

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



August 26, 2003

Advice Letter: 1727-E

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

Reference: Forward sales plan supplement to the 2003 short-term procurement plan

Dear Mr. Jazayeri:

Advice Letter 1727-E is effective September 1, 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

Filed: 8/1/03
Effective: 9/1/03

jjr

PUBLIC VERSION

August 1, 2003

ADVICE 1727-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: FORWARD SALES PLAN SUPPLEMENT TO THE 2003 SHORT-TERM
PROCUREMENT PLAN OF SOUTHERN CALIFORNIA EDISON
COMPANY (U 338-E)

PURPOSE

This advice filing requests the California Public Utilities Commission (“Commission”) approve the attached Forward Sales Plan Supplement (“FSPS”) to the 2003 Short-Term Procurement Plan (“2003 STPP”) of Southern California Edison Company (“SCE”), which SCE submitted on November 12, 2002, and the Commission approved, with certain modifications, on December 19, 2002, in D.02-12-074. [Redacted]. The RNL is the amount by which SCE’s total supply, including SCE’s allocation of DWR contracts, exceeds SCE’s bundled load. SCE submits this advice filing in accordance with Section VB of its 2003 STPP. The 2003 STPP provides:

“SCE also proposes to be able to use is [sic] proposed advice letter filing process to make minor modifications and enhancements to all aspects of its approved Procurement Plan to avoid the need to commit more Commission and stakeholder resources than necessary to review and rule upon such requests. The Energy Division should advise as soon as practical, but in no event later than 15 days, if it determines that an advice letter filing addresses a requested revision to the authorized Procurement Plan that is significant enough to warrant the filing of a new procurement plan.”¹

¹ D.02-12-074, *mimeo*, pp. 146-147.

PUBLIC VERSION

BACKGROUND

On May 1, 2002, SCE filed its initial Procurement Plan. On October 24, 2002, in D.02-10-062, the Commission adopted SCE's May 1, 2002, Procurement Plan, as modified to reflect: (i) the changes ordered in D.02-10-062; (ii) the allocation of existing California Department of Water Resources ("DWR") contracts ordered in D.02-09-053; and (iii) any procurement transacted under the Commission's transitional authority granted in D.02-08-071.

The Commission directed the utilities to file modified short-term procurement plans consistent with D.02-10-062 on November 12, 2002 and provided an opportunity for all interested parties to file written comments on the updated plans.² SCE filed its 2003 STPP as directed on November 12, 2002. [Redacted]. The Commission approved the 2003 STPP in D.02-12-074.

Since SCE submitted the 2003 STPP, the Commission adopted an Operating Order in D.02-12-069,³ which prevents SCE from selling surplus energy outside of the "spot" market,⁴ unless SCE obtains DWR's approval.⁵ Hence, under existing Commission's orders, DWR's authorization is necessary for SCE to sell in advance of the spot market.

[Redacted]

SCE submitted its 2004 Short Term Procurement Plan ("2004 STPP") on May 15, 2003. [Redacted] assuming that either DWR approves the sales plan or DWR's approval is no longer required, beginning for the month of January 2004. SCE does not anticipate, however, that the Commission will act on SCE's 2004 STPP before the end of 2003. [Redacted].

[Redacted]. Moreover, SCE requests that the Commission act on this request by September 1, 2003.

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

SCE requests that, if it receives no protests, the Commission approve this advice filing and the FSPS within thirty days of the date of this advice letter, or no later than September 1, 2003.

² D.02-10-062, Ordering Paragraphs 3-4, *mimeo*, p. 75.

³ D.02-12-069, Ordering Paragraph 1, *mimeo*, p. 70.

⁴ Defined by SCE as the day-ahead, hour-ahead, or real-time markets.

⁵ "To the extent there is surplus power uncommitted to a forward energy surplus sales transaction or the Parties are unable to agree on a sales plan for such energy, Utility shall sell such surplus energy in the day-ahead, hour-ahead or real-time market." D.02-12-069, Operating Order, Exhibit A, p. A-2.

PUBLIC VERSION

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
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

A Copy of any protest should also be mailed to the attention of the Director, Energy Division, Room 4004 (same address as 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, Quad 3D
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.

PUBLIC VERSION

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. 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 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/adviceletters>.

For questions, please contact John Pespisa at (626) 302-3308 or by electronic mail at John.Pespisa@sce.com.

Southern California Edison Company

Akbar Jazayeri

AJ:JP
Enclosures

**FORWARD SALES PLAN SUPPLEMENT OF SOUTHERN CALIFORNIA EDISON
COMPANY (U 338-E) TO 2003 PROCUREMENT PLAN**

I.

OVERVIEW

A. Executive Summary

The California Public Utilities Commission (“Commission”) approved the 2003 Short-Term Procurement Plan (“2003 STPP”) of Southern California Edison Company (“SCE”) in D.02-12-074.¹ With regard to sales transactions, the 2003 STPP states:

[Redacted]. According to Decision 02-09-053, a portfolio RNL sale is treated as a sale from the combined DWR-SCE portfolio. The DWR and SCE shares of portfolio sales are to be determined on a ‘pro rata’ basis pursuant to either the DWR-SCE Servicing Agreement or the DWR-SCE Operating Agreement, neither of which has been established to date or approved by the Commission. [Redacted].

Since SCE submitted the 2003 STPP, the Commission adopted an Operating Order in D.02-12-069,² which prevents SCE from selling surplus energy outside of the “spot” market,³ unless SCE obtains approval from DWR.⁴ Among the California Investor-Owned Utilities (“IOU”s), this limitation to the spot market for surplus sales, absent DWR approval, applies only to SCE. The other IOUs are subject to Operating Agreements with DWR, which the Commission approved in D.03-04-029. D.03-04-029 provides:

¹ See D.02-12-074, Conclusion of Law 4 and Ordering Paragraph 1, *mimeo*, pp. 66 and 70.

² D.02-12-069, Ordering Paragraph 1, *mimeo*, p. 70.

³ SCE’s 2003 STPP defines the “spot” market as the day-ahead, hour-ahead, or real-time markets 2003 STPP, p. 98.

⁴ “To the extent there is surplus power uncommitted to a forward energy surplus sales transaction or the Parties are unable to agree on a sales plan for such energy, Utility shall sell such surplus energy in the day-ahead, hour-ahead or real-time market.” D.02-12-069, Exhibit A, Operating Order, p. A-2.

“While we believe it is appropriate for the utilities to submit protocols and sales plans to DWR for forecasting and reporting purposes, we do not believe it is appropriate for DWR to ‘review and approve’ such sales protocols or sales plans.”⁵

Notwithstanding the plural reference to “utilities” in the above-referenced citation and SCE’s request, the Commission did not eliminate the requirement that SCE sell surplus energy in the spot market absent agreement with DWR on a sales plan.⁶ To this point, SCE requested and DWR granted [Redacted].

[Redacted].

[Redacted]. SCE does not anticipate, however, that the Commission will act on SCE’s 2004 STPP before the end of 2003. [Redacted].

The following summarizes SCE’s request:

[Redacted].

B. Summary of SCE’s Proposed Modifications To The 2003 STPP

SCE does not propose to modify any elements of its approved 2003 STPP, except the following proposed limits and targets relative to forward sales:

Maximum Transaction Term for Forward Sales Transactions

[Redacted].

Maximum Volume Limits for Forward Sales Transactions

[Redacted].

⁵ D.03-04-029, *mimeo*, p. 18.

⁶ In its Comments on the draft decision, SCE indicated that it disagreed with the Commission’s action of eliminating the requirement for PG&E and SDG&E to submit sales plans to DWR for approval, yet retaining the requirement (as stated in D.02-12-069) for SCE to “sell such surplus energy in the day-ahead, hour-ahead or real-time market” if SCE and DWR were unable to agree on a sale plan for such energy. D.03-04-029, *mimeo*, pp. 18-19.

Maximum Volume Limits for Support Services

[Redacted].

Allowable Products

[Redacted].

Allowable Transaction Processes

[Redacted].

Transaction Screening and Selection Criteria

[Redacted].

Standards of Conduct

- The Standards of Conduct (“SOC”), which the Commission initially approved in D.02-10-062, but later modified in subsequent decisions (including in D.03-06-067 to eliminate SOC6 and SOC7 in D.03-06-067), will apply as modified by the Commission.

II.

**SCE’S FORECAST RESIDUAL NET-LONG POSITIONS FROM NOW THROUGH
DECEMBER 2004**

In this section, SCE presents its forecast of its RNS procurement and RNL sales
[Redacted].

III.

TRANSACTION PLANNING

A. Basis For Proposed Volume Limits For Electrical Energy Sales Transactions

[Redacted]. Additionally, adopting such a transaction strategy can expose the seller (or buyer) to undue exposure to a single and brief market upset or anomaly. For these reasons, SCE recommends that the Commission authorize [Redacted].

[Redacted].

In the market today, buyers (or sellers) offer to purchase (or sell) monthly blocks of firm energy for on-peak hours,⁷ for off-peak hours,⁸ and on a “flat” or round-the-clock basis.⁹ Given the energy products that are available in the market, [Redacted]. After Forward Transactions take place, SCE’s hourly RNS/RNL position would generally be managed through a combination of Short-Term Transactions, including ISO transactions, and the use of dispatchable generation in the portfolio.

[Redacted].

As previously described, SCE bases its forecast RNL position [Redacted]. Several Commission decisions direct SCE to dispatch its portfolio based on the principle of least-cost dispatch.¹⁰ [Redacted]. Under least-cost economic dispatch, some forecast generation production from dispatchable resources is forecast to serve bundled load, while other production, which is not forecast to serve bundled load, is forecast to be economic to sell in the wholesale market. [Redacted].

Market and forecast supply/demand conditions will invariably change over the period in which any modified 2003 STPP is in place. If changes are significant and warrant a modification

⁷ The on-peak, or “6X16” hours, refer to 6 a.m. to 10 p.m. Pacific Time, Monday through Saturday, excluding North American Electric Reliability Council holidays.

⁸ The off-peak hours are all hours that are not on-peak hours.

⁹ The “flat” product is also known as a “7X24” product.

¹⁰ See D.02-10-062, D.02-12-069, and D.02-12-074.

[Redacted] that SCE proposes in this filing, then SCE will recommend changes in a subsequent advice filing for the Commission to review and approve.

[Redacted].

The Commission, in this proceeding, is addressing the issue of the appropriate level of “planning reserves” for utilities to acquire. SCE does not know what the Commission will eventually decide regarding planning reserves. [Redacted].

[Redacted].

The current DA penetration rate on the SCE system is approximately 14%. To the extent that SCE transitions from one set of limits based on one level of DA penetration to another set of limits based on a different level of DA penetration, SCE will notify the Commission of the change through a compliance advice letter filing with the Commission’s Energy Division.

B. Proposed Forward Energy Sales Maximum Volume Limits

[Redacted].

[Redacted].

1. Markets may be temporarily illiquid or dysfunctional;
2. SCE’s credit may not be accepted by a sufficient number of counter-parties for the products that it seeks, or SCE may not be able to post collateral that might be required in a stress case scenario;¹¹
3. Regulatory standards that are not commercially feasible may be established for certain types of contracts;
4. [Redacted].

[Redacted].

¹¹ SCE’s credit rating is currently below investment grade. [Redacted]. For sales transactions, additional security (e.g., collateral) to cover the counter-party’s credit exposure to SCE is required when forward prices increase, whereas for purchase transactions, additional security is required from SCE when forward prices decline. [Redacted].

IV.

TRANSACTION PROCESSES

A. Types of Products and Methods of Transacting Forward Sales

For forward energy sales transactions, SCE proposes to use the types of products and transaction processes that it proposed to use in “Module 3-Transaction Processes” of its 2003 STPP for forward energy purchase transactions.¹² The Commission accepted the recommended products and transaction processes without modification in D.02-12-074. SCE proposes that the Commission authorize SCE to utilize these same approved products and transaction processes for forward energy sales transactions.

Additionally, on May 6, 2003, SCE filed Advice Letter (“AL”) 1704-E proposing to add the two energy brokerage firms of Castlebridge and Landmark to SCE’s list of authorized brokerage firms. The Commission approved AL 1704-E in a letter dated June 16, 2003. SCE also requests that the Commission approve these brokerage firms, which it has previously approved for purchases, for forward energy sales transactions.

B. Evaluation Methodologies SCE Will Use to Rank and Select Bids

In D.02-10-062, the Commission directed each utility “to specify and describe the evaluation tools and methodology it will use to rank and select bids” in competitive solicitations.¹³ SCE’s proposal presented in this section, complies with the Commission’s directive in this matter. SCE believes that requiring the utilities to provide, in advance, all of the evaluation tools and methodologies that they will use to rank and select bids from competitive solicitations is overly restrictive and may unintentionally preclude cost-effective transactions. The Commission rejected ORA’s rule-based portfolio management system in D.02-10-062, on the grounds that ratepayers’ interests are better served by providing the utilities more flexibility

¹² 2003 STPP at p. 118.

¹³ D.02-10-062 *mimeo*, p. 31.

in the management of their portfolio. The Commission should similarly allow the utilities to implement revised and/or new evaluation tools and award processes that provide an improved means to select and award contracts pursuant to competitive solicitations. Accordingly, although SCE describes below the evaluation tools and methodologies that it may use to rank and select bids in competitive solicitations, SCE intends to submit to its Procurement Review Group and the Energy Division a description of any enhanced or new tools and processes that it may develop or acquire for use under this 2003 FSPP. [Redacted].

Initially, SCE may “screen” offers based on some or all of the following criteria:
[Redacted].