

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



October 11, 2007

Advice Letter 2145-E-A

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

Subject: Supplement to Advice 2145-E (“Request for an Amendment to
SCE’s AB 57 Procurement Plan – Additional Brokerage and
Exchange”)

Dear Mr. Jazayeri:

Advice Letter 2145-E-A is effective October 9, 2007.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean H. Gallagher".

Sean H. Gallagher, Director
Energy Division

October 2, 2007

ADVICE 2145-E-A
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Supplement to Advice 2145-E (“Request for an Amendment to SCE’s AB 57 Procurement Plan – Additional Brokerage and Exchange”)

PURPOSE

Pursuant to discussions with the Energy Division, this supplemental advice filing withdraws Southern California Edison Company’s (SCE) request in Advice 2145-E, filed on July 30, 2007, to add World Energy Solutions, Inc. (World Energy) as an additional authorized brokerage. This supplemental advice filing continues SCE’s request, without modification, in Advice 2145-E for the California Public Utilities Commission (Commission or CPUC) to approve an amendment to SCE’s Assembly Bill 57 Procurement Plan¹ (AB57 PP) to add the Intercontinental Exchange (ICE), with its associated clearing firms (ICE Clear), as an authorized exchange. This filing replaces Advice 2145-E in its entirety.

BACKGROUND

In the 2004 STPP, SCE stated that it “anticipates using different methods to execute transactions depending on product requirements and prevailing market conditions.

¹ SCE filed its 2004 Short-Term Procurement Plan (referred to at times as the “2004 STPP” or “2004 AB 57 PP”) on May 15, 2003. That submission was approved by the CPUC in Decision No. (D.) 03-12-062, and subsequently modified by D.04-12-048. SCE’s 2004 STPP has been further updated and amended, via advice letters as required by the CPUC in D.04-12-048. Previous updates have revised SCE’s capacity position limits and capacity ratable rates for the years 2005-2014, updated capacity position limits and capacity ratable rates for the years 2005-2008, incorporated revisions to the 2004 STPP as requested by D.04-12-048, and added to SCE’s list of approved brokerages and exchanges. SCE intends to amend its proposed 2007 Long-Term Procurement Plan, which is pending before the Commission in R.06-02-013, and will eventually replace SCE’s current AB57 PP, to include the authority requested in this Advice Letter.

SCE proposes to select appropriate method(s) depending on the transaction contemplated to ensure that transaction prices are competitive. If SCE determines that use of additional transaction methods and/or brokerages/exchanges would be beneficial during the term of the procurement plan SCE will propose such methods via the advice letter process.”²

SCE’s 2004 STPP contained an approved list of electronic and other transparent exchanges, which the Commission approved on December 18, 2003 in D.03-12-062.

JUSTIFICATION

Access to additional brokers and exchanges is important for SCE because it can provide enhanced price discovery and liquidity for the physical and financial products SCE needs to hedge its customers’ energy price exposure. The addition of new brokers and exchanges to SCE’s list of approved brokers and exchanges, will increase SCE’s procurement choices, allowing SCE to choose the lowest-cost hedging option for its customers.

Exchanges and Associated Clearing Firms

In contrast to a brokerage, an exchange is a central marketplace with established rules and regulations where buyers and sellers anonymously meet to trade futures and options contracts or securities through their associated clearing firm(s). The exchange, through its member clearing firms, acts as a principal in (*i.e.*, takes title to) each transaction, providing credit centralization. Like brokers, exchanges aid in market price discovery and increase market liquidity by allowing numerous market participants to share and access pricing information at the same time. Importantly, because all exchange transactions are executed through the market participants’ clearing firm(s), market participants do not know the identify of the other counterparties to the transactions. This additional anonymity is valuable in limiting the information imparted to the market when SCE transacts.

In order to execute an exchange-traded transaction, SCE must have an agreement in place with one or more exchange member clearing firm(s). In addition to taking title to the transactions, clearing firms also execute exchange trades on behalf of customers and handle confirmation, margining, delivery, and settlement of those transactions.

SCE seeks approval to add ICE to the list of its approved exchanges. ICE is currently on SCE’s list of approved brokerages. Recently ICE (through ICE Clear) has added features (centralized credit, margining and settlement) that make it an exchange for certain energy futures products (*e.g.* power financial swaps, NYMEX look-alikes, and gas basis swaps, etc.). In addition, ICE can offer the credit, margining and settlement benefits of a traditional exchange by allowing SCE to match up, through the broker

² 2004 STPP at 115.

markets, with counterparties that also have ICE clearing capabilities, whether or not they are enabled to transact directly with SCE.

ICE operates the leading global, electronic marketplace for trading both futures and OTC energy contracts with hundreds of participants, including, but not limited to, utilities, municipalities, public utility districts, federal power agencies, generators, banks, merchant energy companies, producers, marketers, large commercial and industrial users and hedge funds. Therefore, ICE's pricing is visible³ to a large number of participants—so captureable price differences with other markets (e.g., OTC voice broker markets) are quickly arbitrated away—and are representative of the final transaction cost.⁴

SCE also seeks approval to use three clearing firms to execute exchange traded transactions through ICE: Citigroup, Calyon Financial Services and UBS. These three firms are already on SCE's approved list of clearing firms associated with the NYMEX. SCE will decide which enabled clearing firm to use on a transaction-by-transaction basis, taking into account transaction cost, execution and any other non-transaction specific factors (e.g., current credit exposure to the clearing firm, pending contract disputes, etc.).

REQUEST FOR COMMISSION APPROVAL

New Brokerages and Exchanges

Through this Advice Letter, SCE seeks Commission approval to add one exchange, Intercontinental Exchange, to SCE's current list of Commission-authorized brokerages and exchanges.

In D.03-12-062, the Commission authorized SCE's use of brokerage services provided by Amerex, ICAP Energy LLC, TFS Energy, or Prebon Energy when transacting electricity and natural gas products. On June 20, 2006, the Commission also authorized the use of GFI Brokers LLC and Spectron Energy Inc. for natural gas products. The Commission further spoke to the issue of SCE's approved brokerages in its October 2, 2006 letter approving Advice 2039-E wherein it allowed SCE to add

³ D.02-10-062 at page 32 requires that the exchanges the utility proposes to use provide transparent prices. In its 2004 STPP, SCE noted that the Commission had not defined "transparent prices" and for purposes of its 2004 STPP SCE defined "transparent prices" to mean: those which are both visible (*i.e.*, price is knowable and available to any interested market participant) and representative (*i.e.*, posted price and quantity are determinative of the final transaction cost). (2004 STTP at 121, approved by D.03-12-062.) SCE construes this Rule to require that when SCE proposes to add an exchange to its list of approved exchanges through an advice letter filing or application, it must demonstrate that prices provided by that exchange are both visible and representative. SCE does not construe this Rule as requiring that SCE repeat this showing for exchanges that have previously been approved as part of an earlier procurement plan.

⁴ ICE's fee structure is a fixed monthly per user, per product fee that is offset (reduced) by a per transaction fee.

Calyon Financial Inc. and ABN AMRO⁵ for NYMEX-transacted gas products. On June 11, 2007, SCE submitted an advice letter amendment to its AB57 PP to request, *inter alia*, additions to SCE's approved list of approved brokerages/exchanges. The table below provides the additional exchange and associated clearing firms for which SCE requests Commission approval.

SCE requests that the Commission approve the following addition to the list of brokerages/exchanges authorized under SCE's AB57 PP:

Table: Proposed Brokerages, Exchanges and Products

PLATFORM	PLATFORM SPONSORS	DATE LAUNCHED	PRODUCTS TRADED AND/OR INFORMATION PROVIDED
Exchange(s) and Their Associated* Clearing Firms			
Intercontinental Exchange (ICE)		2000	Electricity: Physical and Financial; Natural Gas: Physical and Financial; Environmental: emission allowances and renewable energy credits
UBS	n.a.	1824	Electricity: Physical and Financial; Natural Gas: Physical and Financial; Environmental: emission allowances and renewable energy credits
Calyon Financial Inc.	n.a.	1987	Electricity: Physical and Financial; Natural Gas: Physical and Financial; Environmental: emission allowances and renewable energy credits

⁵ After SCE received approval to add ABN AMRO Global Energy Futures (ABN AMRO), ABN AMRO's brokerage was purchased by UBS. SCE is in the process of negotiating an agreement for clearing firm services with UBS.

Citigroup	n.a.	1892	Electricity: Physical and Financial; Natural Gas: Physical and Financial; Environmental: emission allowances and renewable energy credits
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* Already approved by Commission.

TIER DESIGNATION

Pursuant to D.07-01-024, Energy Industry Rule 5.2, SCE believes this Advice Letter is subject to Energy Division disposition and should be classified as Tier 2 (effective after Staff approval).

PROTESTS

In accordance with D.07-01-024,⁶ Appendix A, Rule 7.5.1, "The filing of a supplement, or of additional information at the request of the reviewing Industry Division, does not automatically continue or reopen the protest period or delay the effective date of the advice letter."

EFFECTIVE DATE

This advice filing will become effective upon review and approval by the Energy Division.

NOTICE

In accordance with Section 4 of General Order No. 96-B, SCE is serving copies of this advice filing to the interested parties shown on the attached GO 96-B service list and R.04-04-003. Address change requests to the GO 96-B service list should be directed by electronic mail to AdviceTariffManager@sce.com or at (626) 302-2930. 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 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/>.

⁶ Fourth Interim Opinion Adopting Remaining General Rules and Industry Rules for Energy and Water as Revisions to General Order 96-A.

For questions, please contact Dhaval Dagli at (626) 302-4840 or by electronic mail at:
Dhaval.Dagli@sce.com.

Southern California Edison Company

Akbar Jazayeri

AJ:dd:sq
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

E-mail Disposition Notice to: 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) #: 2145-E-A Tier Designation: 2

Subject of AL: Supplement to Advice 2145-E ("Request for an Amendment to SCE's AB 57 Procurement Plan - Additional Brokerage and Exchange")

Keywords (choose from CPUC listing): Procurement

AL filing type: Monthly Quarterly Annual One-Time Other _____

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

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 AL¹: _____

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 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 proposed¹: _____

Pending advice letters that revise the same tariff sheets: _____

¹ Discuss in AL if more space is needed.

All correspondence regarding this AL shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
jinj@cpuc.ca.gov and mas@cpuc.ca.gov

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