

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



January 22, 2009

**Advice Letter 2257-E-A**

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

**Subject: Revised Procurement Plan Compliance Report  
Second Quarter 2008**

Dear Mr. Jazayeri:

Advice Letter 2257-E-A is effective January 20, 2009.

Sincerely,

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

Julie A. Fitch, Director  
Energy Division

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September 5, 2008

**ADVICE 2257-E-A**  
**(U 338-E)**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
ENERGY DIVISION

**SUBJECT:** Revised Procurement Plan Compliance Report:  
Second Quarter 2008

**PURPOSE**

On July 30, 2008, Southern California Edison Company (SCE) submitted Advice 2257-E to demonstrate that SCE's electric and natural gas procurement activities during the period April 1 through June 30, 2008, were in conformance with the guidelines set forth in its Procurement Plan (Plan), approved by the California Public Utilities Commission (Commission) on December 20, 2007 in Decision (D.) 07-12-052.

Based on a review of the material provided in Advice 2257-E, SCE has identified additional information that should have been submitted in support of 38 non-standard, bilateral financial natural gas transactions. Because such transactions were done bilaterally, rather than through a Commission-approved broker or exchange, Advice 2257-E should have included an explanation justifying SCE's decision to use a bilateral process. Moreover, SCE's confidential workpapers should have included a "strong showing" for these transactions. Accordingly, SCE is hereby resubmitting its report and confidential workpapers to include this additional information.

**CONFIDENTIALITY**

The report attached to this advice letter (Attachment A - Revised) has been prepared to contain only public information. In addition, the public portion of the Independent Evaluation Report for SCE's 2008 Long Beach Energy Auction is included as Attachment B.

The extensive workpapers accompanying the report contain confidential protected material subject to the protections adopted in D.06-06-066 and D.08-04-023. The

information included in Advice 2257-E-A for which SCE is seeking confidential treatment, including the length of time for which the information should remain confidential, was previously identified in Advice 2237-E. Pursuant to D.08-04-023, SCE refers back to that initial showing for this submission of the same type of information.

SCE is also seeking confidential treatment, including the length of time for which the information should remain confidential, for the natural gas transactions referenced above, as supported by the declaration provided herein (Attachment C).

Parties wishing to obtain access to confidential information for SCE's second quarter compliance filing may contact Joni Templeton in SCE's Law Department at [Joni.Templeton@sce.com](mailto:Joni.Templeton@sce.com) or (626) 302-6210.

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.

### **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).

### **EFFECTIVE DATE**

This advice letter will become effective on September 5, 2008, subject to the review and approval of the Energy Division.

### **NOTICE**

Anyone wishing to protest this advice letter 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 letter. 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) 673-1116  
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 4 of General Order No. (GO) 96-B, SCE is serving copies of this advice letter to the interested parties on SCE's GO 96-B service list, parties in the Procurement Review Group, and R.01-10-024. Address change requests to the GO 96-B service list should be directed by electronic mail to [AdviceTariffManager@sce.com](mailto:AdviceTariffManager@sce.com) or (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](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 letter 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, please contact Dhaval Dagli at (626) 302-4840 or by electronic mail at [Dhaval.Dagli@sce.com](mailto: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](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) #: 2257-E-A

Tier Designation: 2

Subject of AL: Revised Procurement Plan Compliance Report: Second Quarter 2008

Keywords (choose from CPUC listing): Compliance, Procurement

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other

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

D.02-10-062 and D.03-12-062

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 of advice letter requested? No      Confidential treatment of workpapers requested? Yes

If yes, specification of confidential information: See Attachment B of Advice 2237-E and Attachment C of Advice 2257-E-A.

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:

Joni Templeton, Law Department, at (626) 302-6210 or [Joni.Templeton@sce.com](mailto:Joni.Templeton@sce.com)

Resolution Required?  Yes  No

Requested effective date: 9/5/08      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: \_\_\_\_\_

<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  
PROCUREMENT PLAN COMPLIANCE REPORT  
FOR THE SECOND QUARTER OF 2008**

**Revised September 05, 2008**

## Introduction

Southern California Edison Company (“SCE”) is providing this report on its procurement transactions during the period April 1, 2008 through June 30, 2008 (“Quarter”), to demonstrate that those transactions were in compliance with the orders of the California Public Utilities Commission (“CPUC” or “Commission”), and with SCE’s Commission-approved procurement plan.<sup>1</sup> SCE filed its 2006 Procurement Plan (the “Plan”) on December 11, 2006, and it was approved with certain modifications by D.07-12-052 effective December 20, 2007. In Advice Letter 2133-E, submitted on June 11, 2007, SCE requested approval to include sulfur dioxide (“SO<sub>2</sub>”) emission allowances and related products in the list of authorized products in its Plan. Advice 2133-E was approved on October 18, 2007. On July 24, 2007, SCE filed Advice Letters 2141-E and 2142-E, clarifying the upfront achievable standards for the procurement of Congestion Revenue Rights (“CRRs”), and enabling SCE’s procurement of Long Term CRRs, respectively. The Commission approved Advice 2141-E and 2142-E on October 18, 2007 and December 6, 2007, respectively. SCE filed Advice Letter 2145-E on July 30, 2007, requesting the following: 1) to add the Intercontinental Exchange (“ICE”), with its associated clearing firms (“ICE Clear”) as an authorized exchange; and 2) to add World Energy Solutions, Inc. (“World Energy”) as an additional authorized broker. On October 2, 2007, SCE filed Advice Letter 2145-E-A, which withdrew SCE’s request in Advice Letter 2145-E to add World Energy as an additional authorized brokerage. Advice Letter 2145-E-A, which only requested approval of ICE Clear as an authorized exchange, replaced Advice Letter 2145-E. Advice Letter 2145-E-A was approved by the Commission effective October 9, 2007.

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<sup>1</sup> The Commission initially established the requirement for quarterly filing of procurement transactions in D.02-10-062, Ordering Paragraph 8. This requirement was further clarified in D.03-06-076, D.03-12-062, D.04-07-028, and D.04-12-048.

D.07-12-052 provides that so long as “the procurement complies with a procurement limit methodology developed by [SCE] and approved by the Commission, [SCE] may execute a contract of under five years without preapproval for which deliveries end at any point within the 10-year LTPP procurement cycle. Absent an approved procurement limit methodology, the five-year duration clock begins either at the time the contracted resources begin delivery, if delivery begins within one year of contract execution; or at the time of contract execution if delivery does not begin within one year of contract execution. Calendar days are used for calculating contract duration.”<sup>2</sup>

On April 18, 2008, the Commission issued D.08-04-023 clarifying and modifying D.06-06-066, which sets forth guidelines to distinguish public data from confidential data in procurement-related data submissions to the CPUC and other entities. As a result, SCE’s Quarterly Compliance Report (“QCR”) and Master Data Request documentation is designed to facilitate the separation of public data from confidential data, thereby increasing the amount of information available to all QCR advice letter recipients, while concurrently protecting market sensitive information as provided for in the D.06-06-066 IOU Matrix, as modified by D.08-04-023.<sup>3</sup>

### **Summary**

During the Quarter, SCE executed 8,089 power, natural gas, financial hedging transactions and SO<sub>2</sub> emission allowance transactions in support of the provision of reliable and competitively priced electric service to its bundled customers. All of these transactions were conducted using processes specified in the Plan and none of these transactions were executed

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<sup>2</sup> D.07-12-052 Ordering Paragraph 19.

<sup>3</sup> See D.06-06-066 Appendix 1 for details.

with affiliates.

SCE's transactions during the Quarter were governed by transaction limits and authorizations set forth in Advice Letters 2049-E and 2076-E, which were approved effective December 1, 2006 and January 16, 2007, respectively.<sup>4</sup> SCE's transactions executed during the Quarter were in conformance with these limits and authorizations.

As a result of its transaction activity, SCE was able to successfully mitigate a substantial portion of its forecast residual net-short ("RNS") and residual net-long ("RNL") energy and physical and financial natural gas positions during the Quarter. Details of SCE's transactions and their impact on its forecast RNS and RNL positions are contained in SCE's confidential workpapers.

### **Master Data Request Documentation**

D.02-10-062, Appendix B, as clarified by D.03-06-076, sets forth specific elements to be addressed in this report. Each element is discussed below.

#### **1. Identification of the ultimate decision maker(s) up to the Board level, approving the transactions.**

For all procurement-related transactions executed during the Quarter, the ultimate authority responsible for transaction decisions was either the Vice President of SCE's Energy Supply and Management (ES&M) department or members of SCE's Risk Management Committee ("RMC"). This authority has been delegated by SCE's Board of Directors.

#### **2. The briefing package provided to the ultimate decision maker.**

Many briefings are given to senior management from time to time that are informational

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<sup>4</sup> The updated procurement limits submitted in SCE's Plan were not approved by the Commission in D.07-12-052 and therefore, SCE remained subject to its pre-existing limits during the quarter.

(e.g., weekly activity reports) or are designed to seek policy clarification. Since these briefings do not result in a transaction decision, SCE has distinguished such briefings from “key” briefings (e.g., approval of new multi-year contracts pursuant to an SCE competitive solicitation). Key briefing packages prepared during the Quarter that required senior management approval are included in SCE’s confidential workpapers.

### **3. Description of and justification for the procurement processes used to select the transactions.**

The procurement processes used during the Quarter were, CAISO auction refund activity, the Long Beach Energy Auction, bilateral negotiations and voice and electronic broker-traded transactions. All these processes are permitted under the Plan.

#### **A. Congestion Revenue Rights (CRRs) Refund Activity**

Congestion Revenue Rights entitle the holder to the value associated with the cost to relieve grid congestion between a source (electricity delivered to the grid) and a sink (electricity taken from the grid) under the revised CAISO market. CRRs are an important financial instrument that will allow SCE to hedge the risk of congestion associated with its portfolio of resources. The CAISO allocated and auctioned CRRs on a quarterly and monthly basis in the last quarter of 2007. SCE originally received \$1,238,044 in revenue from the CAISO for the purchase of CRRs for seasons two through four. The delay in the CAISO’s scheduled Market Redesign and Technology Upgrade (“MRTU”) implementation necessitated a refund to CAISO from SCE for the amount of \$1,078,805 for the revenues received from the auction process for the second and third seasons of 2008. This payment was processed in the second quarter of 2008.

#### **B. Long Beach Energy Auction**

R.06-07-029 adopted a new cost allocation methodology associated with Power Purchase Agreements (“PPAs”) for new generation, but required energy auctions. The Long Beach

Generation PPA was selected in the Summer 2007 track of SCE's New Generation Request For Offers ("RFO"). D.07-09-044 approved the settlement of the Energy Auction Process and Products, which required SCE to launch the Long Beach Energy Auction by January 18, 2008 and completed by May 16, 2008. A motion for reconsideration was filed by Constellation Energy Commodities Group, Inc. and Morgan Stanley Capital Group Inc. resulting in a delay of the original auction schedule to June 26, 2008. Submission of final bids and determination of the auction winner took place on June 26, 2008. SCE received three bids for the Back-to-Back Tolling Agreement and zero bids for the Residual Back-to-Back Tolling Agreements with and without call options. SCE selected the best offer – namely, an offer from Long Beach Generation, LLC. Further details on the Long Beach Energy Auction are included in SCE's confidential workpapers.

### C. Bilateral Negotiations

In addition to the transactions discussed above, SCE executed a large number of short-term<sup>5</sup> bilateral transactions during the Quarter to cost-effectively minimize SCE's residual net energy, SO<sub>2</sub>, and physical and financial natural gas positions. SCE also entered into 38 non-standard financial gas option transactions bilaterally, rather than through a brokerage or an exchange.<sup>6</sup> SCE did so in order to lower the cost of such transactions.

These transactions (20 call options and 18 call spreads) specified the Southern California Border (SoCal Border) as the financial settlement point. Standard NYMEX-traded call options and call spreads use Henry Hub (a gas delivery point in Louisiana) as the financial settlement point. However, SCE's financial gas exposure is at the SoCal Border location, not at Henry Hub.

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<sup>5</sup> In SCE's approved Plan, "Short-Term Transactions" are defined as transactions with delivery terms up to, and including, one quarter in duration and up to one quarter forward.

<sup>6</sup> An IOU may use negotiated bilateral contracts to purchase longer term non-standard products provided it includes a statement in its Quarterly Compliance Filing to justify the need for a non-standard product in each case. (D.03-12-062 at 39-40.)

Because call options and call spreads using SoCal Border financial settlement points are not traded on the NYMEX or ICE exchanges, SCE executed “non-standard” SoCal Border call options and call spreads bilaterally to more effectively hedge SCE’s gas price risk. Had SCE executed similar transactions through the NYMEX (using Henry Hub instead of SoCal Border), SCE would have been exposed to the SoCal Border/Henry Hub price difference (“basis risk”), which could potentially lead to higher costs for SCE’s customers.

SCE has historically executed similar transactions through Commission-approved brokers. However, SCE has found that a number of enabled counterparties will not reveal their option pricing to brokers for fear of this information becoming known to competitors. As a result, SCE is able to obtain a greater number of competitive bids, and hence better pricing, by surveying its enabled counterparties directly and then contracting bilaterally with the counterparty offering the best price.<sup>7</sup> The Commission required “strong showing” for these transactions is documented in SCE’s confidential workpapers.

#### D. Voice and Electronic Broker Transactions

As has been SCE’s practice, a significant number of transactions, both physical and financial, were executed during the Quarter via voice and electronic brokers to cost-effectively minimize SCE’s residual net energy, SO<sub>2</sub>, and physical and financial natural gas positions. For products available in actively traded markets, voice and electronic brokers are beneficial for at least two reasons: cost competitiveness is maximized and an efficient procurement process is employed.

During the Quarter, SCE also utilized brokers to transact SO<sub>2</sub> emission allowances. The

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<sup>7</sup> Brokers only arrange transactions between two parties who have “enabled” each other for transactions. Therefore, SCE could not have transacted with a non-enabled party through a broker. Being “enabled” means the counter-parties have written contractual, credit, and collateral terms in place to conduct transactions. Without the requisite “enabling” agreements in place, transactions cannot be conducted.

details of these SO<sub>2</sub> transactions are included in SCE's confidential workpapers.

#### **4. Explanation/justification for the timing of the transactions.**

Throughout the Quarter, SCE attempted to enter into electric and natural gas (both physical and financial) transactions needed to match forecast economic supply and demand ahead of the deadline for submitting final hour-ahead schedules to the CAISO, while concurrently complying with the Commission's resource adequacy requirements. This objective was achieved by gradually reducing the forecast open (i.e., short or long) energy positions through the use of long-term, multi-month, month-ahead, multi-day, day-ahead, and hour-ahead transactions, employing both standard and non-standard products. When selecting electric transactions to match forecast supply and demand, the best-priced bids/offers were selected first (merit-order selection) among those available for the required products at the time of the transaction, subject to credit and other limitations and operational constraints. Such operational constraints include the local area reliability requirements of the CAISO, as set forth in D. 04-07-028.

The timing of physical gas transactions was largely driven by the requirement to ensure that the delivery of fuel to the gas-fired electric facilities managed by SCE matched such facilities' forecast burn.

Regarding its SO<sub>2</sub> allowance transactions, SCE established maximum sales rate limits designed to address market liquidity and prevent SCE from selling a substantial portion of the SO<sub>2</sub> allowances at one time and potentially impacting the market negatively. SCE complied with these maximum sales rate limits throughout the Quarter.

Generally, SCE follows a ratable strategy that factors in market liquidity. For potential SO<sub>2</sub> allowance transactions, a mid-term strategy looking out several quarters was established and

reviewed with SCE's Risk Management Committee and SCE's Procurement Review Group. Monthly sales targets were established in this mid-term strategy and then adjusted when market conditions justified doing so. The adjustments were discussed at weekly hedging meetings with Senior Management. Because legal uncertainty in the SO<sub>2</sub> markets during the Quarter contributed to relative low liquidity, SCE adjusted its near-term sales targets downward. This uncertainty was driven by an appeal of the Environmental Protection Agency's Clean Air Interstate Rule ("CAIR"), which would have significantly increased the number of allowances to be surrendered for each ton of SO<sub>2</sub> emissions. Without knowing the future SO<sub>2</sub> allowance demand/supply regime, market participants were cautious in their trading of SO<sub>2</sub> allowances.

**5. Discussion of the system load requirements/conditions underlying the need for the Quarter's transactions.**

SCE estimates that the energy demand for its bundled customers (not weather adjusted) during the Quarter was higher than the same period in 2007. This estimate is based on CAISO settlement data for April and most of May 2008 and an estimate of SCE bundled customer energy for the last six days of May and June 2008.

With continued return to SCE service of Direct Access customers and significantly warmer temperatures compared to the same period last year, there was a 1.9% increase in bundled customer energy in comparison with the second quarter of 2007. The economy—measured by total wage and salary employment—showed a 0.6% decrease over the same period in 2007. Cooling degree-days were significantly above normal for the period.

During the Quarter, hydro generation from SCE's Big Creek facility was significantly lower than the 25-year first quarter average due to continuing below normal precipitation. Additionally, outages at Mammoth Pool and Big Creek 2A powerhouses further reduced

generation.

Generation at SCE's Eastern Hydro facilities was also significantly below the 25-year second Quarter average, as a result of below normal precipitation in the Eastern Sierras as well as outages at Kern River 1 & 3 (the two largest Eastern Hydro powerhouses).

Production from SCE's coal resources was significantly below normal during the Quarter due to a combination of a planned major boiler overhaul and forced outages.

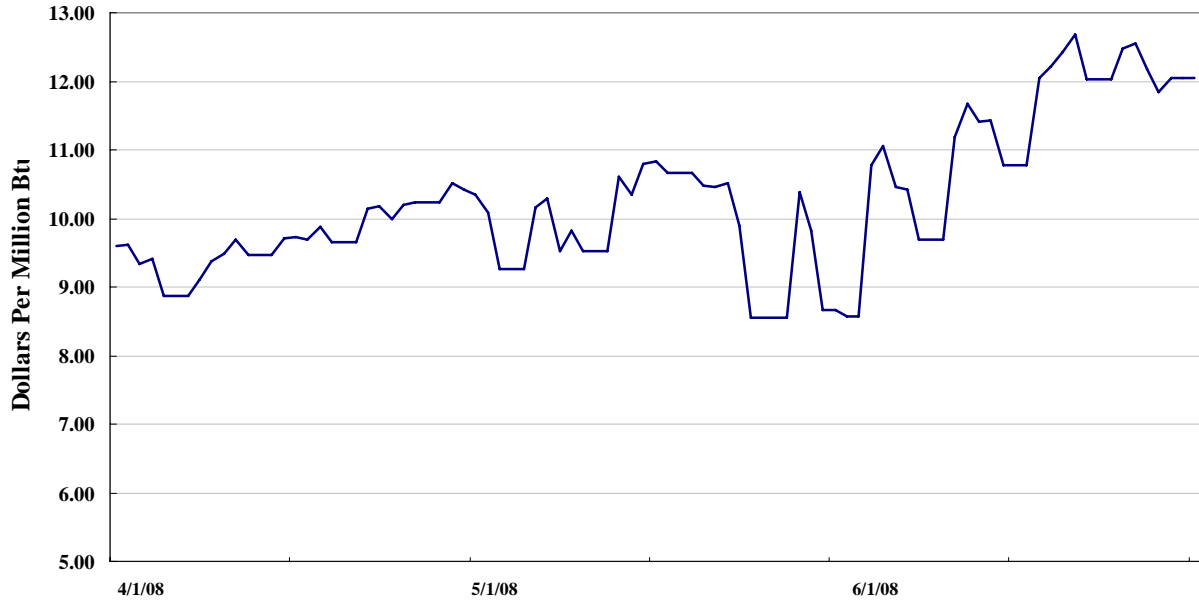
Production from SCE's nuclear resources during the Quarter was below normal, primarily as a result of a planned mid-cycle fuel conservation outage at San Onofre and a planned refueling outage at Palo Verde.

As illustrated in Chart 1 below, daily index gas prices at the southern California border ranged from \$8.56/MMBtu to \$12.68/MMBtu<sup>8</sup> during the Quarter.

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<sup>8</sup> Based on data published by *Platts Gas Daily*.

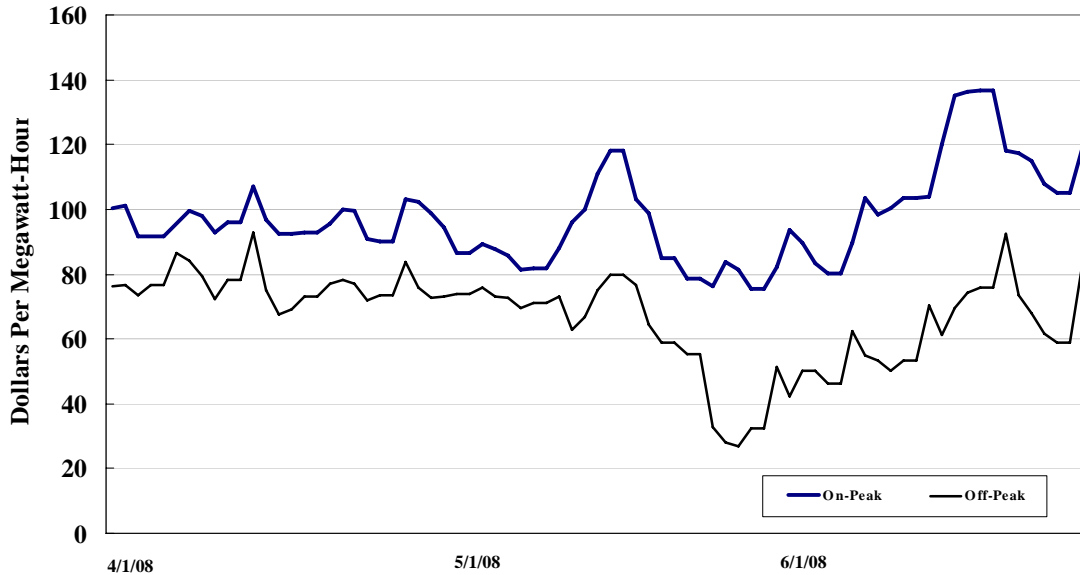
**Chart 1**  
**Daily Southern California Border Gas Prices**  
**Published For Second Quarter 2008**



Southern California electricity prices for day-ahead deliveries at SP-15 of standard firm energy products ranged from approximately \$27/MWh to \$93/MWh for the off-peak product and from approximately \$75/MWh to \$137/MWh for the on-peak product (*see* Chart 2 below).<sup>9</sup>

<sup>9</sup> Data Source: *Dow Jones*

**Chart 2**  
**SP-15 Day-Ahead Electricity Price Indices**  
**Published During the Second Quarter 2008**



**6. Discussion of how the quarter’s transactions met the goals of the risk management strategy reflected in the Plan**

During the Quarter, SCE entered into various financial transactions designed to: (1) hedge the gas price risk associated with SCE’s existing QF contracts that have payments tied to the price of natural gas; and (2) hedge the gas price risk associated with SCE’s non-QF gas contracts. The financial products employed by SCE to manage risk were all permitted under, and consistent with the goals of, SCE’s Plan. SCE used electronic brokers, voice brokers, and quotes directly from counterparties to ensure these financial transactions were competitively priced. Details of SCE’s financial transactions are included in SCE’s confidential workpapers.

**7. Copy of each contract.**

Contracts executed by SCE during the Quarter are included in SCE’s confidential

workpapers.

**8. The break-even spot price equivalent to the contract(s).**

Because the Commission has not defined the term “break-even spot price” and has not provided a methodology to calculate its value for different types of transactions, this information is not included in this report.

**9. An electronic copy of any data or forecasts used to analyze the transactions.**

Because transaction personnel are continuously monitoring a wide range of market information on a 24-hour-per-day, 7-day-per-week basis, it is not feasible to provide all the data and forecasts used to analyze all potential and executed transactions. However, SCE has provided in its confidential workpapers the key data it commonly utilized in planning and executing most of its transactions.

**10. Provide a reasonable number of analyses requested by the Commission or the Procurement Review Group and provide the resulting outputs.**

SCE prepared various analyses for briefings to its PRG during conference calls conducted on April 18, April 23, April 30, May 14, May 28, June 10, June 11, and June 24, as well as in its meeting on June 16, to keep the PRG informed on relevant procurement matters. Key topics discussed with SCE’s PRG during the Quarter included: SCE’s Long Beach Energy Auction process; Southern California Gas’ Firm Access Rights (FAR) bidding process and strategy; SCE’s risk management and hedging methodology; MRTU updates; SCE’s upcoming All-Source RFO, and a review of SCE’s first quarter 2008 procurement activities. Other than the analyses performed to provide the data and information in the presentations discussed above, no additional analyses pertinent to SCE’s procurement activities under its Plan were requested by the Commission or PRG during the Quarter.

**11. Any other information sought by the Commission under the Public Utilities Code.**

## A. Retained Generation Investments

In accordance with D.07-01-039, Ordering Paragraph 12, investments made in retained generation during the Quarter are provided in the table below.

**Table 2**  
**SCE Retained Generation Investments**  
**During the Second Quarter 2008**

	<b>Investment:</b> <b>Million \$</b>
<b><u>Non-GHG Emitting Facilities</u></b>	
Northern Hydro	3.8
Eastern Hydro	5.8
San Onofre Units 2 & 3	
Plant Health Sub-Committee	17.1
Marine Mitigation	3.7
Steam Generator Replacement	6.2
Palo Verde Units 1, 2 & 3	6.2
<b><u>GHG Emitting Facilities</u></b>	
Mountainview Units 3 & 4 <sup>10</sup>	2.5
Mohave Units 1 & 2 <sup>11</sup>	0.2
Four Corners Units 4 & 5 <sup>12</sup>	15.5
Combustion Turbine Peakers	2.5

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<sup>10</sup> Mountainview is a combined cycle gas turbine (“CCGT”) in operation since January 2006 that is “grandfathered” by Senate Bill 1368.

<sup>11</sup> SCE is presently attempting to dispose of its ownership share of Mohave.

<sup>12</sup> None of the investments are designed or intended to: (1) extend the life of one or more units by five years or more; (2) result in a net increase in the rated capacity of the powerplant; or (3) convert a non-baseload plant to a baseload plant.

## B. Multiple Same-Source Contracts

For purposes of determining compliance with the Commission's Emissions Portfolio Standard, Decision D.07-01-039 requires the utilities to report any multiple, or "linked"<sup>13</sup> contracts if the combined terms of the contracts are five years or longer in duration, and executed with the same supplier, resource or facility. SCE did not execute any such "linked" contracts during the Quarter.

### **SCE's QCR Workpapers**

SCE has submitted a compact disc (CD) with this advice letter that contains confidential information as defined by D.06-06-066. Pursuant to that decision and D.08-04-023, confidential data in the CD has been identified in accordance with the IOU matrix in Attachment B to Advice Letter 2237-E, and in Attachment C to this Advice Letter. Since the vast majority of SCE's QCR workpapers are confidential in nature and because of the extensive amount of time that would be required for SCE to undertake a line-by-line redaction of such confidential data, SCE has identified confidential data broadly to avoid a prolonged delay in providing its workpapers to the Commission. This treatment of SCE's QCR workpapers will enable SCE to comply with the spirit of D.02-10-062, D.06-06-066 and D.08-04-023, while maintaining timely communication of QCR data to the Commission.

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<sup>13</sup> "Linked" contracts are defined in D.07-01-039, Section 5.5.2 and O.P. 10.

**Attachment B**  
**Public IE Report**

Sedway Consulting, Inc.

INDEPENDENT EVALUATION REPORT  
FOR SOUTHERN CALIFORNIA EDISON'S  
2008 LONG BEACH ENERGY AUCTION

*Submitted by:*

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July 29, 2008

## **Introduction and Background**

On January 18, 2008, Southern California Edison (SCE) issued its draft Long Beach Generating Facility Energy Auction (Energy Auction) Request for Offers (RFO) for energy off-takers to acquire control over the scheduling and dispatch rights to the energy supplies associated with SCE's Long Beach Generation power purchase agreement (PPA). SCE executed that PPA with Long Beach Generation LLC (a subsidiary of NRG Energy, Inc.) on November 10, 2006, securing all capacity and energy supplies from a 260 MW repowered peaking facility in Long Beach, California. The resource was selected and PPA negotiated as part of SCE's 2006 New Generation solicitation for approximately 1,500 MW of new power supplies. Per California Public Utilities Commission (CPUC) Decision ("D").06-07-029, SCE was required to auction off the energy and dispatch rights of any PPA secured through its new generation solicitations so as to determine a residual net capacity cost that would be allocated and recovered from all benefiting customers.

SCE's Energy Auction was the first such D.06-07-029 energy auction to be conducted in California, and it was conducted in compliance with a joint settlement agreement that was negotiated among SCE and numerous interested market participants and approved by the CPUC's D.07-09-044. That settlement agreement and CPUC decision required SCE to retain an independent evaluator to oversee the Energy Auction. In late 2007, SCE retained Sedway Consulting, Inc. (Sedway Consulting) to monitor SCE's administration, evaluation, and selection process in the Energy Auction. Sedway Consulting was retained to provide SCE's Procurement Review Group (PRG) participants with information and assessments to ensure that the solicitation was conducted fairly and that SCE's evaluation procedures were appropriately developed and administered. This Independent Evaluation Report provides an overview of the tasks undertaken by Sedway Consulting with regard to the Energy Auction, the conclusions reached in the firm's independent evaluation, and a confidential appendix of results.

## **Overview of Independent Evaluator Tasks and Findings**

Sedway Consulting participated in meetings and conference calls to discuss the development of SCE's Energy Auction RFO transmittal letter and associated documents. Sedway Consulting participated in three stakeholder meetings<sup>1</sup> that SCE conducted on March 12, 2008, March 19, 2008, and March 26, 2008, and believes that SCE undertook adequate outreach and publicizing efforts of the launch of its Energy Auction RFO.

Throughout the RFO process, Sedway Consulting was provided access to all necessary materials and meetings and was able to parallel SCE's evaluation process with its own evaluation of offers, as documented in this Independent Evaluation Report. Sedway Consulting reviewed SCE's evaluation and modeling methodologies and results and

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<sup>1</sup> A fourth stakeholder meeting/conference call occurred on April 2, 2008 which Sedway Consulting was not able to join.

participated in all SCE Risk Management Committee (RMC) and PRG meetings where Energy Auction administration, evaluation, and selection procedures or results were discussed. Sedway Consulting concluded that:

- SCE's bid evaluation methodology and selection processes were designed fairly,
- SCE conducted a fair and effective evaluation of the offers that it received in response to its Energy Auction, and
- SCE made the appropriate selection decision.

All qualified offers were evaluated consistently, appropriately, and without bias. Sedway Consulting monitored the back-and-forth email traffic between SCE and interested counterparties and believes that SCE treated all counterparties consistently and fairly. Ultimately, three offers for Back-to-Back Tolling Agreements were received; SCE selected the best offer – namely, an offer from Long Beach Generation, LLC.

Sedway Consulting concluded that SCE made the appropriate and unbiased selection decision in executing the Long Beach Generation Back-to-Back Tolling Agreement.

## **Administration of Energy Auction**

Following the issuance of its January 18, 2008 Energy Auction draft RFO transmittal letter and associated materials, SCE held four public stakeholder meetings (on March 12, 2008, March 19, 2008, March 26, 2008, and April 2, 2008) to solicit input about how the auction materials could be improved prior to their formal issuance on April 4, 2008. At the first stakeholder meeting, SCE announced that it would be submitting its own offer into the Energy Auction – a proposition that was addressed and provided for in the settlement agreement. Upon learning of that decision, Sedway Consulting encouraged SCE to develop protocols that would codify procedures to separate and protect information associated with the administration/evaluation of outside offers and the development of SCE's own offer. SCE noted that the settlement agreement did not require the utility to have such protocols in place and that instituting a separation of functions within its Energy Supply and Management (ES&M) group would require significant efforts. Nonetheless, it agreed with Sedway Consulting's suggestion. Sedway Consulting provided input and oversaw the development of these separation protocols, which are attached as Confidential Appendix A.

In the stakeholder meetings, SCE was able to provide an overview of the terms and conditions of the three categories of products on which interested parties could bid: the Back-to-Back Toll, the Residual Back-to-Back Toll, and the Call Option – the last two of which had to be combined in the evaluation process to represent a complete package. Much discussion occurred around the Residual Back-to-Back Toll and Call Option products, particularly in the area of the Long Beach facility's maximum operating hours and annual number of starts that were allowed under the generating plant's air permit. Given that the Residual Back-to-Back Toll and each of up to four Call Options may be

held by different counterparties, each of whom may choose to schedule the plant's generation in ways that would affect the other counterparties, it was important to clarify which party or parties would have primary rights to those operating hours and starts. Ultimately, SCE agreed to expand the number of Energy Auction products from three to five, bifurcating both the Residual Back-to-Back Toll and Call Option into products that either included or excluded specific guarantees for the Call Option holder to be able to schedule a minimum number of operating hours. Thus, as a result of the stakeholder process, there were ultimately five products that parties could bid on:

- Back-to-Back Toll,
- Residual Back-to-Back Toll (with guarantee),
- Residual Back-to-Back Toll (without guarantee),
- Call Option (with guarantee), and
- Call Option (without guarantee).

Some confidential issues arose in the stakeholder meetings that were not resolved in those meetings. Ultimately, Constellation Energy Commodities Group, Inc. (Constellation) and Morgan Stanley Capital Group, Inc. (Morgan Stanley) each filed motions before the CPUC to force SCE to restructure the Energy Auction products or revise Energy Auction procedures. SCE attempted to address some of the risks that were of concern to Constellation by structuring the time-frame for the Energy Auction's products to a three-year period (whereas a five-year period had also been under consideration in the draft RFO documents). However, Constellation did not find that sufficiently addressed its concerns. Thus, a CPUC hearing was scheduled to consider the merits of Constellation's motion; this led to a suspension of the Energy Auction. After a confidential hearing on May 16, 2008 (which Sedway Consulting attended), the CPUC denied Constellation's motion, issuing a ruling on May 27, 2008. Morgan Stanley withdrew its motion in early June.

On June 6, 2008, SCE resumed the Energy Auction. However, the original schedule (of bid submission on May 13, 2008 and contract commencement on July 1, 2008) had to be revised. Bidders were notified that the new bid submission deadline would be June 26, 2008 and contract commencement would be August 1, 2008.

## **Receipt and Evaluation of Offers**

On June 26, 2008, SCE received three offers for Back-to-Back Tolling Agreements. No offers were received for Residual Back-to-Back Tolling Agreements or associated Call Options (with or without operating guarantees). Given the complexity of the Residual Back-to-Back Toll and Call Option products and the difficulty of pairing up mutually-acceptable counterparties to make a complete auction package, it is understandable that no parties bid on those products. Indeed, Sedway Consulting questions the value of these products in the context of future Energy Auctions. An inordinate amount of time, effort, and attention was spent in this Energy Auction on these complex products for which no

parties ultimately bid. In future Energy Auctions, SCE, the CPUC, and other parties to the settlement agreement may want to consider eliminating these products. A less complex auction might minimize confusion and attract more bidders.

SCE's and Sedway Consulting's parallel evaluation processes for the Back-to-Back Tolling offers involved a simple ranking of the offer prices and a selection of the highest bid. This process maximized the value of the dispatch rights being offering in the Energy Auction, thereby minimizing the residual net capacity cost of the Long Beach Generation PPA that will be borne by all benefiting customers. Thus, the methodology was consistent with the CPUC's Least Cost Best Fit (LCBF) principle.

The results of Sedway Consulting's evaluation are depicted in Confidential Appendix B to this report.

## **Conclusion**

Sedway Consulting believes that SCE conducted a fair and effective administration of its Energy Auction and evaluation of offers received in response to its January 18, 2008 Energy Auction RFO. All qualified offers were evaluated consistently, appropriately, and without bias.

Sedway Consulting was provided access to all necessary materials and meetings and was able to parallel SCE's process with its own evaluation of the offers. Sedway Consulting's evaluation results supported the selection of the awarded contract.

Sedway Consulting reviewed SCE's evaluation and modeling methodologies and results and did not find any bias for or against any offers in SCE's evaluation processes or selection decisions.

Sedway Consulting monitored the back-and-forth email traffic with interested counterparties and believes that SCE conducted the Energy Auction diligently and treated all counterparties consistently and fairly. Sedway Consulting concludes that SCE made the appropriate selection decision in executing the Long Beach Generation Back-to-Back Tolling Agreement. Sedway Consulting affirms that SCE's own offer was not afforded any preferential treatment in the evaluation or selection processes of its Energy Auction.

**Attachment C**  
**Confidentiality Declaration**

**DECLARATION OF JOANNE TRAN REGARDING THE CONFIDENTIALITY  
OF CERTAIN DATA**

I, JOANNE TRAN, declare and state:

1. I am a Financial Gas Trader in Energy Supply and Management at Southern California Edison (SCE). As such, I had responsibility for preparing the attachment "Q2 2008-QCR Bilateral Location Options. PDF".

2. I make this declaration in accordance with the Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066, issued on August 22, 2006 in Rulemaking 05-06-040. I have personal knowledge of the facts and representations herein and, if called upon to testify, could and would do so, except for those facts expressly stated to be based upon information and belief, and as to those matters, I believe them to be true.

3. I have reviewed the attachment and listed below are the data in the attachment for which SCE is seeking confidential protection and the categories on the Matrix of Allowed Confidential Treatment Investor Owned Utility (IOU) Data (Matrix) to which the data correspond.

<b>Location of Data</b>	<b>Column(s)</b>	<b>Matrix Category</b>	<b>Matrix Treatment</b>	<b>Reason why data cannot be aggregated, etc.</b>
Q2 2008-QCR Bilateral Location Options. PDF	Date, Price, Volume, Option Premium, Strike, Comments including exchange name and price spread, Portfolio, Strategy, Trader	I.B.2 Utility recorded gas procurement and cost information.	Confidential for one year.	Detailed data are required to be fully responsive to the data request question.

4. I am informed and believe that SCE is complying with the limitations on confidentiality specified in the Matrix Category that pertains to the data listed in the table above.

5. I am informed and believe that the data contained in the Attachment cannot be aggregated, summarized, masked or otherwise protected in a manner that would allow partial disclosure of the data while still remaining fully responsive to the request for detailed transaction information by CPUC.

6. I am informed and believe and thereon allege that the data listed in the table in paragraph 3 above has never been made publicly available.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on August 25, 2008 at Rosemead, California.

  
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JOANNE TRAN