

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



December 3, 2009

**Advice Letter 1697-E-B**

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

**Subject: Supplement to the Performance Based Ratemaking (PBR)  
Performance Report for 2002**

Dear Mr. Jazayeri:

Advice Letter 1697-E-B is effective November 20, 2009 per Resolution E-4282.

Sincerely,

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

Julie A. Fitch, Director  
Energy Division

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August 21, 2009

**ADVICE 1697-E-B**  
**(U 338-E)**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
ENERGY DIVISION

**SUBJECT:** Supplement to the Performance Based Ratemaking (PBR)  
Performance Report for 2002

Pursuant to SCE's Preliminary Statement, Part BB, PBR Distribution Rate Adjustment Mechanism, and Part CC, PBR Distribution Rate Performance Mechanism (PDRPM), SCE files a report for each year that the PDRPM is in effect. In compliance with Decision (D.) 96-09-092, D.02-04-055, D.08-09-038, and D.09-05-027, Southern California Edison Company (SCE) files its 2002 Performance Report (PBR Report). Advice 1697-E-B replaces Advice 1697-E-A in its entirety.

Advice 1697-E-A was filed August 18, 2003 to exclude certain expenses related to SCE's participation in the Federal Energy Regulatory Commission's (FERC's) investigation of the trading practices of wholesale energy marketers during the California energy crisis. Pursuant to SCE's Settlement Agreement with the California Public Utilities Commission (Commission),<sup>1</sup> SCE may recover expenses in its attempt to get refunds for its customers from any refunds actually received as the result of FERC's investigation. Therefore, SCE excluded all such expenses from its PBR financial performance calculation since SCE was authorized to recover these expenses through refunds.

This revised PBR Report (Attachment A) supplements and revises Advice 1697-E-A as follows:

- Makes changes consistent with D.08-09-038 and D.09-05-027 (issued in OII 06-06-014) to the previously reported 2002 results for the Customer

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<sup>1</sup> Pursuant to Section 3.3 of the October 2, 2001 Settlement Agreement between SCE and the Commission, refunds net of costs of recovery, including litigation, professional and other similar costs, were applied as credits to the Procurement Related Obligation Account (PROACT).

Satisfaction, Average Customer Minutes of Interruption (ACMI), Outage Frequency, and Employee Health and Safety incentive mechanisms.

- Revises the PBR Distribution Rate Revenue Sharing Mechanism results to reflect the impact of adjusted rate base in 2002 resulting from a May 2009 tax settlement with the Internal Revenue Service (IRS).

## **PURPOSE**

This filing is SCE's PBR Report for 2002 as required by Preliminary Statement, Part CC, PBR Distribution Rate Performance Mechanism.

## **BACKGROUND**

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

## **2002 PBR PERFORMANCE OVERVIEW**

### **(1) Recovery of Potential Z-Factors**

SCE is not seeking recovery of any Potential Z-Factors in this advice filing.

### **(2) PBR Performance**

For 2002, SCE's prior calculation of PBR Net Revenue Sharing resulted in an amount owed to SCE (negative sharing) from its customers of \$18.056 million and rewards totaling \$7 million for the Customer Satisfaction, ACMI, Outage Frequency, and Employee Health and Safety performance mechanisms. These calculations have been revised as indicated below so that no amount is owed by ratepayers.

#### **(A) PBR Financial Performance**

SCE's calculation of 2002 PBR financial performance reported in AL 1697-E-A was 101 basis points below benchmark PBR Distribution Return on Equity (ROE) of 11.6 percent. Since this result was below the deadband (more than 50 basis points below the benchmark ROE), net revenue sharing would have been triggered and would have resulted in a ratepayer contribution of \$18.056 million. However, a settlement achieved with the IRS in May 2009 reduced the tax basis of certain distribution assets. This had the effect of reducing recorded rate base for 2002, thereby increasing the ROE from SCE's prior calculation. Recorded PBR Distribution ROE, including both California and federal tax changes, is 11.59 percent, which is one basis point below the

benchmark ROE and falls within the deadband of the Net Revenue Sharing mechanism. Therefore no revenue sharing is triggered. For more detailed information, refer to Section III of the Report.

*(B) Customer Satisfaction and Employee Health and Safety Measure*

The Customer Satisfaction Rating measures overall customer satisfaction with four measured components of SCE's service based on survey results obtained by an outside consultant. Rewards or penalties for employee safety are determined based on SCE's performance related to the frequency of all industrial injuries and illnesses, including first aid treatments. SCE calculated a reward of \$2 million associated with SCE's 2002 Customer Satisfaction measure and a reward of \$5 million associated with SCE's Employee Health and Safety measure. As a result of D.08-09-038, SCE was ordered to forgo recovery of all customer satisfaction and employee safety health and safety rewards SCE had calculated or requested for the period 2001 through 2003.<sup>2</sup> Thus, SCE has forgone recovery of such rewards.

*(C) Reliability Measures, ACMI & Outage Frequency*

The ACMI measures customer service interruptions in terms of the average minutes of service interruptions per customer, excluding all events which exceed 5.0 minutes of ACMI in a 24-hour period. Outage Frequency measures the number of circuit interruptions excluding all events which exceed 5.0 minutes of ACMI in a 24-hour period. These measures are based on two-year rolling averages. The two-year average ACMI index was within the deadband of its mechanism and thus no reward was earned or penalty was assessed. The two-year Outage Frequency performance was also within the deadband and SCE neither earned a reward nor was assessed a penalty.

D.09-05-027 adopted a settlement agreement, which required SCE to forgo the net system reliability reward of \$2 million for the period 2001 – 2003, which is comprised of a reward of \$5 million for Outage Frequency in 2001 and a penalty of \$3 million for ACMI in 2003.<sup>3</sup> As a result of the settlement adopted in D.09-05-027, no further action is required with respect to the Reliability Measures for the period 2001 through 2003.<sup>4</sup> For more detailed information on the Reliability Measures, refer to Section IV of the Report.

**PBR DISTRIBUTION RATE PERFORMANCE MEMORANDUM ACCOUNT**

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

<sup>3</sup> D.09-05-027, p. 8; Ordering Paragraph 3, p. 16.

<sup>4</sup> SCE is concurrently filing a supplemental advice letter for PBR results for 2001 and its initial advice letter for PBR results for 2003.

In accordance with D.96-09-092, D.97-10-057, and Resolution E-3514, SCE established the PBR Distribution Rate Performance Memorandum Account (PDRPMA) to record revenue sharing resulting from the PBR net revenue sharing mechanism and all rewards and penalties resulting from the application of the service quality performance mechanisms. Because there is no net revenue sharing amount nor any rewards or penalties resulting from the service quality performance mechanisms, no entries should be recorded to the PDRPMA for 2002.

### **COST OF CAPITAL TRIGGER MECHANISM**

The Cost of Capital Trigger Mechanism was established to adjust SCE's Authorized ROE for changes in interest rates and to adjust PBR Distribution Rates to account for changes in the Authorized ROE. The Trigger Mechanism uses an index which tracks changes in Aa Utility Bond rates. In Advice 1659-E, SCE reported that the Aa Utility Bond rate for the 12-month period ending September 2002 was 7.31 percent. Since this was less than 100 basis points above the then current Trigger Value of 7.50 percent, the Trigger Mechanism was not activated. For more detailed information, refer to Section V of the Report.

### **DISTRIBUTION FACILITY FAILURE RATE DATA**

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

SCE has assembled data relative to equipment failure rates for its major distribution facilities. In compliance with D.98-08-015, SCE is reporting the number of failures for specific utility distribution facilities listed in General Order 165 and cable connections that resulted in circuit interruptions during 2002. For more detailed information, refer to Section VI of the Report.

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

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

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

### **TIER DESIGNATION**

Advice 1697-E was filed on March 31, 2003, under the rules of General Order (GO) 96-A. As previously clarified by the Energy Division, a supplement will be

processed under the rules applicable when the original advice letter was filed, therefore, no tier designation is identified for this supplemental advice filing.

### **EFFECTIVE DATE**

This advice letter will become effective upon Commission approval.

### **NOTICE**

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

CPUC, Energy Division  
Attention: Tariff Unit  
505 Van Ness Avenue  
San Francisco, California 94102  
E-mail: [inj@cpuc.ca.gov](mailto:inj@cpuc.ca.gov) and [mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov)

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

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

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

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

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

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

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

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

**Southern California Edison Company**

Akbar Jazayeri

AJ:sr:jm  
Enclosures

# CALIFORNIA PUBLIC UTILITIES COMMISSION

## ADVICE LETTER FILING SUMMARY ENERGY UTILITY

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

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

Utility type:

ELC       GAS  
 PLC       HEAT       WATER

Contact Person: James Yee

Phone #: (626) 302-2509

E-mail: [James.Yee@sce.com](mailto:James.Yee@sce.com)

E-mail Disposition Notice to: [AdviceTariffManager@sce.com](mailto:AdviceTariffManager@sce.com)

EXPLANATION OF UTILITY TYPE

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

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 1697-E-B      Tier Designation: N/A

Subject of AL: Supplement to the Performance Based Ratemaking (PBR) Performance Report for 2002

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

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other

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

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

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

Summarize differences between the AL and the prior withdrawn or rejected AL<sup>1</sup>: \_\_\_\_\_

Confidential treatment requested?  Yes  No

If yes, specification of confidential information:

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

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

Resolution Required?  Yes  No

Requested effective date: Upon Commission Approval      No. of tariff sheets: -0-

Estimated system annual revenue effect (%): \_\_\_\_\_

Estimated system average rate effect (%): \_\_\_\_\_

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

Tariff schedules affected: None

Service affected and changes proposed<sup>1</sup>: \_\_\_\_\_

Pending advice letters that revise the same tariff sheets: None

<sup>1</sup> Discuss in AL if more space is needed.

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

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

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

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

# Attachment A

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

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

**REVISED  
2002 PERFORMANCE REPORT**

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

**August 21, 2009**

# **SCE’S DISTRIBUTION PERFORMANCE BASED RATEMAKING (PBR) MECHANISM**

## **2002 PERFORMANCE REPORT**

(January 1, 2002 through December 31, 2002)

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## **I. Introduction**

2002 was the sixth year of operation for Southern California Edison's (SCE or Company) Distribution Performance Based Ratemaking (PBR) mechanism.<sup>1</sup> The purpose of this report is to summarize SCE's 2002 Distribution PBR performance.

This report is filed pursuant to California Public Utilities Commission Decision No. 96-09-092 (D.96-09-092); SCE's Preliminary Statements Parts BB, CC, and XX; and D.02-04-055.2 D.08-09-038, and D.09-05-027. This filing includes financial data from SCE's distribution operations and details of the operation of SCE's current PBR Distribution Revenue Requirement Performance Mechanism (PDRRPM).

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

The PBR Net Revenue Sharing mechanism results were affected by several changes occurring after the close of the 2002 calendar year. SCE has revised the PBR Net Revenue Sharing results to reflect the impact of a tax settlement with the Internal Revenue Service (IRS) in May 2009, which reduced the tax basis of certain distribution assets. This had the effect of reducing rate base for 2002, thereby increasing the ROE from SCE's prior calculation. Recorded PBR Distribution ROE, including both California and federal tax changes, is 11.59 percent, which is one basis point below the standard and falls within the deadband of the net revenue sharing mechanism. Therefore no Net Revenue Sharing for ratepayers or shareholders is triggered. The calculations supporting this result are provided in Section III of this report.

Moreover, the rewards previously requested for service quality mechanisms for: (1) Customer Satisfaction, (2) Employee Health and Safety have been revised. As a result of D.08-09-038, SCE was ordered to forgo recovery of all customer satisfaction and employee safety health and safety rewards SCE had calculated or requested for the period 2001 through 2003<sup>3</sup> and that no PBR penalties should be imposed on SCE. SCE is making concurrent advice letter filings for 2001 and 2003 which confirm this outcome. SCE has forgone recovery of such rewards and no further action is required with respect to Customer Satisfaction and Employee Health and Safety rewards or penalties.

Finally, D.09-05-027 adopted a settlement agreement, which required SCE to forgo the net system reliability reward of \$2 million for the period 2001 – 2003, which is comprised of a reward of \$5 million for Outage Frequency in 2001 and a penalty of \$3 million for ACMI in

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

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

<sup>3</sup> D.08-09-038, Conclusion of Law No. 7, Ordering Paragraph No. 2.

2003.<sup>4</sup> SCE is making concurrent advice letter filings for 2001 and 2003 which confirm this outcome. No further action is required with respect to reliability rewards or penalties.

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

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

## **II. PBR Distribution Rate Adjustment Mechanism**

The PBR Distribution Rate Adjustment Mechanism (PDRAM) contains an Update Rule that provides for an annual adjustment to PBR Distribution Rate levels.<sup>5</sup> This adjustment, calculated as the PBR Distribution Rate Adjustment Factor (PDRAF), is derived from the forecast Consumer Price Index (CPI) and modified by a productivity pledge (expressed as X). After the first year of operation, a correction factor is applied to reflect the difference between the forecast and recorded escalation in the previous year. The PDRAF is reported annually in November of each year that the PBR is in effect through an advice letter to the Commission. Table II.1 summarizes these factors and adjustments.

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<sup>4</sup> D.09-05-027, p. 8; Ordering Paragraph 3, p. 16.

<sup>5</sup> Effective with the approval of Advice Letters 1619-E and 1619-E-A, the PBR Distribution Rate Adjustment Mechanism (PDRAM) is now termed the PBR Distribution Revenue Requirement Adjustment Factor (PDRRAF). See SCE's Preliminary Statement, Part BB.

**Table II.1**

<b>PBR Distribution Rates Update</b>				
	<b><u>CPI</u></b>	<b><u>X</u></b>	<b><u>Correc</u> <u>tion Factor</u></b>	<b><u>Update</u> <u>Rule</u></b>
1997 <sup>6</sup>	3.03%	1.2%	---	1.0183
1998 <sup>7</sup>	2.43%	1.4%	0.9925	1.0027
1999 <sup>8</sup>	2.70%	1.6%	0.9926	1.0035
2000 <sup>9</sup>	2.67%	1.6%	0.9936	1.0042
2001 <sup>10</sup>	1.94%	1.6%	1.0101	1.0135
2002 <sup>11</sup>	2.31%	1.6%	0.9897	1.0109

### **III. PBR Distribution Net Revenue Sharing Mechanism**

#### **A. Description**

The PBR Distribution Net Revenue Sharing Mechanism comprises the principal financial element of SCE's Distribution PBR mechanism.<sup>12</sup> This mechanism establishes a benchmark based on SCE's authorized return on common equity and puts SCE shareholders at risk for variations within 50 basis points of this benchmark. When results vary from the benchmark by more than 50 basis points, the net revenues are shared between SCE shareholders and customers.

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

#### **B. Results of Operations**

Financial data from the 12-month period ending December 31, 2002 are presented in this section. Table III.B.1 provides SCE's financial results for its Distribution PBR. Distribution PBR operating revenues are derived from SCE's tariffed distribution rates and Other Operating Revenues. Revenues were excluded that have their own ratemaking mechanisms such as flexible pricing option contracts. The incremental revenues from non-tariffed products and services

<sup>6</sup> Data reported in Advice Letter 1191-E-A.

<sup>7</sup> Data reported in Advice Letter 1256-E.

<sup>8</sup> Data reported in Advice Letter 1345-E-A.

<sup>9</sup> Data reported in Advice Letter 1414-E.

<sup>10</sup> Data reported in Advice Letter 1494-E.

<sup>11</sup> Data reported in Advice Letter 1659-E

<sup>12</sup> Effective with the approval of Advice Letters 1619-E and 1619-E-A, the PBR Distribution Rate Revenue Sharing Mechanism is now termed the PBR Distribution Net Revenue Sharing Mechanism. See SCE's Preliminary Statement, Part CC.

subject to the Gross Revenue Sharing Mechanism approved in D.99-09-070, as provided in SCE's Preliminary Statement, Part G, were also excluded.

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

**TABLE III.B.1**  
**SOUTHERN CALIFORNIA EDISON COMPANY**  
**PBR RESULTS OF OPERATIONS REPORT**  
12 Months Ended December 31, 2002  
(Thousands of Dollars)

Description	PBR Distribution	
	System (1)	Jurisdictional (2)
<b>Operating Revenues:</b>		
Total Revenue	2,143,279	2,143,279
Subtotal	2,143,279	2,143,279
Other Operating Revenue	116,864	116,806
Total Operating Revenues	2,260,143	2,260,085
<b>Operating Expenses: 1</b>		
Fuel		
Purchased Power		
Power Exchange		
Prov-Reg Adj. Clause		
Subtotal	0	0
Production Other	0	0
Transmission (Non-ISO)	83,494	83,452
Distribution	341,678	341,507
Customer Accounts	233,173	233,056
Uncollectibles	4,538	4,536
Cust. Serv & Info	39,740	39,720
Administrative & General	188,298	188,204
Franchise Fees	20,880	20,870
Subtotal	911,801	911,345
Depreciation	494,737	494,490
Taxes Other	70,898	70,863
Taxes Income	250,052	249,927
Subtotal	320,950	320,790
Total Operating Expenses	1,727,488	1,726,625
<b>Net Revenue</b>	<b>532,655</b>	<b>533,460</b>
<b>Rate Base</b>	<b>5,627,538</b>	<b>5,624,724</b>
<b>Rate of Return</b>	<b>9.47%</b>	<b>9.48%</b>

Note:

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

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

**Table III.B.2**

<b>Capital Structure (Utility)<sup>13</sup></b>	
	<u>Capital Ratio</u>
Long-Term Debt	47 %
Preferred Stock	5 %
Common Equity	48 %

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

**Table III.B.3**

<b>Recorded PBR Distribution Return on Equity</b>	
a. Distribution-related revenues from Table III.B.1:	2,260,085
b. Distribution-related costs from Table III.B.1, plus	1,726,625
Synchronized Interest (Auth WTCD)	201,973
Preferred Debt (Auth Pref):	18,618
	1,947,215
c. Recorded PBR Distribution Common Equity = Recorded PBR Distribution Rate Base (from Table III.B.1) x Fractional Share of Common Equity (percent from Table III.B.2):	2,699,868
d. PBR Distribution Return on Equity = (line a - line b) / line c :	11.59 %

<sup>13</sup> D. 96-11-060, p. 33.

### **C. Quantification of Net Revenue Sharing Mechanism Results**

To determine the net revenues, if any, to be shared with customers requires a comparison of the 2002 Recorded PBR Distribution Return on Equity with the Benchmark Return on Equity. SCE's 2002 Recorded PBR Distribution Return on Equity of 11.59 percent was provided above in Section III.B. The Benchmark Return on Equity is 11.60 percent. Thus, the Recorded PBR Distribution Return on Equity is within 50 basis points of the Benchmark Return on Equity, and no revenue sharing is triggered. Table III.C.1, below, provides the net revenue sharing calculation.

**TABLE III.C.2  
NET REVENUE SHARING CALCULATION  
TWELVE MONTHS ENDING DECEMBER 2002**

<b>NET REVENUE SHARING CALCULATION</b>	
(\$000s)	
1. Recorded PBR Distribution Rate Base:	
2. Recorded Rate Base	5,624,724
3. Recorded PBR Distribution Common Equity:	
4. Authorized Common Equity	48.00%
5. Recorded PBR Distribution Common Equity	<u>2,699,868</u>
6. Recorded PBR Distribution Return on Equity:	
7. Distribution-related Revenues	2,260,085
8. Distribution-related Expenses	1,726,625
9. Synchronized Interest (Auth WTCD)	201,973
10. Preferred (Auth Pref)	18,618
11. Subtotal	<u>1,947,215</u>
12. Recorded PBR Distribution ROE	11.59%
13. Benchmark Return on Equity	<u>11.60%</u>
14. Equity Return Variance (ERV)	<u>0.01%</u>
15. If ERV is greater than 0.5% but less than 3.0%	<u>0.00%</u>
16. Ratepayer Equity Sharing Percent (RESP)	<u>0.01%</u>
17. Ratepayer Equity Factor (REF)	0.00%
18. Net to Gross Multiplier	1.8045
<b>19. Net Revenue Subject to Sharing</b>	<b>0</b>

**Note:**

1. The Equity Return Variance ERV = Line 12 minus Line 13; the value of the ERV, if less than zero, is multiplied by -1.
2. If the ERV (Line 14) is less than or equal to 0.5% (50 basis points) then no sharing is applicable and lines 16, 17 and 19 are zero.
3. The Ratepayer Equity Sharing Percent, RESP = Line 14 minus Line 15, or zero if line 14 is less than 0.5% (50 basis points).
4. The Ratepayer Equity Factor, REF = [(Line 16) x 0.75] minus [(Line 16) x (Line 16) x 15], as provided in Edison's Tariff, Preliminary Statement Part CC, Section 3.
5. If the ERV, (Line 14), is greater than 3.00% (300 basis points), the REF, (Line 17), shall equal 0.9375 percent. The RESP, (Line 16), cannot exceed 2.50%.
6. The Net-to-Gross Multiplier, (Line 18), is 1.8045 as adopted in Decision , D.96-01-011.
7. The Net Revenue Subject to Sharing, (Line 19), = (Line 5) x (Line 17) x (Line 18). If the Recorded PBR Distribution ROE, (Line 12), is less than the Benchmark PBR Distribution ROE, (Line 13), then multiply the value in (Line 19) by -1.

## **IV. Service Quality Performance Mechanism**

### **A. Customer Satisfaction and Employee Health & Safety**

The Customer Satisfaction Rating measures overall customer satisfaction with four measured components of SCE's service based on survey results obtained by an outside consultant. Rewards or penalties for employee safety are determined based on SCE's performance related to the frequency of all industrial injuries and illnesses, including first aid treatments. In Advice 1697-E-A SCE calculated a reward of \$2 million associated with SCE's 2002 Customer Satisfaction measure and a reward of \$5 million associated with SCE's Employee Health and Safety measure.

In Phase 1 of OII 06-06-014, the Commission reviewed the results obtained for Customer Satisfaction and the Employee Health and Safety performance. As a result of that review, in D.08-09-038 the Commission ordered SCE to refund all PBR Customer Satisfaction rewards it had received for the period 1997 through 2000 and to forgo recovery of all customer satisfaction and employee safety health and safety rewards SCE had calculated or requested for the period 2001 through 2003.<sup>14</sup> The Commission determined that no penalties pursuant to these PBR mechanisms should be imposed on SCE. Thus, all potential issues related to rewards or penalties under the Customer Satisfaction and the Employee Health and Safety mechanisms were addressed in D.08-09-038. SCE has forgone recovery of the \$7 million of previously calculated rewards for Customer Satisfaction and the Employee Health and Safety for 2002. No further action by the Commission is required.

### **B. Reliability Measures**

#### **Average Customer Minutes of Interruption (ACMI)**

The ACMI measures customer service interruptions in terms of the average minutes of service interruptions per customer excluding all events that have a duration of more than five (5.0) minutes of ACMI in a 24 hour period. The ACMI is calculated as the rolling average of two successive years. The ACMI had a performance standard of 59 minutes for the initial year of operation for SCE's Nongeneration PBR Mechanism (1997) and declined by two minutes per year thereafter through 2001. Beginning in 2002, the ACMI measure has a performance standard of 51 minutes. The standard has a deadband of six minutes on both sides in which there is no reward or penalty.

#### **Outage Frequency**

The Outage Frequency measures the number of circuit interruptions excluding all events that contribute interruptions which have a duration totaling more than five (5.0) minutes of ACMI in a 24 hour period. The Outage Frequency Performance Rating is calculated as the rolling average of two successive years. Through 2001, the Outage Frequency had a performance standard of 10,900 interruptions with a deadband of 1,100 on both sides in which there is no reward or penalty. Beginning in 2002, the performance standard is 9,482 with a deadband of 1,100 interruptions on both sides.

### **C. Reliability Results**

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<sup>14</sup> D.08-09-038, Conclusion of Law No. 7, Ordering Paragraph No. 2.

The ACMI reliability benchmark was 51 minutes for 2002.<sup>15</sup> As the ACMI reliability measure requires a rolling average of two successive years, and given that the 2001 figure was 52 minutes ACMI, the two-year rolling average to be used in determining whether a reward is earned or penalty assessed is 52 minutes ACMI. This result falls within the deadband for the ACMI index, which is from 45 to 57 minutes for 2002. The Outage Frequency reliability result was 9,231 for 2002.<sup>16</sup> Because Outage Frequency is calculated as a rolling two-year average, and the result for 2001 was 9,004, the two-year average is 9,118. This result falls within the deadband, which ranges from 8,382 to 10,582 for 2002.

D.09-05-027 adopted a settlement agreement in Phase 2 of OII 06-06-014, which required SCE to forgo the net system reliability reward of \$2 million for the period 2001 – 2003, which is comprised of a reward of \$5 million for Outage Frequency in 2001 and a penalty of \$3 million for ACMI in 2003.<sup>17</sup> The settlement agreement adopted by D.09-05-027 also provides that SCE shall not be liable for any PBR penalties related to Phase 2 of the OII. Therefore, all potential issues related to rewards or penalties under the ACMI and Outage Frequency mechanisms for 2002 have been addressed in D.09-05-027. No further action by the Commission is required.

## **V. Cost of Capital Trigger Mechanism**

### **A. Description**

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

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

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<sup>15</sup> Total ACMI for 2002 was 53.2 minutes less 2.0 resulting from shutdown of three 500-kilovolt transmission lines in the Cajon Pass, northeast of the Los Angeles Basin on June 26, 2002 due to operation of a Remedial Action Scheme (RAS). Remedial Action Schemes provide for automatic curtailment of customer loads during abnormal conditions in order to protect system reliability, and are installed pursuant to ISO approval. The June 26, 2002 RAS event was caused by a fire burning under the lines. Excluding this RAS event, ACMI is 51.2 minutes, or 51 rounded.

<sup>16</sup> Total for 2002 was 9,617, less 386 excluded on June 26, 2002 due to an ISO-approved shutdown of three 500 kV transmission lines described in footnote 15.

<sup>17</sup> D.09-05-027, p. 8; Ordering Paragraph 3, p. 16.

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

Table V.B.1 lists the bonds that made up Moody's Long Term Corporate Bond Yield Average for Aa Public Utilities, as reported in Moody's "Credit Survey" and on Moody's Internet Web site.<sup>18</sup>

**Table V.B.1**

<b>Composition of the Cost of Capital Trigger Mechanism Bond Index</b>				
<u>Company Name</u>	<u>Coupon</u>	<u>Maturity</u>	Moody's Bond Rating	
			Beginning	End
			<u>2002</u>	<u>2002</u>
<i>Bonds Included in the Index at the Beginning and End of 2002</i>				
Duke Energy Corp	7.00%	07/01/2033	Aa3	Aa3
Florida Power & Light Co.	7.050%	12/01/2026	Aa3	Aa3
Illinois Bell Telephone Co.	7.250%	03/15/2024	Aa2	Aa2
Pacific Bell	7.375%	06/15/2025	Aa3	Aa2
Southwestern Bell Telephone Co.	7.375%	07/15/2027	Aa2	Aa2
Wisconsin Electric Power Co.	6.875%	12/01/2095	Aa3	Aa3
<b>Bonds Removed from the Index During 2002</b>				
Bell Telephone Co. of Pennsylvania	7.375%	03/15/2033	Aa2	
New Jersey Bell Telephone Co.	7.250%	03/01/2023	Aa2	
Chesapeake & Potomac Telephone Co., VA	7.000%	07/15/2025	Aa2	
Chesapeake & Potomac Telephone Co., MD	7.150%	05/01/2023	Aa2	
Michigan Bell Telephone Co.	7.500%	02/15/2023	Aa2	
<b>Bonds Added to the Index During 2002 and Included at the End of 2002</b>				
Chesapeake & Potomac Telephone Co., MD	7.150%	05/01/2023	Aa2	

In Advice Letter 1659-E SCE reported the Aa Utility Bond rate for the 12-month period ending September 2002 was 7.31 percent, which is less than 100 basis points below the Trigger Value of 7.50 percent, as set forth in SCE's Preliminary Statement DD, Section 3.e. Thus, the Trigger Mechanism was not activated to cause a change to SCE's Authorized Return on Equity.<sup>19</sup>

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

<sup>18</sup> Moody's "Credit Survey" ceased publication on January 29, 2001; however Moody's Internet Web site posts a current list of utility bond ratings at www.moodys.com. SCE has used this list throughout 2002 to update the Utility Bond Index.

<sup>19</sup> In D.01-06-038, the Commission modified D.96-09-092 to extend SCE's PBR mechanism until superseded by SCE's 2003 General Rate Case.

In Decision No. 98-08-015, the Commission directed SCE to report the frequency of circuit interruptions resulting from the failure of the types of equipment listed in General Order (G.O.) 165 and cable connections. SCE reports this information in Table VI.1.20 This data excludes all circuit interruptions occurring during events that have a circuit interruption duration totaling more than five (5.0) minutes of ACMI.

**Table VI.1**

<b>Number of Non-Catastrophic Circuit Interruptions Resulting from Equipment Failure (By Distribution Equipment Type Listed in G.O. 165) 2002</b>	
G.O. 165 Facility Type	
Transformers	111
Switching/Protective Devices	251
Regulators/Capacitors	14
OH Conductors	221
UG Cables	385
UG Terminations	123
Streetlighting	1
Wood Poles	6

**VII. Data Reported In Compliance with D.99-12-035**

In D.99-12-035, the Commission directed SCE to report data relative to busy conditions on inbound customer telephone trunk lines, streetlight repairs, service guarantee commitments, and customer service erroneous disconnects. In Tables VII.1 and VII.2, SCE reports this information for 2002.

SCE's service guarantee program is a voluntary program funded by shareholders. On January 15, 2001, SCE discontinued service guarantees as a result of resource limitations imposed by the energy crisis.

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

**Table VII.1**

<b>Street Light Outage Data</b>	
<p>On an annual basis, for the street light outages <u>not</u> caused by a source energy feed problem (e.g., broken cable), the percentage of streetlights repaired within three working days and the percentage repaired within five working days.<sup>21</sup></p> <p style="padding-left: 40px;">Repairs made within three working days:</p> <p style="padding-left: 40px;">Repairs made within five working days:</p>	<p>9 7.2%</p> <p>9 9.7%</p>
<p>On an annual basis, for street light outages caused by a source energy feed problem (e.g., broken cable), the percentage of streetlights repaired within 17 working days.</p> <p style="padding-left: 40px;">Repairs made within 17 working days:<sup>22</sup></p>	<p>7 1.2%</p>

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

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

<b>Table VII.2</b>				
<b>PBR Data Reporting and Gathering Requirements (D.99-12-035)</b>				
<b>2001</b>				
<b>Call Center Performance</b>		<b>Service Guarantee Program**</b>		
Month	Percent of time all primary inbound trunk lines at SCE's call centers are busy	Service Guarantees Not Met	Annual Number	Annual Paid Out
January	0.01%	New Meter Installation and Service Initiation	--	--
February	0.00%	Responding Quickly to Service Disruptions	46	\$2,300
March	0.16%	Restoring Service Within 24 Hours of Notification	8	\$400
April	0.00%	Total	54	\$2,700
May	0.01%	<b>Erroneous Disconnects</b>		
June	0.00%	Number of occurrences in which a customer's service was erroneously disconnected		
July	0.00%	Total	1,039	
August	0.00%	Credit-related	1,039	
September	0.00%	Percentage of erroneous disconnects as a percentage of disconnects*	0.23%	
October	0.01%			
November	0.01%			
December	0.02%			

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

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