

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



July 31, 2002

Advice Letter 1618-E

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

AUG 02 2002
REVENUE & TARIFFS DEPT.

Reference: Information Regarding Utility Retained Generation in Accordance with
Decision 02-04-016

Dear Mr. Jazayeri:

Advice Letter 1618-E is effective June 15, 2002. A copy of the advice letter is returned herewith
for your records.

Sincerely,

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

Douglas Long
Energy Division

Filed: 5/6/02
Effective: 6/15/02

May 6, 2002

ADVICE 1618-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Information Regarding Utility Retained Generation in
Accordance with Decision 02-04-016

PURPOSE

In Ordering Paragraph 11 of Decision (D.) 02-04-016 the California Public Utilities Commission (Commission) ordered Southern California Edison Company (SCE) to file an advice letter “within 30 days of the effective date of this decision, stating what, if any, URG costs are reflected in other Commission-approved accounts or the utility is seeking in other proceedings.” D.02-04-016 was effective on April 4, 2002.

In this advice filing, SCE describes its current Commission approved cost recovery mechanisms for its Utility Retained Generation (URG) expenses,^{1/} and describes the URG expenses that are included in its 2003 Test Year General Rate Case (2003 GRC).

Appendix A of this advice filing summarizes the Commission-authorized balancing accounts in which SCE currently records its actual URG expenses.

BACKGROUND

In D.02-04-016, the Commission authorized: (1) an interim calendar year 2002 URG revenue requirement for SCE; and (2) the establishment of balancing accounts to record SCE’s actual URG expenses. At page 80 of D.02-04-016 the Commission states:

^{1/} The term “URG expenses” in this advice filing includes generation-related expenses associated with SCE’s generating facilities, SCE’s purchased power contracts, and the Independent System Operator.

“We are concerned that the utilities may record actual costs in a URG balancing account that are part of the DWR revenue requirement or that may already be collected in another utility account or proceeding, resulting in double collection of costs. We place the burden on the utilities to ensure that double collection does not occur. PG&E, Edison and SDG&E should submit AL filings within 30 days of the effective date of the decision, identifying what, if any URG costs are reflected in other Commission approved accounts or the utility is seeking in other proceedings, such as PG&E’s current attrition request. Such filings should protect against the possibility of PG&E, Edison, or SDG&E recovering more than once the same costs.”

In the discussion that follows SCE shows that its URG expenses are recorded and recovered only in Commission-approved balancing accounts, and are not “double recovered” from customers through other ratemaking mechanisms.

Appendix A to this advice filing provides an overview of SCE’s three URG-related balancing accounts, and the categories of actual URG expenses that are recorded in them.

SETTLEMENT AGREEMENT

On October 5, 2001, the United District States District Court approved the Settlement Agreement between SCE and the Commission.^{2/} Among other things, the Settlement Agreement established Settlement Rates^{3/} and new ratemaking mechanisms that became effective September 1, 2001 that replaced Assembly Bill (AB) 1890 rates and ratemaking. The Settlement Agreement provides that the Commission adopt decisions and orders as it deems necessary to implement and carry out the provisions of the Settlement Agreement, and specifies that the Commission establish the Procurement Related Obligations Account (PROACT) by order.^{4/}

^{2/} The Utility Reform Network (TURN) appealed the judgment approving the settlement of the case. This appeal is now pending review by the Court of Appeals for the Ninth Circuit. A decision is expected before the end of 2002.

^{3/} The Settlement Agreement defines Settlement Rates as gross electric retail rates (including surcharges) in effect on the date of the Settlement Agreement (October 2, 2001) either increased or decreased to reflect: (1) the combined effect on Surplus, if any, of both SCE’s Net Short Procurement Costs and California Department of Water Resources (DWR) Charges, as the same may exist from time to time during the Rate Repayment Period (i.e., the period through December 31, 2003), when compared to the impact on Surplus of Stabilized DWR Charges; (2) Recoverable Costs directed to be incurred by the Commission that are in excess of the Recoverable Costs referred to in Section 2.1.(d) of the Settlement Agreement; and (3) uninsured costs, if any, of recognized force majeure events, such as earthquake, calamity, war and the like.

^{4/} Per Section 2.1.a of the Settlement Agreement.

On November 14, 2001, SCE filed Advice 1586-E to establish the PROACT and associated ratemaking structure to be implemented September 1, 2001, consistent with the Settlement Agreement. On January 23, 2002, the Commission issued Resolution E-3765 approving the structure and operation of the PROACT with modifications. Under the Commission-approved PROACT structure, the difference between SCE's revenues from Settlement Rates and SCE's Recoverable Costs^{5/} (this difference is defined as Surplus) is determined on a monthly basis through the operation of the Settlement Rates Balancing Account (SRBA). The amount of Surplus determined in the SRBA will be used during the Rate Repayment Period^{6/} to recover the costs recorded in the PROACT.^{7/}

During the PROACT Rate Repayment Period all of SCE's URG expenses will be treated as Recoverable Costs in the operation of the SRBA, and will impact the amount of Surplus recorded in the PROACT on a monthly basis.

SCE's Commission-approved Recoverable Costs include:

- Operating expenses and capital-related expenses associated with SCE's generating facilities as recorded in the Native Load Balancing Account;
- Independent System Operator expenses as recorded in the Independent System Operator Balancing Account;
- Purchased power expenses as recorded in the Purchased Power Balancing Account;
- California Department of Water Resources (DWR) Charges;
- Net Short Procurement Costs;
- Distribution Performance Based Ratemaking (PBR) revenues or revenue requirement;^{8/}
- Transmission revenues, and other Federal Energy Regulatory Commission-approved revenues;
- Trust Transfer Amount revenues;
- Public Purpose Programs expenses;

^{5/} Recoverable Costs are defined in the Settlement Agreement as the amounts that SCE is authorized by the Commission to recover in retail electric rates, not including Procurement Related Obligations.

^{6/} The Rate Repayment Period is defined in the Settlement Agreement as the period commencing September 1, 2001, and ending on the earlier of the date that SCE recovers all Procurement Related Obligations recorded in the PROACT, or December 31, 2003.

^{7/} Any remaining balance in the PROACT as of December 31, 2003 will be amortized in rate levels for up to an additional two years (through December 31, 2005).

^{8/} In Decision No. 02-04-055, the Commission extended SCE's Distribution PBR mechanism through the effective date of SCE's 2003 GRC, and also authorized the establishment of an Electric Distribution Revenue Adjustment Balancing Account effective June 14, 2001.

- Nuclear Decommissioning expenses;
- Employee-Related Balancing Account expenses;
- Risk management (“hedging”) expenses (upon Commission approval); and
- Other amounts as authorized by the Commission.

URG COST RECOVERY MECHANISMS

In compliance with D.02-04-016, SCE filed Advice 1614-E on April 19, 2002, and established the following balancing accounts in which SCE records its actual URG-related expenses commencing January 1, 2002:

1. Native Load Balancing Account (NLBA);
2. Purchased Power Balancing Account (PPBA); and
3. Independent System Operator Balancing Account (ISOBA).

On a monthly basis, SCE transfers the activity in the NLBA, PPBA, and the ISOBA to the SRBA. The monthly amounts transferred from the three URG balancing accounts to the SRBA are considered “Recoverable Costs” as defined in the Settlement Agreement. These are the only balancing accounts in which SCE records its actual URG expenses. SCE’s three URG-related balancing accounts are described in greater detail as follows.

1. Native Load Balancing Account

The purpose of the NLBA is to record SCE’s actual generation-related operating expenses and capital-related expenses associated with its fossil, nuclear, and hydroelectric generating facilities.

Until the Commission renders a final decision in the revenue requirement phase of its 2003 GRC, all of SCE’s generation-related expenses associated with its generating facilities are recorded in the NLBA. There is no other regulatory mechanism in which SCE records and recovers such expenses.

Upon the effective date of a final Commission decision in the revenue requirement phase of SCE’s 2003 GRC, SCE will cease recording applicable generation-related expenses in its NLBA, and commence recovering such expenses in its “base rates.” This will be necessary in order to prevent any “double recovery” of SCE’s URG-related expenses.

SCE has an ownership interest in the following generating facilities:^{9/}

- San Onofre Nuclear Generating Station, Units 2 and 3 (SONGS 2&3);
- Palo Verde Nuclear Generating Station;
- Mohave Generating Station;
- Four Corners Generating Station;
- Hydroelectric generating facilities; and
- Pebbly Beach Generating Station (a diesel-fired generating station located on Santa Catalina Island).^{10/}

SCE's generation-related operating expenses^{11/} associated with its generating facilities include:

- Operation and Maintenance (O&M);
- Administrative and General (A&G);
- Fuel (both variable and fixed);
- Fuel inventory carrying costs;
- Emission trading;
- Scheduling and dispatch;
- Contract administration;
- Congestion fees;
- Customer Service and Informational; and
- Other Operating Revenue (credit amounts).

SCE's generation-related capital expenses associated with its generating facilities except for incremental capital associated with SONGS 2&3 and Palo Verde through December 31, 2003 and the effective date of a decision on the Test Year 2003 GRC respectively, which are recovered for ratemaking purposes as expense, include:

^{9/} ABX1-6 requires SCE to retain its existing generating facilities at least until 2006.

^{10/} As a result of D.02-04-055, SCE will file an advice letter to remove certain generation-related expenses associated with Pebbly Beach that were included in SCE's Commission-authorized Distribution rates. Actual Pebbly Beach generation-related expenses will then be recorded directly in SCE's Native Load Balancing Account.

^{11/} SCE's SONGS 2&3 non capital-related expenses are currently recovered through the SONGS 2&3 Incremental Costs Incentive Procedure (ICIP), and shall continue until December 31, 2003 in accordance with D.02-04-016.

- Book depreciation, using the applicable remaining accounting life;
- Return on rate base at 9.49 percent^{12/}; and
- Taxes.

2. Purchased Power Balancing Account

The purpose of the Purchased Power Balancing Account (PPBA) is to record SCE's actual purchased power expenses associated with its Qualifying Facilities contracts, Interutility contracts, and Bilateral contracts. This includes energy, capacity, buy-out, buy-down, renegotiation, contract administration, and scheduling and dispatch expenses. Applicable revenue, refunds, and other credits offset these expenses.

The PPBA is the only regulatory mechanism in which SCE recovers and records its purchased power-related expenses. Such expenses are not recorded or recovered elsewhere.

3. Independent System Operator Balancing Account

The purpose of the ISOBA is to record SCE's ancillary services expenses and "Uplift" expenses actually paid to either the ISO, or to DWR.

In D.02-03-058, the Commission: (1) authorized an interim 2002 revenue requirement for SCE's ISO-related expenses, (2) accepted a Letter Agreement between SCE and DWR that resolved differences between the two parties; (3) requires that any revenues received by SCE associated with RMR or ancillary services be properly credited to the ISOBA; and (4) authorized the establishment of a balancing account to record SCE's actual ISO-related expenses.

The SCE/DWR Letter Agreement provides that there will not be double billing of SCE's retail electric customers for ISO-invoiced charges. Ordering Paragraph No. 7 of D.02-03-058 requires that if DWR pays for ISO charges or ancillary services, and SCE reimburses DWR for such expenses, then such amounts are to be recorded in the ISOBA.

The ISOBA is the only regulatory mechanism in which SCE recovers and records its ISO-related expenses. Such expenses are not recorded or recovered elsewhere.

^{12/} Return on SONGS 2&3 rate base is 7.35 percent through December 31, 2003 in accordance with D.02-04-016.

PENDING GENERATION-RELATED PROCEEDINGS

There are three generation-related proceedings currently pending before the Commission other than SCE's 2003 GRC. In each of the three proceedings, SCE has requested recovery of certain generation-related expenses. The discussion that follows summarizes the three proceedings.

1. Application 99-04-024

In Application (A.) 99-04-024, SCE requested that the Commission find that the 1997 and 1998 capital additions made to SCE's fossil and hydroelectric generating facilities were incurred in compliance with the requirements to be eligible for Competitive Transition Charge (CTC) recovery, and should be recovered from customers as CTC. In compliance with D.02-07-016, SCE has included the 1997 and 1998 Capital additions in its recorded rate base in determination of both URG and GRC Revenue Requirements.

The return and taxes calculated through December 31, 2001 on the 1997 and 1998 Capital Additions in the Non-Nuclear Generation-related Capital Additions Memorandum Account, (NGCAMA), will be recorded as a Recoverable Cost in the operation of SCE's SRBA, and will reduce the amount of Surplus available to apply to SCE's PROACT balance when the Commission closes A.99-09-024.

2. Application 00-09-014^{13/}

In A.00-09-014, SCE requested recovery of amounts recorded in certain generation-related memorandum accounts for the July 1, 1999 through June 30, 2000, Annual Transition Cost Proceeding (ATCP) Record Period. SCE is not seeking recovery of amounts recorded in these memorandum accounts in any other Commission proceeding.

Amounts recorded in these generation-related memorandum accounts found reasonable by the Commission in A.00-09-014 will be recorded as Recoverable Costs in the operation of SCE's SRBA, and will reduce the amount of Surplus available to apply to SCE's PROACT balance.

^{13/} In D.97-06-060, the Commission established the ATCP to review entries in the Transition Cost Balancing Account (TCBA). In D.97-11-074 the Commission authorized the establishment of certain generation-related memorandum accounts. Activity in these generation-related memorandum accounts are also reviewed in an ATCP.

3. Application 01-09-004

In A.01-09-004, SCE requested recovery of amounts recorded in certain generation-related memorandum accounts for the period July 1, 2000 through June 30, 2001. SCE is not seeking recovery of amounts recorded in these memorandum accounts in any other Commission proceeding.

On February 22, 2002, SCE filed revised testimony in A.01-09-004 as a result of the establishment of the PROACT effective September 1, 2001. SCE will make a similar request of the Commission in the pending A.00-09-014 in the near future.

Entries to these generation-related memorandum accounts found reasonable by the Commission in A.01-09-004 will be recorded as Recoverable Costs in the operation of SCE's SRBA, and will reduce the amount of Surplus available to apply to SCE's PROACT balance.

2003 TEST YEAR GENERAL RATE CASE

In D.01-06-039, the Commission deferred SCE's 2002 Test Year General Rate Case to a 2003 GRC. SCE tendered its 2003 GRC Notice of Intent (NOI) on December 17, 2001. The Commission accepted SCE's 2003 GRC NOI for filing effective February 13, 2002 (NOI 02-02-008). SCE filed its 2003 GRC application (A.02-05-004) with the Commission on May 3, 2002.

In its 2003 GRC application SCE proposed a 2003 Test Year revenue requirement of \$3.065 billion, with a resultant proposed increase of \$286 million over present rate revenues. However, under the terms of the Settlement Agreement, any 2003 GRC increase will not initially change rates but will have the immediate impact of reducing the amount of Surplus available to reduce SCE's PROACT balance.

SCE's request in its 2003 GRC application included, among other things, a forecast of costs to operate SCE as a vertically integrated utility –including a forecast of expenses for SCE's generating facilities (excluding fuel and certain fuel-related expenses), and its Distribution and Transmission (non ISO-related) operations.

A key assumption in SCE's 2003 GRC regarding the cost recovery mechanisms associated with its generation-related expenses is that such mechanisms would operate in a manner similar to previous Commission-authorized ratemaking structures for generation-related expenses. That is, "base-rate" recovery of SCE's non-fuel expenses and capital-related expenses would occur primarily through the GRC process, and there would be a regulatory balancing account to record SCE's

actual fuel-related and purchased power expenses similar to the previous Commission-authorized Energy Cost Adjustment Mechanism (ECAC).

As noted above, the Commission has adopted interim URG ratemaking (in D.02-04-016) for SCE to be effective through the effective date of a final Commission decision in the revenue requirement phase of SCE's 2003 GRC. SCE's proposed cost recovery of its generation-related expenses in its 2003 GRC is similar to the interim ratemaking authorized in D.02-04-016, and would return SONGS 2&3 to traditional cost-of-service ratemaking commencing on January 1, 2004.^{14/}

Thus, there is a clear cost recovery transition from the currently effective ratemaking mechanisms for SCE's URG expenses to the cost recovery of such expenses commencing on the effective date of a final Commission decision in the revenue requirement phase of SCE's 2003 GRC. This will ensure that SCE's URG-related expenses are not "double-collected" from customers.

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

In accordance with D.02-04-016, Ordering Paragraph 11, this advice filing will become effective on the 40th calendar day after the date filed, which is June 15, 2002, unless suspended 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

^{14/} In the 2003 GRC, SCE included a forecast of SONGS 2&3 non-fuel-related expenses commencing on January 1, 2004. This ensures a transition from the current SONGS 2&3 ICIP ratemaking to traditional cost-of-service methodology.

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 Phillip Durgin at (626) 302-6344 or by electronic mail at Phillip.Durgin@SCE.com.

Southern California Edison Company

Akbar Jazayeri

AJ:pd
Enclosures

APPENDIX A

Southern California Edison Company
Utility Retained Generation (URG) Balancing Accounts
Effective January 1, 2002 - Pursuant to D.02-04-016

URG Component	<u>Native Load Balancing Account</u>	<u>Purchased Power Balancing Account</u>	<u>ISO Balancing Account</u>
SCE-Owned Generation 1/			
<u>Capital-related Expenses:</u> 2/			
Book Depreciation 3/	X		
Return on rate base 4/	X		
Taxes - Income related 5/	X		
<u>Operating Expenses</u> 6/ 7/ 8/	X		
Purchased Power Contracts 9/ 10/			
Qualifying Facilities Contracts		X	
Interutility Contracts		X	
Bilateral Contracts		X	
Independent System Operator 11/ 12/			
Actual ISO expenses paid to ISO			X
Actual ISO expenses paid to CDWR 13/			X
Actual ISO revenue received (credit)			X

Footnotes:

- 1/ SONGS 2&3, Palo Verde, Hydroelectric, Mohave, Four Corners, and Pebbly Beach generating facilities.
- 2/ Includes Production Plant, General Plant, and Materials and Supplies (M&S).
- 3/ Based upon the remaining accounting life of assets.
- 4/ 9.49 % rate of return on rate base for all generation assets except SONGS 2&3 (7.35%).
- 5/ SCE tracks the difference between recorded URG income tax revenue requirements, and actual URG income tax payments in the URG Income Tax Memorandum Account (per D.02-04-016).
- 6/ Generation-related operating expenses include: fuel expenses, fuel carrying charges, O&M, A&G, CS&I, emission trading, congestion fees, contract administration, and applicable taxes.
- 7/ Operating expenses are offset by generation-related Other Operating Revenue (OOR).
- 8/ SONGS 2&3 operating expenses are recovered through an Incremental Cost Incentive Procedure (ICIP) through 12/31/03 pursuant to D.02-04-016.
- 9/ Includes energy, capacity, buy-out, buy-down, and renegotiation expenses.
- 10/ Contract expenses are offset by revenues, refunds, and other credits.
- 11/ Includes ancillary services expenses, and Grid Management Charges (Uplift).
- 12/ Decision No. 02-03-058 authorized SCE to recover its actual ISO expenses.
- 13/ Per D.02-03-058 (page 22), if CDWR pays for SCE's ISO charges and SCE reimburses the CDWR, then such amounts are recorded in the ISOBA.