Balancing Account (SRBA) for cost recovery purposes.

2. Definitions

a. Capital-related Expenses

For purposes of making monthly entries to the NLBA, generation-related Capital-related Expenses include: (1) book depreciation (using applicable remaining life of each generating facility); (2) 1/12 of the annual return on rate base (7.35 percent for SONGS 2&3, and 9.49 percent for all other generating facilities); and (3) taxes based on income, including all appropriate income tax-related adjustments, and deferred income tax expense. Capital-related Expenses are calculated using recorded plant associated with SCE's generating facilities (SCE's ownership share of fossil, hydro, and nuclear generating facilities).

(Continued)

(To be inserted by utility)

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PRELIMINARY STATEMENT

Sheet 2

(Continued)

WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

2. Definitions (Continued)

b. Franchise Fees and Uncollectibles Expense

Franchise Fees and Uncollectibles Expense (FF&U) expense shall be calculated based on the most recently adopted FF&U Factor.

c. Interim Capital-related Expenses and Operating Expenses Revenue Requirement

In accordance with D. 02-04-016 (at Table 2, page 60), SCE's authorized generation-related Interim Capital-related Expenses and Operating Expenses Revenue Requirement (excluding FF&U) is:

	<u>(\$ Thousands)</u>
Capital-related Expenses	\$ 306,741
Operating Expenses	<u>\$ 990,238</u>
Total	\$ 1,296,979

d. Operating Expenses

For purposes of making monthly entries to the NLBA, generation-related Operating Expenses include: (1) fuel expense and fuel inventory carrying charges; (2) Operation and Maintenance (O&M) expenses; (3) Administrative and General (A&G) expenses; (4) taxes other than on income; (5) Customer Service and Information (CS&I) expenses; (6) Scheduling and Dispatch (S&D) expenses; (7) contract administration; (8) congestion expenses; (9) allocated Industry Restructuring costs in accordance with D.99-09-064; and (10) other expenses expressly authorized by the Commission. Operating Expenses are calculated for SCE's ownership share of generating facilities (fossil, hydro, and nuclear).

e. Rate of Return on Rate Base

In accordance with D. 02-04-016, the rate of return on SCE's fossil, hydro, and Palo Verde rate base is 9.49 percent. The rate of return on SONGS 2&3 rate base is 7.35 percent.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

3. Operation of the NLBA

Monthly entries in the NLBA shall be made on a monthly basis as follows:

- a. Recorded amount in the Hydro Sub-account;
- b. Plus: recorded amount in the Four Corners Sub-account;
- c. Plus: recorded amount in the Mohave Sub-account;
- d. Plus: recorded amount in the Pebbly Beach Sub-account;
- e. Plus: recorded amount in the Palo Verde Sub-account;
- f. Plus: recorded amount in the SONGS 2&3 Sub-account;
- g. Plus: recorded amount in the Miscellaneous Generation Sub-Account;
- h. Equals: total recorded monthly amount in the NLBA to be transferred to the Settlement Rates Balancing Account (SRBA).

No interest expense shall be recorded in the NLBA, because the total monthly activity is transferred to the SRBA for cost recovery purposes.

4. Hydro Sub-account

The purpose of the Hydro Sub-account of the NLBA is to record actual Capital-related Expenses and Operating Expenses associated with SCE's hydroelectric generating facilities, to the extent that such costs are not recovered elsewhere.

Monthly entries in the Hydro Sub-account shall be made on a monthly basis as follows:

- a. Debit entry equal to recorded Capital-related Expenses;
- b. Plus, debit entry equal to recorded Operating Expenses;
- c. Equals: total recorded hydro expenses.

5. Four Corners Sub-account

The purpose of the Four Corners Sub-account of the NLBA is to record actual Capital-related Expenses and Operating Expenses associated with SCE's ownership share of the Four Corners generating station, to the extent that such costs are not recovered elsewhere.

Monthly entries in the Four Corners Sub-account shall be made on a monthly basis as follows:

- a. Debit entry equal to recorded Capital-related Expenses;
- b. Plus, debit entry equal to recorded Operating Expenses;
- c. Equals: total recorded Four Corners expenses.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

6. Mohave Sub-account

The purpose of the Mohave Sub-account of the NLBA is to record actual Capital-related Expenses and Operating Expenses associated with SCE's ownership share of the Mohave generating station, to the extent that such costs are not recovered elsewhere.

Monthly entries in the Mohave Sub-account shall be made on a monthly basis as follows:

- a. Debit entry equal to recorded Capital-related Expenses;
- b. Plus, a debit entry equal to recorded Operating Expenses;
- c. Equals: total recorded Mohave expenses.

7. Pebbly Beach Sub-account

The purpose of the Pebbly Beach Sub-account of the NLBA is to record actual Capital-related Expenses and Operating Expenses of the Pebbly Beach generating station on Santa Catalina Island, to the extent that such costs are not recovered elsewhere.

Monthly entries in the Pebbly Beach Sub-account shall be made on a monthly basis as follows:

- a. Debit entry equal to recorded Capital-related Expenses;
- b. Plus, debit entry equal to recorded Operating Expenses;
- c. Equals: total recorded Pebbly Beach expenses.

8. SONGS 2&3 Sub-account

The purpose of the SONGS 2&3 Sub-account of the NLBA is to record actual Capital-related Expenses, and the SONGS 2&3 ICIP revenue requirement associated with SCE's ownership share of the SONGS 2&3 generating station, to the extent that such costs are not recovered elsewhere.

Monthly entries in the SONGS 2&3 Sub-account shall be made on a monthly basis as follows:

- a. Debit entry equal to recorded Capital-related Expenses;
- b. Plus, a debit entry equal to the recorded SONGS 2&3 ICIP Revenue Requirement;
- c. Equals: total recorded SONGS 2&3 expenses.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

9. Palo Verde Sub-account

The purpose of the Palo Verde Sub-account of the NLBA is to record actual Capital-related Expenses, Operating Expenses, and Commission-adopted Nuclear Unit Incentive Procedure (NUIP) rewards associated with SCE's ownership share of the Palo Verde generating station, to the extent that such costs are not recovered elsewhere.

Monthly entries in the Palo Verde Sub-account shall be made on a monthly basis as follows:

- a. Debit entry equal to recorded Capital-related Expenses;
- b. Plus, debit entry equal to recorded Operating Expenses;
- c. Plus, debit entry equal to authorized Palo Verde NUIP rewards;
- d. Equals: total recorded Palo Verde expenses.

10. Miscellaneous Generation Sub-account

The purpose of the Miscellaneous Generation Sub-account of the NLBA is to record the non site specific general plant revenue requirement, Materials and Supply expense revenue requirement, and generation-related Other Operating Revenue (OOR) associated with generating facilities.

Monthly entries in the Miscellaneous Generation Sub-account shall be made a monthly basis as follows:

- a. Debit entry equal to the non site specific general plant revenue requirement associated with generating facilities;
- b. Plus, debit entry equal to the Materials and Supply expense revenue requirement associated with generating facilities;
- c. Plus, credit entry equal to the OOR associated with generating facilities;
- d. Equals: total recorded Miscellaneous Generation.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

11. SONGS 2&3 ICIP Mechanism

The SONGS 2&3 ICIP mechanism, as adopted by the Commission in D.96-04-059, and D.97-11-076, allows for the cost recovery of certain generation-related costs based upon actual SONGS 2&3 generation and a pre-established cents/kWh. The monthly SONGS 2&3 ICIP, shall be recorded in the monthly operation of the SONGS 2&3 Sub-account.

a. SONGS 2&3 ICIP costs:

SCE shall calculate monthly SONGS 2&3 ICIP costs as follows:

- (1) Monthly recorded SONGS 2&3 ICIP Revenue Requirement;
- (2) Plus: monthly SONGS 2&3 Corporate A&G Expenses derived by multiplying 0.21 cents per kWh by SONGS 2&3 monthly net transmitted kWh;
- (3) Plus: The SONGS 2&3 Allocated Industry Restructuring Costs;
- (4) Equals the total SONGS 2&3 ICIP costs to be recorded in the SONGS 2&3 Sub-account.

b. SONGS 2&3 ICIP Definitions:

- (1) Ownership Share:
The Ownership Share is 75.05% for SONGS 2 and SONGS 3.
- (2) Positive Net Transmitted Generation:
For purposes of calculating Monthly Recorded ICIP Revenue Requirement for SONGS 2 or SONGS 3, the term "positive Net Transmitted Generation" is defined as the net transmitted power delivered to the grid from SONGS 2 or SONGS 3.
- (3) Negative Net Transmitted Generation:
For purposes of calculating Monthly Recorded ICIP Revenue Requirement for SONGS 2 or SONGS 3, the term "negative Net Transmitted Generation" is defined as the SONGS 2 or SONGS 3 loads consumed in support of the generating units during that period of time commencing at the moment the SONGS 2 or SONGS 3 generation breakers are opened and the unit generator is no longer synchronized to the grid, and continuing until the breakers are closed and the unit generator is synchronized to the grid.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

11. SONGS 2&3 ICIP Mechanism (Continued)

b. SONGS 2&3 ICIP Definitions: (Continued)

(4) SONGS Site Load:

For purposes of determining monthly recorded SONGS 2 or SONGS 3 Net Transmitted Generation, SONGS Site Load is the total amount of energy used at facilities and buildings located on the SONGS nuclear generation site, but not physically a part of the generation plant. Eight percent (8%) of SONGS Site Loads is allocated to SONGS 1. The remaining ninety-two percent (92%) is allocated equally between SONGS 2 and SONGS 3, respectively.

(5) Annual ICIP Factor:

Continuing through December 31, 2003, SCE will apply the Annual ICIP Factors to monthly recorded SONGS 2&3 Net Transmitted Generation pursuant to the Table below. SONGS 2&3 Annual ICIP Factors do not include FF&U.

<u>Year</u>	<u>(cents/kWh)</u>
2002	4.15
2003	4.15

(6) ICIP Time-Differentiation Factors:

The Annual ICIP Factor will be time-differentiated to reflect the benefit of increased SONGS 2&3 Net Transmitted Generation during the Company's summer peak load periods. The Annual ICIP Factor will be multiplied by the following ICIP Time-Differentiation Factors:

- (a) The ICIP Time-Differentiation Factor is equal to 1.20 for the first 856,000,000 kWh of SONGS 2 Net Transmitted Generation (1,070 MW times 800 hours) and the first 864,000,000 kWh of SONGS 3 Net Transmitted Generation (1,080 MW times 800 hours) during the period of 10:00 a.m. through 10:00 p.m. for each day, Monday through Friday, during the period June 1 through September 30;

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11. SONGS 2&3 ICIP Mechanism (Continued)

b. SONGS 2&3 ICIP Definitions: (Continued)

(6) ICIP Time-Differentiation Factors: (Continued)

(b) The ICIP Time-Differentiation Factor is equal to 0.80 for the first 856,000,000 kWh of SONGS 2 Net Transmitted Generation (1,070 MW times 800 hours) and the first 864,000,000 kWh of SONGS 3 Net Transmitted Generation (1,080 MW times 800 hours) during periods not covered by (a) above;

(c) The ICIP Time-Differentiation Factor is equal to 1.00 for SONGS 2 Net Transmitted Generation and SONGS 3 Net Transmitted Generation not covered by (a) and (b) above.

(7) Net Transmitted Generation:

For purposes of determining recorded SONGS 2&3 kWh production, SONGS 2 Net Transmitted Generation and SONGS 3 Net Transmitted Generation will be determined separately pursuant to the following calculations:

(a) Net Generation (positive or zero) as measured from the main transformers;

(b) Less: Reserve auxiliary transformer loads;

(7) Net Transmitted Generation: (Continued)

(c) Less: Energy imported through the main transformers (only during periods of unit(s) shutdown);

(d) Less: One-half of the portion of the energy for SONGS Site Loads allocated to SONGS 2&3. SONGS 1 site loads and the portion of the energy for SONGS Site Loads allocated to SONGS 1 shall be excluded;

(e) Equals: Positive Net Transmitted Generation or Negative Net Transmitted Generation, as applicable;

(f) The result of "(e)" multiplied by the Ownership Share.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

11. SONGS 2&3 ICIP Mechanism (Continued)

b. SONGS 2&3 ICIP Definitions: (Continued)

(8) Monthly Recorded SONGS 2&3 ICIP Revenue Requirement:

Monthly Recorded ICIP Revenue Requirement for SONGS 2 or SONGS 3 is the sum of the SONGS 2 and SONGS 3 Monthly Recorded ICIP Revenue Requirement, adjusted by the applicable 0.80, 1.00, and 1.20 Time Differentiated ICIP Factors. The following calculations are applied to both SONGS 2 and SONGS 3:

(9) Monthly Recorded ICIP Revenue Requirement for Positive Net Transmitted Generation:

When the SONGS 2 or SONGS 3 generation breakers are closed and the unit generator is synchronized to the grid ("positive" SONGS 2 or SONGS 3 Net Transmitted Generation):

(a) Recorded SONGS 2 or SONGS 3 Net Transmitted Generation multiplied by Ownership Share;

(b) Multiplied by: the SONGS 2&3 Annual ICIP Factor;

(c) Multiplied by: the SONGS 2&3 ICIP Time Differentiation Factor(s) as defined herein for the applicable kWh, and time period during the calendar year;

(d) Equals the SONGS 2 or SONGS 3 Monthly Recorded ICIP Revenue Requirement for positive generation.

(10) Monthly Recorded ICIP Revenue Requirement for Negative Net Transmitted Generation:

During a period when SONGS 2 or SONGS 3 generator is not synchronized to the grid, (i.e., SONGS 2 or SONGS 3 Net Transmitted Generation is negative):

(a) Recorded SONGS 2 or SONGS 3 Net Transmitted Generation multiplied by Ownership Share;

(b) Multiplied by: the SONGS 2&3 Annual ICIP Factor;

(c) Equals the SONGS 2 or SONGS 3 Monthly Recorded ICIP Revenue Requirement for negative generation.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

11. SONGS 2&3 ICIP Mechanism (Continued)

b. SONGS 2&3 ICIP Definitions: (Continued)

(11) SONGS 2&3 Corporate A&G Expenses:

SONGS 2&3 Corporate Administrative and General (A&G) Expenses are certain expenses allocable to SONGS 2&3 pursuant to D.97-08-056 (Ratesetting). SONGS 2&3 Corporate A&G Expenses shall be 0.21 cents per net transmitted kWh for SONGS 2 and SONGS 3 pursuant to D.97-11-076.

(12) SONGS 2&3 Allocated Industry Restructuring Costs:

The SONGS 2&3 Allocated Industry Restructuring Costs shall be those generation related costs associated with industry restructuring allocated to nuclear generation at SONGS 2&3 in accordance with D.99-09-064.

12. Palo Verde Incremental Costs (PVIC) Mechanism

The PVIC, as adopted by the Commission in D.96-12-083, and D.01-09-041, permits the cost recovery of Palo Verde generation-related operating expenses.

a. PVIC Operating Expenses Revenue Requirement

The PVIC Operating Expenses Revenue Requirement (excluding FF&U) shall be determined from the following calculations:

- (1) Recorded Palo Verde Incremental Costs, as determined below;
- (2) Plus: Recorded Palo Verde-related Industry Restructuring Costs in accordance with D.99-09-064;
- (3) Plus: Recorded Firm Transmission Right acquisition costs;
- (4) Plus: Recorded Customer Service Information (CSI) expenses;
- (5) Plus: Recorded Scheduling and Dispatch expenses;
- (6) Plus: Recorded Congestion fees;

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

12. Palo Verde Incremental Costs (PVIC) Mechanism (Continued)

a. PVIC Operating Expenses Revenue Requirement (Continued)

- (7) Plus: Authorized Palo Verde Nuclear Unit Incentive Program rewards (as determined below);
- (8) Less: Recorded congestion revenue received as the result of SCE holding Firm Transmission Rights, and revenues received from the resale of Firm Transmission Rights;
- (9) Equals: Total Palo Verde Operating Expenses Revenue Requirement to recorded in the Palo Verde Sub-account.

b. Palo Verde Incremental Costs:

Palo Verde Incremental Costs shall include SCE's Ownership Share of Palo Verde O&M expenses, A&G expenses (including allocated Corporate A&G), Nuclear Fuel, Incremental Capital, Property Taxes, and Income Taxes (associated with Incremental Capital and Nuclear Fuel). PVIC categories are defined as follows:

- (1) Nuclear Fuel Costs. Actual costs, including book amortization of nuclear fuel, current nuclear fuel disposal costs, and nuclear fuel carrying costs. For purposes of this calculation only, the definition of Nuclear Fuel Costs shall exclude DOE Decontamination and Decommissioning ("D&D") spent fuel disposal charges, which are recovered in another CPUC-approved rate recovery mechanism.
- (2) Property Taxes actually paid.
- (3) Incremental Capital as billed by APS, plus SCE overheads of 17%.
- (4) O&M expenses billed by APS to SCE (including APS overhead loads), plus SCE's oversight expenses.
- (5) A&G expenses related to SCE's nuclear insurance, SCE's oversight function and SCE's A&G (including SCE's recorded allocated Corporate A&G) associated with Palo Verde.

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12. Palo Verde Incremental Costs (PVIC) Mechanism (Continued)

b. Palo Verde Incremental Costs: (Continued)

(6) Incremental Income Taxes

(a) Incremental Capital:

Incremental Income Taxes on Incremental Capital shall be determined as follows: Bills for Incremental Capital received from APS during each year shall be multiplied by 1.17 to incorporate SCE's overheads. Incremental Income Taxes on Incremental Capital are computed by multiplying the capital additions, including overheads, by 29%. This 29% rate would be subject to change only if the income tax rate changes.

The 29% reflects (both federal and state income taxes) the present value of Incremental Income Taxes incurred in the year of the Incremental Capital costs, plus the tax benefits resulting from tax depreciation in future years. With the exception of the effects of any rate change, SCE's customers would not be obligated for any additional income taxes associated with Incremental Capital, nor shall they be entitled to any future income tax benefits.

(b) Nuclear Fuel:

Incremental Income Taxes associated with Palo Verde Nuclear Fuel shall be computed by multiplying the Nuclear Fuel expenses (excluding current nuclear fuel disposal costs and nuclear fuel inventory carrying costs) by 9 percent. This 9 percent rate would be subject to change only if the income tax rate changes.

The 9 percent reflects the present value of Incremental Income Taxes for the year the expense is recognized for book purposes, plus the tax benefits resulting from tax depreciation in future years. With the exception of the effects of any rate change, customers are not obligated for any additional income taxes associated with Nuclear Fuel, nor shall they be entitled to any future tax benefits.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

12. Palo Verde Incremental Costs (PVIC) Mechanism (Continued)

c. Palo Verde Incremental Cost "Trigger" Mechanism

For the period ending December 31, 2002, if SCE's recorded Incremental Capital, O&M Expenses and A&G Expenses (as defined herein) exceed the Trigger Total amounts identified in the table below for any calendar year through the effective date of a decision on SCE's next General Rate Case or further order of the Commission (pursuant to D.01-09-041), SCE must demonstrate that any amounts of these costs (i.e., Incremental Capital, O&M, and A&G) exceeding the amounts in the Table below for that calendar year are reasonable.

Incremental Cost Reasonableness Trigger Mechanism
Pursuant To Table 2 of Palo Verde Settlement Agreement
As Adopted in D.96-12-083
(\$ Millions)

<u>Component</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
O&M	50.8	52.3	54.1	55.9	57.9	57.9
A&G	15.2	15.7	16.1	16.6	17.2	17.2
Increment Cap.	<u>14.2</u>	<u>14.6</u>	<u>15.1</u>	<u>15.6</u>	<u>16.0</u>	<u>16.0</u>
Subtotal	80.2	82.6	85.3	88.1	91.1	91.1
Trigger (30%)	<u>24.1</u>	<u>24.8</u>	<u>25.6</u>	<u>26.4</u>	<u>27.3</u>	<u>27.3</u>
Total	<u>104.3</u>	<u>107.4</u>	<u>110.9</u>	<u>114.5</u>	<u>118.4</u>	<u>118.4</u>

Beginning on January 1, 1997, operations of Palo Verde are assumed to be reasonable unless the annual Palo Verde site Gross Capacity Factor ("GCF") is less than 55%. If the site GCF is below 55% in a calendar year, SCE will bear the burden of proof to demonstrate that operations were reasonable in that year. If operations are determined to be unreasonable by the Commission, SCE's replacement power purchases associated with that period of Palo Verde operations below 55% GCF, may be disallowed.

If: (1) Incremental Capital, O&M Expense and A&G Expense costs exceed the amounts identified in the table above in any applicable calendar year, and (2) the Palo Verde site GCF falls below 55% during the same applicable calendar year, SCE bears the burden of proof that both the costs exceeding the amounts in the table above and associated replacement power costs are reasonable. However, only the replacement power costs or the sum of the Incremental Capital costs, O&M Expenses and A&G Expenses that exceed the applicable calendar year amount in the table above may be disallowed, not both. Any such disallowances shall be directly refunded to customers through the Electric Deferred Refund Account ("EDRA"), or a successor procedure.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

13. Palo Verde Nuclear Unit Incentive Procedure

a. Purpose:

The purpose of the Nuclear Unit Incentive Procedure (NUIP) is to provide a reward for superior performance applicable to SCE's share of ownership of Palo Verde Units 1, 2, and 3. The NUIP is applied by use of a formula that converts an Incentive Period Unit Gross Capacity Factor to dollars. There is no penalty associated with the Palo Verde NUIP. The amount of reward is based upon: (1) the difference in cost between producing energy from Palo Verde nuclear-fueled generation and the Replacement Power Cost; and (2) any Palo Verde units' performance above 80% Capacity Factor.

b. Applicability:

The NUIP applies to the operation of SCE's 15.8 percent ownership share of Palo Verde Units 1, 2, and 3 through the effective date of a decision in SCE's next General Rate Case or further order of the Commission (pursuant to D.01-09-041).

c. Definitions:

(1) Nuclear Fuel Expense:

The Nuclear Fuel Expense for each Palo Verde nuclear unit shall be the nuclear energy cost associated with the change in production between an 80% Capacity Factor and the Unit Gross Capacity Factor for each unit specified herein. The Nuclear Fuel Expense for each unit shall be expressed in cents per kilowatt-hour.

(2) Unit Gross Capacity Factor:

The Unit Gross Capacity Factor for SCE's share of ownership of each Palo Verde unit specified herein shall be based on SCE's share of each Unit's maximum gross capacity shown below.

<u>Unit</u>	<u>Maximum Gross Capacity</u>	<u>SCE's Share</u>
1	1315 mw	207.8 mw
2	1315 mw	207.8 mw
3	1318 mw	208.2 mw

The Unit Gross Capacity Factor shall be adjusted to provide for Economic Modifiers.

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WW. NATIVE LOAD BALANCING ACCOUNT (Continued)

13. Palo Verde Nuclear Unit Incentive Procedure (Continued)

c. Definitions (Continued)

(3) Incentive Period:

The Incentive Period for each unit shall be based on a single Fuel Cycle beginning with Fuel Cycle 7 for Palo Verde Units 1 and 2 and Fuel Cycle 6 for Palo Verde Unit 3 and continue through the effective date of a decision in SCE's next General Rate Case or further order of the Commission (pursuant to D.01-09-041).

(4) Fuel Cycle:

A fuel cycle shall be defined as the period of time that begins immediately after the refueling of the reactor when circuit breakers are closed and the unit is synchronized to the grid, and ends simultaneously with the beginning of the subsequent fuel cycle.

(5) Replacement Power Cost:

The Replacement Power Cost shall be the energy expense associated with the change in production between the recorded Unit Gross Capacity Factor and the 80 percent Gross Capacity Factor and expressed in cents per kilowatt-hour, not to exceed 5.0¢/kWh (pursuant to D.01-09-041).

(6) Economic Modifiers:

Economic Modifiers shall be adjustments made to the Incentive Period Gross Capacity Factor to compensate for the effect of certain conditions that affect the performance of the unit; such conditions cause reductions in unit performance for the purpose of minimizing the overall cost to the customer, consistent with maintaining the integrity of the electrical system. The application of Economic Modifiers may cause or increase a Nuclear Unit Incentive Procedure reward, and shall be subject to Commission review on a case by case basis.

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WW. NATIVE LOAD BALANCING ACCOUNT (NLBA) (Continued)

13. Palo Verde Nuclear Unit Incentive Procedure (Continued)

c. Definitions (Continued)

(7) Economic Modifier (Continued)

In accordance with Commission Decision Nos. 84-12-060, 86-10-023, 87-08-023, and 91-05-054 the following three Economic Modifiers are authorized for Palo Verde:

(a) An Economic Modifier which permits SCE to reduce output from any Palo Verde unit or combination of units during those intervals when to do so produces an energy supply to meet system demands which is less costly to customers. This Economic Modifier shall accommodate additional economic power purchases.

(b) An Economic Modifier permits a change to a refueling outage scheduled for any Palo Verde unit or combination of Palo Verde units when it is in the best interest of customers.

(c) An Economic Modifier which permits SCE to reduce output from any Palo Verde unit when the Nuclear Regulatory Commission (NRC) requires such a reduction or outage for any Palo Verde unit or combination of Palo Verde units.

(d) Report on the Nuclear Unit Incentive Procedure:

SCE shall file a report each year whenever an Incentive Period ends during the preceding calendar year. Such report shall set forth the Unit Gross Capacity Factor for SCE's share of ownership of the unit for the Incentive Period. Should the Unit Gross Capacity Factor be above the 80 percent Capacity Factor, SCE shall calculate the amount of reward according to the formula set forth herein. Such adjustment shall be made to this account pursuant to Commission order.

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Decision 02-04-016

Issued by

John R. Fielder
Senior Vice President

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Date Filed Apr 19, 2002
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PRELIMINARY STATEMENT

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WW. NATIVE LOAD BALANCING ACCOUNT (NLBA) (Continued)

13. Palo Verde Nuclear Unit Incentive Procedure (Continued)

d. Palo Verde NUIP Calculation

The Palo Verde NUIP for each Unit of the Palo Verde Generating Station shall be calculated separately as follows:

$$\text{Reward} = (0.5) (\text{GCF}_U - 0.80) (\text{RPC} - \text{NE}) \text{PH} \times \text{GMC} \times \text{SHR} \times \text{CO}$$

Where:

- RPC = Replacement Power Cost (5.0¢/kWh cap pursuant to D.01-09-041)
NE = Nuclear Fuel Expense
GCF_U = Unit Gross Capacity Factor of SCE's ownership share of the unit for the Incentive Period
GMC = Gross Maximum Capacity
= 1,315 MW for Palo Verde 1 (Total)
= 1,315 MW for Palo Verde 2 (Total)
= 1,318 MW for Palo Verde 3 (Total)
SHR = SCE's share of ownership (15.80 percent)
PH = Hours in the unit's Incentive Period
CO = Conversion factor of 10 to convert megawatts to kilowatts and cents to dollars

When the Unit Gross Capacity Factor falls below 80 percent, the NUIP shall be zero.

The reward amount determined above shall be the Palo Verde NUIP reward to be debited to the Palo Verde Sub-account of the NLBA upon approval by the Commission.

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November 25, 2002

California Public Utilities Commission
505 Van Ness Avenue, Room 4005
San Francisco, CA 94102

Attn: Jerry Royer
Energy Division

Re: Substitute Sheet for Various Advice Filings

Dear Mr. Royer:

Enclosed is an original and six copies of the following Attachment As (in pertinent part) and substitute tariff sheets.

- Sheet Nos. 29487-E*¹, 29488-E* for Advice 1551-E-A,
- Sheet No. 29418-E** for Advice 1549-E,
- Sheet No. 30031-E** for Advice 1579-E,
- Sheet No. 31137-E* for Advice 1613-E,
- Sheet No. 31155-E* for Advice 1614-E,
- Sheet No. 31651-E** for Advice 1632-E,
- Sheet No. 31664-E* for Advice 1633-E, and
- Sheet No. 31935-E* for Advice 1651-E.

These substitute sheets are necessary to ensure that all appropriate, approved revisions are contained in affected tariff sheets. Specifically, Advice 1551-E/E-A revised Preliminary Statement, Part N, and established the Distributed Energy Resources Memorandum Account (DERMA) as Specified Project Section No. 73. Supplemental Advice 1551-E-A was approved with an effective date of May 22, 2001 (16 months prior to the supplemental filing date). As a result of this time differential, two events occurred: (1) Advice 1551-E-A's Specified Project Section No. 73 was renumbered to Section No. 68 and properly reflected in substitute Sheet Nos. 29487-E* and 29488-E* to Advice 1551-E/E-A, and (2) numerous succeeding Advice Letters were affected due to the inclusion of Advice 1551-E/E-A's Specified Project and its revised Section No. 68.

The changes contained herein are insignificant in impact in that only the approved Specified Project and its Section No. in Advice 1551-E-A are being reflected in the succeeding Advice Letters listed above.

Please replace the enclosed sheets in the appropriate master advice letter files. If you have any questions, please contact Reneé Vazquez at (626) 302-2077.

Sincerely,

Enclosures
VariousAL'ssub.doc

¹ Asterisk denotes a substituted sheet.