

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



April 2, 2003

Advice Letter: 1687-E/1687-E-A

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

APR 07 2003**REVENUE & TARIFFS DEPT.**

Reference: Fuel hedging cost recovery and tariff modifications in accordance with D.03-02-033

Dear Mr. Jazayeri:

Advice Letter 1687-E/1687-E-A is effective April 5, 2003. A copy of the advice letter is included herewith for your records.

Sincerely,

A handwritten signature in cursive script that reads "Paul Clanon".

Paul Clanon, Director
Energy Division

jjr

February 24, 2003

ADVICE 1687-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Fuel Hedging Cost Recovery and Tariff Modifications in
Accordance with Decision 03-02-033

In compliance with Decision (D.) 03-02-033,^{1/} 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

The purpose of this advice filing is to transfer the balance in the Risk Management Memorandum Account (RMMA) to the Settlement Rates Balancing Account (SRBA) in accordance with D.03-02-033. In addition, this advice filing modifies Preliminary Statement, Part ZZ, Energy Resource Recovery Account (ERRA), to record proceeds received from the exercise or sale of hedging instruments.

BACKGROUND

Section 2.4 of the October 2, 2001, Settlement Agreement between SCE and the California Public Utilities Commission (Commission) provides for, in part, SCE to apply^{2/} to the Commission for approval to acquire up to \$250 million in financial instruments intended to hedge fuel cost risks associated with SCE's

¹ D.03-02-033 is dated February 13, 2003 and mailed out by the Commission on February 18, 2003.

² On March 13, 2002, SCE filed Application 02-03-016 (A.02-03-016) seeking, among other things, approval for the recovery of \$208.8 million incurred for the purchase of options and other costs to hedge the price of natural gas for the years 2002 and 2003.

Utility Retained Generation (URG), and Qualifying Facilities (QFs) and Interutility contracts.

SCE filed Advice 1579-E and 1579-E-A^{3/} to establish the RMMA^{4/} for tracking hedging-related costs incurred during 2002 and 2003. The Commission approved the RMMA, effective October 5, 2001, in Resolution E-3761.^{5/}

On March 13, 2002, SCE filed an Application for Approval of Fuel Hedging Cost Recovery. In that application (A.02-03-016), SCE requested that the Commission find that the \$208.8 million that SCE paid in natural gas hedging costs for 2002 and 2003 is reasonable and qualifies as recoverable costs under the Settlement Agreement.

On February 13, 2003, the Commission issued D.03-02-033 which holds that SCE's \$208.8 million hedging expenditure is reasonable and qualifies as recoverable costs.

Ordering Paragraph 1 of D.03-02-033 states:

The \$208.8 million hedging costs amortized for 2002 and 2003 in Southern California Edison Company's (SCE) Risk Management Memorandum Account (RMMA) is reasonable and qualifies as recoverable costs. This amount shall be transferred to SCE's Settlement Rates Balancing Account (SRBA).

In accordance with Ordering Paragraph 1 of D.03-02-033, SCE will transfer the RMMA balance as of January 31, 2003, to the SRBA.^{6/} The \$208.8 million of

^{3/} Advice 1579-E was filed on October 5, 2001, and Advice 1579-E-A was filed on October 16, 2001.

^{4/} Commission-authorized entries to the RMMA included: (1) amortization expenses, carrying costs, and fees associated with hedging instruments; (2) unrealized gains or losses required to be recorded on SCE's financial accounting books; and (3) the actual net proceeds received from any sale or exercise of the hedging instruments. Subsequent to the transfer of the RMMA balance to the SRBA in accordance with D.03-02-033, any ongoing unrealized gains or losses associated with the hedging instruments will continue to be treated in accordance with established Commission practice, and will not impact SCE's earnings when recognized for financial reporting purposes. SCE will continue to record credit amounts, if any, associated with item (3) in the ERRAs.

^{5/} Resolution E-3761 is dated November 29, 2001.

^{6/} The net amount transferred from the RMMA to the SRBA will reduce the amount of Surplus recorded in the SRBA and the Procurement Related Obligations Account (PROACT).

hedging costs will be reduced by proceeds received from the exercise or sale of hedging instruments through January 31, 2003, totaling \$12.937 million.^{7/}

Ordering Paragraph 2 of D.03-02-033 states:

SCE shall submit an advice letter within 10 days after the effective date of this order to transfer the \$208.8 million balance in the RMMA to the SRBA. SCE shall file an advice letter to close the RMMA, dispose of the balance in the account, and delete the RMMA from its tariff when the Settlement hedging transactions expired, subject to written approval by the Energy Division. (Emphasis added)

In accordance with Ordering Paragraph 2 of D.03-02-033, SCE will file an advice letter to withdraw the RMMA (Preliminary Statement Section N.73) from its tariffs after the Settlement hedging transactions expire.^{8/} In addition, SCE is modifying its ERRA (Preliminary Statement, Part ZZ) to provide for future credit entries for proceeds received from the sale or exercise of the hedging instruments (if any). Such amounts were previously credited to the RMMA.

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

This advice filing will become effective on the 40th calendar day after the date filed, which is April 5, 2003, subject to SCE receiving written approval 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:

^{7/} Proceeds received in February 2003 from the sale or exercise of hedging instruments totaled \$6.832 million and will be credited to the ERRA. Any future proceeds received from the sale or exercise of hedging instruments will also be credited to the ERRA.

^{8/} The current Settlement hedging instruments expire in December 2003.

IMC Program Manager
c/o Jerry Royer
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
c/o Emelyn Lawler
Southern California Edison Company
2244 Walnut Grove Avenue, Room 388N
Rosemead, California 91770
Facsimile: (626) 302-4829
E-mail: emelyn.lawler@sce.com

Bruce Foster
Vice President of Regulatory Operations
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

There are no restrictions on who may file a protest, but the protest shall set forth specifically the grounds upon which it is based and shall be submitted expeditiously.

In accordance with Section III, Paragraph G, of General Order No. 96-A, SCE is mailing copies of this advice filing to the interested parties shown on the attached service list and A.02-03-016. 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 the A.02-03-016 Service List, 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 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:pad
Enclosures

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 32989-E*	Preliminary Statement Part ZZ	Revised 33414-E
Revised 32990-E Revised 32991-E	Table of Contents Table of Contents	Revised 32977-E Revised 32964-E

PRELIMINARY STATEMENT

Sheet 2

(Continued)

ZZ. ENERGY RESOURCE RECOVERY ACCOUNT (Continued)

3. Definitions (Continued)

e. Utility Retained Generation
Utility Retained Generation (URG) includes all of SCE's generating facilities. They include SCE's ownership share of the: Four Corners Generating Station, Mohave Generating Station, Pebbly Beach Generating Station (Catalina Island), Palo Verde Nuclear Generating Station (Palo Verde), San Onofre Nuclear Generating Station Units 2 and 3 (SONGS 2&3), and hydroelectric facilities.

f. URG Fuel and Fuel-related Expenses
SCE's URG Fuel and Fuel-related Expenses include: 1) variable fuel expenses (commodity and fuel transportation), 2) fixed (unavoidable) fuel expenses, 3) fuel inventory carrying charges, 4) fuel contract settlement, buy-out, and renegotiation costs, and 5) other costs as approved by the Commission.

4. Operation of the ERRA

Entries to the ERRA shall be made on a monthly basis as follows:

- a. A debit entry equal to recorded URG Fuel and Fuel-related expenses;
- b. A debit entry equal to the fuel portion of the SONGS 2&3 ICIP^{iv} revenue requirement;
- c. A debit entry equal to Palo Verde Nuclear Unit Incentive Procedure (NUIP) rewards subsequent to Commission approval;
- d. A debit entry equal to recorded Qualifying Facilities (QF) contracts expenses (including contract restructuring expenses), net of recorded revenues, refunds, or other credits;
- e. A debit entry equal to recorded Interutility contracts expenses, net of recorded revenues, refunds or other credits;
- f. A debit entry equal to recorded Bilateral contracts expenses;
- g. A debit entry equal to recorded Residual Net Short Requirement expenses;
- h. A debit entry equal to other expenses associated with SCE's purchased power activities to the extent not recovered elsewhere (such as the costs associated with purchasing Firm Transmission Rights);
- i. A debit entry equal to recorded ISO expenses;
- j. A credit entry equal to Excess Energy Sales Revenues allocated to SCE;
- k. A credit entry equal to recorded Reliability Must Run (RMR) contracts and ancillary services revenue^{iv};
- l. A debit entry equal to the incentive payments to customers participating in the Statewide Pricing Pilot (SPP) program authorized in Phase 1 of Decision 03-03-036, Advanced Metering, Demand Response, and Dynamic Pricing Proceeding.
- m. A credit entry equal to proceeds received from the sale or exercise of hedging instruments; (N)
- n. The sum of the amounts above shall be transferred monthly to the SRBA during the PROACT Rate Repayment Period. (N)
(T)

No interest expense shall be recorded in the ERRA during the PROACT Rate Repayment Period, since the monthly activity in the ERRA is transferred to the SRBA.

^{i/} The SONGS 2&3 ICIP tariff is included in the Native Load Balancing Account.

^{ii/} Generation-related Other Operating Revenue (OOR) is recorded in the Native Load Balancing Account.

(Continued)

(To be inserted by utility)

Advice 1687-E
Decision 03-02-033

Issued by

John R. Fielder
Senior Vice President

(To be inserted by Cal. PUC)

Date Filed Feb 24, 2003
Effective Apr 5, 2003
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John R. Fielder
Senior Vice President

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(To be inserted by utility)

Advice 1687-E
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Issued by

John R. Fielder
Senior Vice President

(To be inserted by Cal. PUC)

Date Filed Feb 24, 2003
Effective Apr 5, 2003
Resolution _____

April 16, 2003

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

Attn: Jerry Royer
Energy Division

Re: Substitute Sheets for Advice 1687-E

Dear Mr. Royer:

Enclosed is an original and six copies of Attachment A and substitute Sheet No. 32989-E*¹ for Advice 1687-E. This substitute sheet is necessary to ensure that all appropriate, approved revisions are contained in the affected tariff sheet. Advice 1687-E was filed February 24, 2003 and revised Preliminary Statement, Part ZZ, Section 4 effective April 5, 2003. In the interim, Advice 1694-E revising the same tariff and section was filed and effective March 20, 2003. The modifications provided within this substitute sheet helps to ensure that all appropriate, approved revisions from Advice 1694-E are contained in the affected tariff sheet of Advice 1687-E.

Please replace the enclosed sheets in your master Advice Letter 1687-E file. If you have any questions, please contact Dara Morgan at (626) 302-2086.

Sincerely,

Enclosures
1687-Esub.doc

¹ Asterisk denotes substituted sheet.