

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



July 29, 2009

Advice Letter 2318-E

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

Subject: Fourth Quarter 2008 Procurement Plan Compliance Report

Dear Mr. Jazayeri:

Advice Letter 2318-E is effective July 22, 2009.

Sincerely,

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

Julie A. Fitch, Director
Energy Division

ADVICE LETTER (AL) SUSPENSION NOTICE
ENERGY DIVISION

Utility Name: Southern California Edison
Utility No./Type: U 338-E
Advice Letter No. 2318-E
Date AL filed: 2/6/09
Utility Contact Person: James Yee
Utility Phone No. (626)302-2509

Date Utility Notified: 3/30/09
 E-Mail to: AdviceTariffManager@sce.com
 Fax No.:
ED Staff Analyst/Supv: Melissa Semcer/Robert Strauss

For Internal Purposes Only:

Date Calendar Clerk Notified ____/____/____
Date Commissioners/Advisors Notified ____/____/____

INITIAL SUSPENSION (up to 120 DAYS)

This is to notify that the above-indicated AL is suspended for up to 120 days beginning March 30, 2009 for the following reason(s) below. If the AL requires a Commission resolution and the Commission's deliberation on the resolution prepared by Energy Division extends beyond the expiration of the initial suspension period, the advice letter will be automatically suspended for up to 180 days beyond the initial suspension period.

Section 455 Hearing is Required. A Commission order may be required to address the advice letter.

Advice Letter Requests A Commission Order

Advice Letter Requires Staff Review

Expected duration of initial suspension period: 120 days

FURTHER SUSPENSION (up to 180 DAYS beyond initial suspension period)

The AL requires a Commission resolution and the Commission's deliberation on the resolution prepared by Energy Division has extended beyond the expiration of the initial suspension period. The advice letter is suspended for up to 180 days beyond the initial suspension period.

If you have any questions regarding this matter, please contact Melissa Semcer at (415) 703-1925 or via e-mail at UNC@cpuc.ca.gov:

cc: Julie Fitch/ Judith Ikle
Robert Strauss
Maria Salinas
Honesto Gatchalian

PUBLIC VERSION

February 6, 2009

ADVICE 2318-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Procurement Plan Compliance Report: Fourth Quarter 2008

PURPOSE

In compliance with Ordering Paragraph 8 of Decision (D.) 02-10-062, and Ordering Paragraph 19 of D.03-12-062, Southern California Edison Company (SCE) hereby submits for filing its quarterly report, report attachments and report workpapers, demonstrating that SCE's electric and natural gas procurement activities during the period October 1 through December 31, 2008, were in conformance with the guidelines set forth in its Procurement Plan (Plan), approved by the California Public Utilities Commission (Commission) on July 31, 2008 in Resolution E-4185.

BACKGROUND

D.02-10-062 and D.03-12-062 were issued in Order Instituting Rulemaking (R.) 01-10-024 to Establish Policies and Cost Recovery Mechanisms for Generation Procurement and Renewable Resource Development. Among other things, D.03-12-062 approved SCE's first Procurement Plan, establishing upfront standards and practices under which SCE must conduct its procurement activities.

The Plan governing SCE's procurement during the fourth quarter 2008 was initially approved by the Commission on December 20, 2007 in D.07-12-052, which required SCE to make certain modifications to its Plan. Accordingly, on May 30, 2008 SCE submitted a conforming Plan in Advice 2246-E, which was approved on July 31, 2008 in Resolution E-4185.

Ordering Paragraph 19 of D.03-12-062 requires SCE to file each quarter's procurement transactions that conform to its Plan by Advice Letter within 30 days of the end of the quarter.¹

CONFIDENTIALITY

The report attached to this advice letter (Attachment 1) has been prepared to contain only public information. Such public information includes two Independent Evaluator reports pertaining to SCE's Gas Request For Offers (RFO) and SCE's All Source RFO (Attachments 2 and 3, respectively). This advice letter also includes additional attachments and supporting workpapers that contain confidential protected material subject to the protections adopted in D.06-06-066 and D.08-04-023.

The workpaper portion of the information 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 subsequent filing of the same kind of information. Report attachments that are being included for the first time require a separate confidentiality declaration (Attachment 4).

Parties wishing to obtain access to confidential information for SCE's fourth quarter compliance filing may contact Deana Ng in SCE's Law Department at Deana.Ng@sce.com or (626) 302-1936.

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 February 6, 2009, subject to the review and approval of the Energy Division.

¹ On January 28, 2009, SCE requested an extension to February 6, 2009, to file this advice letter. SCE's request was granted by the Commission's Executive Director in a letter dated January 29, 2009.

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 and 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

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

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 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.

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.

Southern California Edison Company

Akbar Jazayeri

AJ:dd: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

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) #: 2318-E Tier Designation: 2

Subject of AL: Procurement Plan Compliance Report: Fourth 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 AL¹: _____

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.

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:

Deana Ng, Law Department, at (626) 302-1936 or Deana.Ng@sce.com

Resolution Required? Yes No

Requested effective date: 02/06/09 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.

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 and 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

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

Attachment 1

**SOUTHERN CALIFORNIA EDISON COMPANY
PROCUREMENT PLAN COMPLIANCE REPORT
FOR THE FOURTH QUARTER OF 2009**

February 6, 2009

PUBLIC VERSION

Instructions

This document serves as the reformatted master data request for the quarterly compliance filings (QCRs) as directed by D.07-12-052. Quarterly compliance filings were first mandated in D.02-12-062, Appendix B, and were further clarified in D.03-06-076. This reformatted QCR master data request shall be the guiding document for all information to be reported in the quarterly filings, and all future QCR filings shall be submitted according to this new format. The QCR master data request is subject to revisions and updates based upon findings of subsequent Commission decisions and/or as deemed necessary by Energy Division staff.

IOUs are required to adhere to the following filing instructions:

- 1) All QCR reporting and data shall be submitted via CD through the quarterly advice letter process. Paper copies of the QCRs, including workpapers and the narrative, are no longer required.
- 2) All data shall be submitted in active Excel spreadsheets with all formulas explicitly reported/traceable, as applicable.
- 3) The QCRs shall be audited on a quarterly basis to determine compliance with AB 57 procurement rules. As part of the audit process, auditors may request any additional information deemed necessary to complete the review.
- 4) Responses to all data requests shall be submitted to the requesting division (e.g. Division of Water and Audits or Energy Division) within 10 business days of the initial request, unless staff grants a written extension.
- 5) Energy Division shall sign-off on the QCR advice letter filings at the conclusion of the audit process. Any findings of the quarterly audits shall be handled on a case by case basis, and approval of the QCRs is contingent upon satisfactory resolution of such findings.

List of Public Attachments

Gas RFO Independent Evaluator Report

All Source RFO Independent Evaluator Report

Declaration Regarding Confidential Attachments

Introduction

Southern California Edison Company (“SCE”) is providing this report on its procurement transactions during the period October 1, 2008 through December 31, 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 AB-57 Procurement Plan (the “Plan”).¹ SCE filed its 2006 Long Term Procurement Plan (“LTPP”) on December 11, 2006, and it was approved with certain modifications by D.07-12-052 effective December 20, 2007. On May 30, 2008 in Advice Letter 2246-E, SCE submitted its conformed Plan, which the Commission approved on July 31, 2008 in Resolution E-4185.

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.”²

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

¹ 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.

² D.07-12-052 Ordering Paragraph 19.

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.08-04-023.³

Summary

During the Quarter SCE executed 6,658 power, natural gas, and financial hedging transactions in support of the provision of reliable and competitively priced electric service to its bundled customers. All transactions during the Quarter were conducted using processes specified in the Plan and none of these transactions were executed with affiliates.

SCE's transactions during the Quarter were governed by transaction limits and authorizations set forth in Advice 2246-E.⁴ 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 physical and financial residual net-short ("RNS") and residual net-long ("RNL") energy and 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.

All non-investment grade counterparties that SCE transacted with during the Quarter are shown in Confidential Attachment B. Consistent with SCE's established credit policy, SCE only transacted with such counterparties when appropriate financial risk protection was secured. Also listed in Confidential Attachment B are the top ten counterparties SCE transacted with (by dollar value) during the Quarter.

Confidential Attachments C and D are summaries of the electric and gas transactions executed during the Quarter. The quantities shown in these attachments are based on the

³ See D.06-06-066 Appendix 1 for details.

⁴ 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.

delivery period specified in the transactions. Therefore, volumes received during the Quarter pursuant to transactions executed in prior quarters are excluded. Also excluded are transactions in the California Independent System Operator (“CAISO”) real-time and ancillary services markets, since these transactions are, for the most part, made by the CAISO on behalf of SCE and are made without regard to the Plan.

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.

The "decision-maker" for a particular contemplated transaction depends on many factors, including term, volume, notional value, etc. For many of the transactions during the Quarter, the "decision-maker" was a gas or power transaction employee executing transactions (e.g., day-ahead or hour-ahead power purchases and sales) per an established plan or to achieve a particular objective (such as balancing the portfolio supply and demand). For such transactions, briefing packages are not prepared. Briefing packages prepared during the Quarter for large or unusual transactions that required senior management approval are listed in Confidential Attachment F. These briefing packages are included in SCE's confidential workpapers.

If SCE gave key presentations to its Procurement Review Group ("PRG") during the Quarter that were not also given to the RMC, these PRG presentations are included in Confidential Attachment F. To the extent that identical briefing packages have been presented to both the RMC and PRG, such presentations are marked to reflect this fact.

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

Description of Procurement Processes

The procurement processes used during the Quarter were, CAISO Congestion Revenue Rights (“CRR”) allocation and auction activity, All Source electricity Request For Offers (“RFO”), a Financial Gas RFO, firm access rights implementation, bilateral negotiations and voice and electronic broker-traded transactions. All these processes are permitted under the Plan.

Justification for Procurement Processes

A. Congestion Revenue Rights Allocation and Auction 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 allocates and auctions CRRs on a quarterly and monthly basis. A portion of seasonal CRRs can be converted to Long-Term CRRs with a term of 10 years.

In the Quarter, the CAISO initiated the Tier 2, Tier Long-Term (“LT”), and Tier 3 allocation processes for seasonal CRRs for the 2009 calendar year. In addition, the CAISO also conducted the seasonal CRR auction for 2009.⁵ Pursuant to CPUC Resolution E-4134, SCE utilized an evaluation and selection process that adheres to the Commission-approved up-front standards for the procurement of CRRs. Key to this evaluation and selection process is the Commission’s requirement that CRRs be used as a tool to hedge congestion risk and not to

⁵ The Tier 1 Allocation process was conducted in the third quarter of 2008 and has previously been reported in SCE’s third quarter Procurement Plan Compliance Report.

speculate. The Commission approved “only the acquisition of CRRs that closely resemble the load serving entity’s (“LSE’s”) expected grid usage both in the choice of source/sink combinations and in the duration of the CRR with respect to the length of the LSE’s energy supply contracts.”⁶ SCE’s review and evaluation process accounts for these requirements and ensures that all nominations are consistent with SCE’s expected use of the grid.

Resolution E-4134 also requires that SCE utilize methods to value CRRs and quantify the risk of the CRR.⁷ SCE performed an internal evaluation and utilized a consultant to value the CRRs and quantify the risk of the instrument. These data points were then utilized in SCE’s selection process.

Finally, Resolution E-4134 requires that SCE review its nominations with the Energy Division and PRG as well as report any CRR acquisitions in the QCR.⁸ In compliance with Resolution E-4134, SCE has included in its confidential workpapers the Tier 2, Tier LT, Tier 3 and auctioned CRRs which were awarded to SCE by the CAISO for 2009.

During the Quarter, the CAISO published CRR Tier 1, Tier LT, Tier 3 allocation results as well as the auction results.

In addition to the allocation process conducted during the Quarter, the CAISO also conducted the CRR auction process for 2009 seasonal CRRs. SCE participated in this auction pursuant to the authority granted in its LTPP. In particular, this authority states that any CRRs awarded through an auction are *per se* reasonable, provided the nominations of such CRRs meet the upfront achievable standards established as previously discussed in this section.⁹

Table 1 below summarizes the CRRs allocated to SCE and purchased at auction during the Quarter.

⁶ Resolution E-4134 at 7.

⁷ *Id* at 13 - 15

⁸ *Id* at 11

⁹ *Id* at 15 - 16

Table 1

**SCE Congestion Revenue Rights
Obtained During the Fourth Quarter 2008**

<u>Effective Period</u>	<u>Off-Peak: MW</u>	<u>On-Peak: MW</u>
1/1/09 – 3/31/09	4,556.771	5,064.515
4/1/09 – 6/30/09	1,606.374	1,695.117
7/1/09 – 9/30/09	1,363.380	1,706.801
10/1/09 – 12/31/09	1,318.418	1,051.613

B. 2008 All Source RFO

On July 17, 2008, SCE issued an all source RFO seeking to obtain competitively priced products to fill forecast electric capacity short positions through 2014. In accordance with SCE's Plan, the solicitation and documentation was posted on SCE's public website, and the announcement of the RFO was distributed electronically to major market participants, members of SCE's Procurement Review Group and SCE's entire advice letter service list.

Indicative offers were received on August 12, 2008. Offers analyzed included dispatchable unit contingent tolls, non-dispatchable QF tolls, purchase and sale of Resource Adequacy ("RA") capacity, daily physical call options, and daily financial call options. The logistical effort for evaluating and negotiating each offer involved the cooperation of several internal departments and review groups. This process included daily assessment meetings, consisting of SCE staff representing several key organizations (such as SCE's Law Department, SCE Risk Control and Credit Departments, ES&M's Energy Contracts and Energy Planning divisions and the Power Procurement Finance Department). SCE's Risk Management Committee was consulted throughout the evaluation process to provide guidance with respect to outstanding RFO issues. Additionally, SCE's PRG was consulted on many occasions, as encouraged in prior Commission decisions.

After careful analysis, SCE notified potential counterparties on August 27, 2008, of their placement on a “short-list.” From that point, SCE formed negotiation teams consisting of individuals from each affected SCE organization.¹⁰ These teams engaged in ongoing discussions with the short-listed counterparties seeking to reach mutual agreement on contract terms. On October 14, 2008, SCE received final offers for tolls and RA tags. On October 15, 2008 SCE received final binding offers for physical and financial options. These final offers were evaluated, RMC and PRG were informed of the RFO winners, and contracts were executed on October 16, 2008. The final results are summarized in SCE’s confidential workpapers.

In compliance with the Commission’s requirement, SCE retained an Independent Evaluator (“IE”) to ensure that the RFO process was managed fairly and the counterparties ultimately selected were determined impartially. The public portion of the IE report is attached hereto. A list of presentations associated with this RFO is included in Confidential Attachment F. The executed agreements are listed in Confidential Attachment H.

C. 2008 Financial Gas RFO

On November 6, 2008, SCE issued a Financial Gas RFO seeking to obtain competitively priced products to hedge part of its financial gas position through September 30, 2014. In accordance with SCE’s Plan, the solicitation and documentation was posted on SCE’s public website, and the announcement of the RFO was distributed electronically to major market participants, members of SCE’s PRG and SCE’s entire advice letter service list. SCE’s RMC, consulted throughout the evaluation process to provide guidance with respect to outstanding RFO issues, approved the launch of the RFO on October 26, 2008. Additionally, SCE’s PRG was advised of the RFO launch on October 29, 2008.

¹⁰ SCE organizations included ES&M Energy Contracts and Trading, SCE Law, SCE Credit and SCE Risk Control.

Indicative offers were received and counterparties were qualified to participate in the RFO on November 25, 2008 by having completed Non-Disclosure Agreements (“NDAs”) and International Swaps and Derivatives Association (“ISDA”) enabling agreements. Final offers were received and contracts were executed on December 9, 2008. The final results are summarized in SCE’s confidential workpapers.

As with the All Source RFO, SCE retained an IE to ensure that the RFO process was managed fairly and the counterparties ultimately selected were determined impartially. The public portion of the IE report is attached hereto. A list of presentations associated with this RFO is included in Confidential Attachment F. The executed agreements are listed in Confidential Attachment H.

D. Acquisition of Firm Access Rights

Effective October 1, 2008, Southern California Gas Company (“SoCalGas”) initiated a new “Receipt Point Access” service applicable to all intrastate transportation customers. The service establishes firm access rights (“FARs”) to receipt points on the SoCalGas system. Acquiring access rights that are firm (rather than interruptible) assures entry into the SoCalGas system. This service also provides for the acquisition of interruptible rights on an “as available” basis.

SoCalGas offered FARs by means of an open season conducted from July to August 2008 with multiple phases. The duration for FARs is three years, starting October 1, 2008. SoCalGas’ core customers (and a small number of customers with grandfathered contracts) were eligible to acquire FARs in a first (“Set Aside”) phase. SCE and other noncore customers with historical gas usage on the SoCalGas system (including power producing entities with tolling agreements) were eligible to bid on the remaining capacity in the second (“Preferential Bidding”) phase—but were limited to quantities based on average historical usage.

SCE was successful in acquiring 99,246 MMBtu/day of firm capacity at three receipt points as indicated below.

The cost to all successful bidders for FARs is the SoCalGas tariff rate, currently \$0.05/MMBtu. Awards were based on the capacity available after the preceding phase and SoCalGas' rules on a customer's eligibility to bid in each round. SCE also acquired interruptible access rights of 750, 000 MMBtu/day at no cost.

Table 2
Firm Access Rights Acquired By SCE

<u>SoCalGas Receipt Point</u>	<u>MMBtu/day</u>
El Paso – Topock	51,574
Transwestern - North Needles	12,907
Kramer Junction	34,765
Total	99,246

Implementation of FARs results in the creation of a city gate market for gas that is delivered downstream of the SoCalGas receipt points. To enhance its gas procurement flexibility, SCE entered into a pooling agreement with SoCalGas (also effective October 1, 2008) that enables SCE to buy and sell gas at the city gate, as well as schedule gas from the city gate to all locations within the SoCalGas system.

E. Bilateral Transactions

In addition to the CAISO CRR and RFO processes discussed above, SCE executed a large number of short-term¹¹ bilateral transactions during the Quarter to cost-effectively minimize SCE's residual net energy and physical and financial natural gas positions as well as to hedge congestion risk. SCE also entered into 30 non-standard financial gas transactions

¹¹ 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.

bilaterally, rather than through a brokerage or an exchange.¹² As discussed below, SCE did so in order to lower the cost of such transactions.

SCE also executed several bilateral transactions regarding San Diego Local RA. After the All Source RFO was launched, the CAISO revised the local area requirements for the San Diego region which resulted in a requirement that all RA within the San Diego region be contracted for by an LSE with load in San Diego. Although it was too late for LSEs to bid into SCE's All Source RFO, SCE incorporated the potential sale of this RA by including proxy bids that resulted in SCE procuring sufficient system RA to allow for the sale of all San Diego Local RA. After the RFO was completed, SCE entered into bilateral negotiations with interested counterparties and ultimately entered into contracts for the sale of the San Diego Local RA. The process was reviewed with the PRG on October 16, 2008. The bilateral contracts were also reviewed with the PRG on December 15, 2008.

Non-Standard Gas Financial Transactions

These transactions specified the Southern California Border ("SoCal Border") as the financial settlement point. Standard New York Mercantile Exchange ("NYMEX") call option and call spread transactions 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. Because call options and call spreads using SoCal Border financial settlement points are not traded on the NYMEX or Intercontinental Exchange ("ICE"), 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 the 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.

¹² 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.)

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.¹³

The Commission-required “strong showing” for these transactions is documented in SCE’s confidential workpapers and summarized in Confidential Attachment M.

F. 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 physical and financial residual net electrical energy and 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.

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 applicable scheduling deadlines or settlement period, 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

¹³ 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.

long-term, multi-month, month-ahead, multi-day, day-ahead, and hour-ahead transactions, employing both standard and non-standard products.

When selecting electrical energy transactions to match forecast economic 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 under least cost dispatch. This generally resulted in purchases during the day-of and day-ahead time frames.

Financial gas transactions are executed to hedge SCE's customer's exposure to volatile natural gas prices. SCE employs a number of different products to hedge this exposure including swaps, futures, call options and call spreads. The objective function of these hedges is to maintain SCE's 12-month TEVaR¹⁴ under the Commission determined Consumer Risk Tolerance ("CRT").

In general, the timing associated with product execution is driven by the need to satisfy the Commission and CAISO's reliability criteria, while minimizing costs. For example, spot market transactions are executed to meet more immediate needs and longer term transactions are executed to minimize reliance on the spot market. For specific transactions, the timing of execution is supported by the need assessments contained in SCE's confidential workpapers.

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

¹⁴ TEVaR is "To Expiration Value at Risk."

SCE estimates that the energy demand for its bundled customers (not weather adjusted) during the Quarter was lower than the same period in 2007. This estimate is based on CAISO settlement data for October and November 2008 and an estimate of SCE bundled customer energy for December 2008.

Despite the continued return to SCE service of direct access customers and warmer temperatures for two months of the Quarter, there was still a decrease in bundled customer energy compared with 2007. Customer growth has declined. The economy—measured by total wage and salary employment—showed a decrease from the same period in 2007. Cooling degree-days were well above normal for the period.

During the Quarter, hydro generation from SCE's Big Creek facility was significantly lower than the 25-year fourth quarter average. The below normal precipitation from the winter and spring seasons of 2008 resulted in reduced generation for the entire year. Additionally, outages at Big Creek 2A, Big Creek 3, and Mammoth Pool powerhouses further reduced generation.

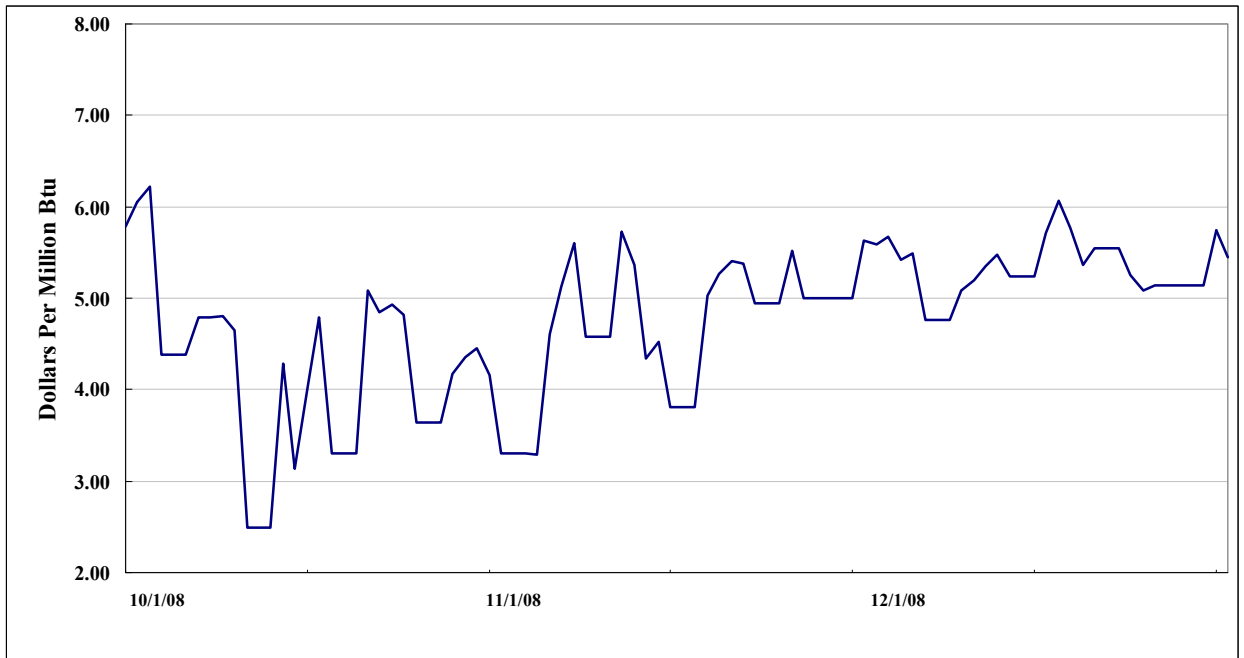
Generation at SCE's Eastern Hydro facilities was also significantly below the 25-year fourth quarter average. Below normal precipitation during the winter and spring seasons of 2008 in the Eastern Sierras, as well as outages at Kern River 3, Lundy, and Mill Creek 1, resulted in lower than average generation.

Production from SCE's remaining base-load coal resource was robust during the Quarter. The Four Corners Generating Station had very few days of outage during the Quarter, all of which were forced outages.

Production from SCE's base-load nuclear resources was below normal during the Quarter, primarily due to scheduled refueling outages at San Onofre and Palo Verde.

As illustrated in Chart 1 below, daily index gas prices at the southern California border declined dramatically during early October and then “stabilized” during the balance of the Quarter, ranging from a high of \$6.22/MMBtu to a low of \$2.49/MMBtu.

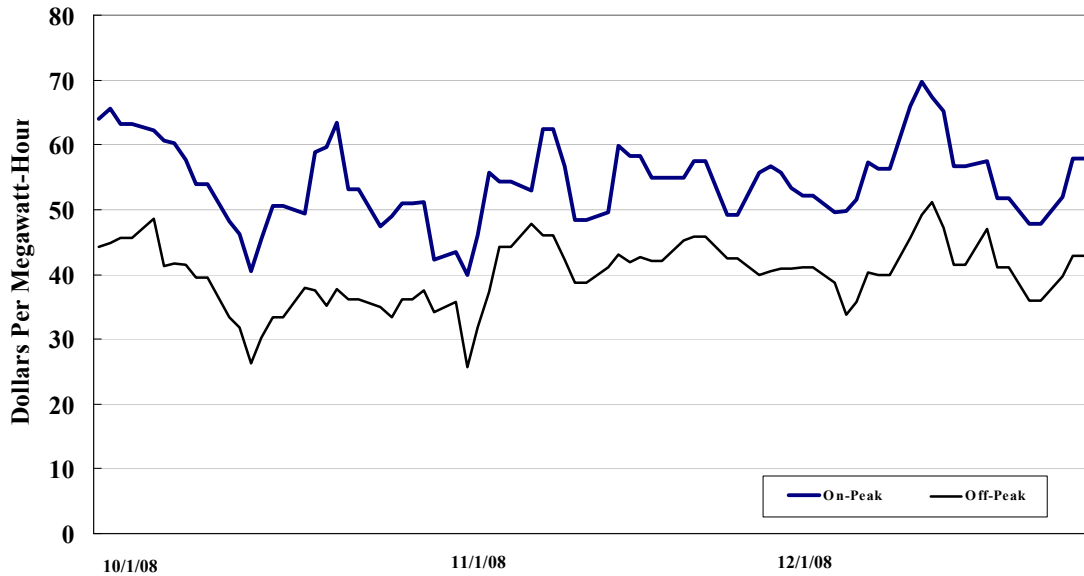
Chart 1
Daily Southern California Border Gas Prices
Published For Fourth Quarter 2008



Southern California electricity prices for day-ahead deliveries at SP-15 also followed a price trend similar to natural gas during the Quarter. Standard firm energy products ranged from approximately \$26/MWh to \$51/MWh for the off-peak product and from approximately \$40/MWh to \$70/MWh for the on-peak product (*see* Chart 2 below).¹⁵

¹⁵ Data Source: *Dow Jones*

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



A summary of SCE’s forecast of monthly energy positions is included in Confidential Attachment J.

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

As set forth in Sheets 77-99 of its conformed Plan, SCE employs a comprehensive and multi-faceted approach in an effort to achieve the goals of its risk management strategy. As shown in the diagram on Sheet 78 of the conformed Plan, SCE’s hedging activities are an important component of this strategy.

During the Quarter, SCE entered into various financial transactions designed to: (1) hedge the gas price risk associated with SCE’s existing Qualifying Facility (“QF”) contracts that have payments tied to the price of natural gas; (2) hedge the gas price risk associated with SCE’s non-QF generating and contract resources which have exposure to gas market price fluctuations; and (3) hedge the price risk associated with SCE electric 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.

A list of contracts executed and/or modified by SCE during the Quarter, including enabling agreements for physical and financial gas and power products, is shown in Confidential Attachment H, which contains a reference to copies of these contracts contained in SCE's confidential workpapers.

8. The valuation results for contracts of three months or greater duration

SCE's process for the evaluation and selection of contract resources of duration three months or greater is described in its conformed LTTP on Sheets 51-63. The valuation results for the contracts executed pursuant to SCE's All Source and Gas RFOs are contained in the "Key Briefings" folder of SCE's confidential workpapers.

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, key analysis data utilized during the Quarter is contained in the following confidential workpaper folders:

Analysis Data

RFO-related presentations
Forecast daily energy positions
Short-term power market - beyond hour-ahead
Short-term gas market
Bilateral location options
Hour-ahead power market

Workpaper Folder

Key Briefings
Resource Plans
Daily Power Trading Reports
Gas Market Notes
Strong Showing
Real-Time Price Surveys & Generation
Operations Center Logs

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

SCE prepared various analyses for briefings to its PRG during conference calls conducted on October 15, October 16, October 29, October 31, November 19, December 2 and December 8, as well as a face-to-face meeting on December 15, to keep the PRG informed on relevant procurement matters. Key topics discussed with SCE’s PRG during the Quarter included: the All Source and Gas RFOs, CRR acquisition, Market Design and Technology Upgrade (“MRTU”) readiness and San Diego local RA transactions. 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.

In its ongoing review of prior quarterly compliance reports, the Commission’s auditing staff requested information for prior quarters through the established data request process. SCE has not included its responses to such data requests in this submission.

Additional Reporting Requirement Pursuant To Decision 07-01-039

As required by Ordering Paragraph 12 of D.07-01-039, SCE has included in Confidential Attachment I its investments in retained generation that were completed during the Quarter, as well as any multiple contracts of less than five years with the “same supplier, resource or facility” (Section 5.1, p. 152 of D.07-01-039).

Attachment 2

Sedway Consulting, Inc.

INDEPENDENT EVALUATION REPORT
FOR SOUTHERN CALIFORNIA EDISON'S
2008 NATURAL GAS REQUEST FOR OFFERS

Submitted by:

*Alan S. Taylor
Sedway Consulting, Inc.
Boulder, Colorado*

February 5, 2009

Introduction and Background

On November 6, 2008, Southern California Edison (SCE) issued a Natural Gas Request For Offers (Gas RFO) for products to mitigate the risk of gas-price increases both for SCE's internal gas requirements and for the gas requirements associated with the California Department of Water Resources (DWR) contracts managed by SCE. SCE's Gas RFO encompassed financial-hedge products for up to 59 months in duration and included annual and 3rd quarter-only hedge products. DWR sought offers for 15-month financial natural gas products for its contracts managed by SCE.¹ The particular products requested by the RFO included:

SCE

- Fixed for Float Swaps (Annual and 3rd Quarter)
- Call Options (Annual and 3rd Quarter)
- Call Spreads (Annual and 3rd Quarter)

DWR (with SCE as agent)

- Fixed for Float Swaps (15 months only)
- Call Options (15 months only)
- Call Spreads (15 months only)

Role of Independent Evaluator and Focus of Report

The California Public Utilities Commission (CPUC) has issued several decisions that require California's investor-owned utilities to retain an Independent Evaluator (IE) in energy and gas-related solicitations.² In early 2008, in compliance with these CPUC decisions, SCE retained Sedway Consulting, Inc. (Sedway Consulting) as an IE to monitor SCE's 2008 Gas RFO, provide an independent evaluation of SCE's process and the proposals it received, and present the CPUC and SCE's Procurement Review Group (PRG) with information and assessments to ensure that the solicitation was conducted fairly and that the best products were acquired. This Independent Evaluation Report provides an assessment of SCE's Gas RFO from the initial phase of the solicitation (i.e., the publicizing of the issuance of the RFO) through the final selection of proposals. Specifically, this report addresses Sedway Consulting's activities and conclusions regarding the following five areas/questions:

- **Gas RFO issuance and outreach activities**
- **Evaluation process design**

¹ Offers associated with DWR contracts were made to DWR in a process managed by SCE as agent.

² D.04-12-048 (Findings of Fact 94-95, Ordering Paragraph 28) and D.06-05-039 (Finding of Fact 20, Conclusion of Law 3, Ordering Paragraph 8).

- **Evaluation process administration**
- **Negotiation of contracts/confirmations**
- **Selection and rejection choices of final offers**

The remainder of this report follows the template that was issued by the CPUC as part of R.06-02-013 (Attachment B: CPUC Independent Evaluator Template [Short Form]) to organize and structure IE reports regarding solicitations undertaken by California utilities. That template includes seven questions/topic areas that are depicted in boxes in this report and the confidential appendix.

1. Describe in detail the role of the IE throughout the solicitation.

SCE provided Sedway Consulting with access to all necessary materials and meetings and Sedway Consulting was able to parallel SCE's proposal evaluation and selection process with its own evaluation of the submitted offers, as documented in this Independent Evaluation Report. Sedway Consulting reviewed SCE's RFO, outreach efforts, evaluation processes, modeling methodologies, communications with interested counterparties, and evaluation results. Members of the IE team:

- reviewed and made suggested improvements to the RFO materials prior to their issuance,
- participated in SCE's bidders' conference call,
- were copied on all correspondence between SCE and interested counterparties,
- participated in internal SCE teleconferences related to the Gas RFO
- monitored negotiations between SCE and interested counterparties,
- participated in mock selection exercises conducted by SCE
- commented on evaluation methods and processes,
- received copies (directly from bidders) of all offers submitted to SCE,
- performed an independent evaluation of all offers,
- participated in SCE's planning meetings and executive-level Risk Management Committee (RMC) meetings in which offer disqualification and selection decisions were made, and
- participated in all PRG meetings in which the Gas RFO evaluation procedures and selection results were discussed.

Sedway Consulting's activities are described in more detail in relevant sections of this report and confidential appendix.

Overview of Conclusions

Sedway Consulting concludes that SCE conducted a fair and effective solicitation and evaluation of the offers received in response to its 2008 Gas RFO and made the correct selection and rejection decisions. Outreach activities conducted by SCE generated a robust market response and the evaluation process was fairly designed and administered. All qualified offers were evaluated consistently, appropriately, and without bias. Sedway Consulting believes that SCE treated all interested counterparties consistently and fairly. That said, Sedway Consulting has several recommendations for procedural improvements to SCE's Gas RFO process that are addressed later in the report.

This Independent Evaluation Report has a confidential appendix that includes an overview of the submitted offers, an overview of the evaluation results, and confidential assessments of specific areas of the evaluation process. This material is being afforded confidential treatment for several reasons. First, it is important to protect counterparties from having their product pricing provided to competitors. Second, SCE's customers could be harmed if too much information was made publicly available, allowing some future counterparties to focus on manipulating the negotiation process and/or gaming subsequent solicitations rather than delivering the best products at the lowest possible prices. Third, submitted offer information is subject to confidentiality agreements that have been executed between SCE and each of the counterparties as part of the overall Gas RFO process.

Design of SCE's Evaluation and Selection Process

Prior to the submission of indicative and final offers by interested counterparties, Sedway Consulting reviewed SCE's evaluation materials/presentations and conducted discussions and email exchanges with SCE's evaluation personnel to develop a detailed understanding of how SCE's evaluation process would be performed. Sedway Consulting requested SCE provide as much information as possible prior to offer submission. This information allowed Sedway Consulting to lock down and archive the basic evaluation parameters for the process. Such information included forward price curves, volatility parameters, discount rates, quantified risk reduction parameters, option valuation methodologies, and collateral cost adder methodologies, among other factors. These assumptions were reviewed and discussed with appropriate SCE staff to ensure a thorough understanding of their relevance to the evaluation process and the manner they would be incorporated into the process. The assumptions were also incorporated into Sedway Consulting's internal evaluation spreadsheets and formed the basis for independently assessing the offers submitted by counterparties.

2. Please evaluate the fairness of the IOU's bidding and selection process (i.e., quantitative and qualitative methodology used to evaluate the bids, consistency of evaluation methods with criteria specified in the bid documents, etc.).

Description of Evaluation Process

The initial stage of SCE's evaluation process entailed screening all indicative offers for compliance with the Gas RFO Instructions and general responsiveness to the RFO requirements. All offers that passed this initial screening stage were then evaluated using a number of models created by SCE. SCE's evaluation process entailed a determination of each bid's proposed duration, daily quantity (mmBtu/day), net present value of costs and economic benefits, and risk reduction benefit to SCE/DWR.

Prior to the opening of proposals, Sedway Consulting incorporated SCE's latest market assumptions into Sedway Consulting's independent analysis spreadsheet models. These models were used to determine each proposal's expected costs and benefits without any further input from SCE. Procedures for calculating such costs and benefits were anchored prior to bid opening so that both SCE's and Sedway Consulting's evaluation teams were following consistent methodologies and Sedway Consulting's independent results could be used to cross-check SCE's results.

Sedway Consulting believes that SCE's evaluation process complied with the CPUC's "Least Cost Best Fit" (LCBF) criteria. In addition, Sedway Consulting believes that the evaluation process was fairly designed and administered such that all counterparties and product types were treated consistently and fairly and had equal opportunity to make the final selection by SCE.

Description of Selection Process

SCE and Sedway Consulting reviewed all final offers, evaluated their net present value costs and benefits, and confirmed consistency in results. SCE used a linear-programming optimization model (CPLEX) to determine the optimal selection of final offers, given various constraints (e.g., SCE's and DWR's maximum mmBtu/day purchase limits, bidder quantity limitations, etc.) and varying levels of risk reduction. Sedway Consulting was able to review its evaluation results and replicate the selection decision that was generated by SCE's optimization model.

Assessment of Fairness of Evaluation Process Design

Sedway Consulting concludes that the design of SCE's evaluation process was rigorous and fair. It was consistent with evaluation approaches that Sedway Consulting has seen

applied in other utilities' solicitations. In evaluating the fairness of the design of SCE's evaluation process, Sedway Consulting employed the following principles:

1. Did the design inappropriately favor one product type over another?
2. Was the design inappropriately biased in favor of one counterparty type over another?
3. Were the selection criteria flexible enough or structured in a way to facilitate SCE acquiring sufficient products to mitigate the risk of gas price increases both for its own gas requirements and for the gas requirements associated with DWR contracts managed by SCE?
4. Were all components of an offer's quantified metric calculated consistently so as to avoid introducing discontinuities that might distort the results and lead to incorrect bid selection?

Subject to some minor recommendations addressed in this report's confidential appendix, Sedway Consulting concludes that SCE's evaluation process was designed to treat all product types and counterparties fairly, employing a consistent methodology that did not favor or disadvantage any specific product type or counterparty – while obviously recognizing justifiable bid-specific differences (e.g., different counterparty negotiated credit provisions).

Submission and Evaluation of Counterparty Offers

Counterparties had to adhere to the following process to participate in the Gas RFO and submit offers for consideration by SCE.

On the Qualification Date (November 25, 2008), the Confidentiality Agreement, ISDA Agreement and Credit Support Annex, and other applicable Credit Support Documents had to be executed between SCE and interested counterparties and in place. SCE also provided interested counterparties (who had met the requirements specified above by the Qualification Date) who submitted offers for call options and/or spreads the opportunity to clear any selected final offer through NYMEX Clearport under a separately negotiated agreement. Counterparties submitting offers to DWR had to either have these documents already fully executed prior to November 1, 2008 or submit their offers as NYMEX-cleared transactions. In addition, the counterparties had to have reached substantial completion of the terms and conditions of the individual product confirmations by this date.

On December 2, 2008, SCE sent to counterparties confirmation of their qualification to submit final offers for the Gas RFO. The counterparties also received unique, respondent-specific Excel offer spreadsheet(s) in the format to be used to submit final

offers into the Gas RFO. The offer spreadsheets contained the strike prices and call spreads that SCE requested for indicative and final offers.

On the Lockdown Date (December 4, 2008 by 5:00 PM, PPT), all terms and conditions of the counterparty offers as described in the confirmations had to be finalized (other than the actual quantity, option premiums, and fixed swap prices) and the counterparties had to have a form of the applicable mutually agreed upon confirmation for each final. No drafting changes to the confirmations were accepted by SCE after the lockdown date.

On December 8, 2008 (Final Offer Day 1), counterparties had to submit via email their final offer package by no later than 10:00 AM, PPT. The final offer package was comprised of the offer spreadsheet in Excel format and the quantity limits spreadsheet. These documents were deemed to constitute the counterparties' final offer(s), subject to the price refresh or product withdrawal rights described in the next paragraph.

On December 9, 2008 (Final Offer Day 2), counterparties had to re-submit via email final offers by no later than 8:00 AM, PPT. In these offers, counterparties were able to change pricing information from the December 8th offer spreadsheet for award consideration. However, counterparties were not allowed to make any other changes to final offers, and no additional product offers, were able to be submitted. Counterparties were able to withdraw any final offers by setting the quantity on the applicable final offers to zero on the December 9th offer spreadsheet.³ On this Final Offer Day 2, counterparties were required to keep final offers for award consideration open from 8:00 AM, PPT until the earlier of acceptance by SCE and/or DWR (as applicable) or 10:00 AM, PPT.

Approximately 280 unique product offers were submitted by 14 unique counterparties on Final Offer Days 1 and 2 (December 8 and 9, 2008). Sedway Consulting was copied on all final offers submitted by counterparties to SCE. In addition, a member of Sedway Consulting's IE team was onsite at SCE during Final Offer Days 1 and 2 to observe the SCE evaluation process and participate in internal SCE meetings and external SCE communications to counterparties to discuss final offers as needed. Both SCE and Sedway Consulting performed their analyses of the submitted offers on December 8 and 9, 2008, periodically discussing bid deficiencies and making requests to specific counterparties for supplemental information as needed.

The results of SCE's evaluation were reviewed by Sedway Consulting and discussed in several internal meetings leading up to presentations regarding recommended selection and rejection decisions before SCE's RMC and PRG. Sedway Consulting's ranking of offers was consistent with SCE's and supported SCE's disqualification and selection decisions. The PRG participants provided valuable advice and recommendations during

³ For clarity, the December 9th offer spreadsheet could differ from the December 8th offer spreadsheet only with respect to a revised price for a price refresh for a final offer, or with respect to setting a quantity to "zero" for the purpose of withdrawing a final offer. If a counterparty did not wish to either change pricing information or withdraw any final offers, then the counterparty still had to submit the December 9th offer spreadsheet containing all final offers for award consideration by 8:00 AM PPT on December 9, 2008.

the process as well. The final offer selections were made and all counterparties were notified of their status (selected or not selected) by noon PPT on December 9, 2008.

Description of Sedway Consulting's Parallel Evaluation Process

Sedway Consulting conducted a parallel evaluation of the Gas RFO bids, using spreadsheet-based bid evaluation models that were populated with market data. Through these parallel evaluation activities, Sedway Consulting confirmed that SCE appropriately and fairly administered the evaluation process that it had designed. Sedway Consulting concurred with SCE's selection and rejection decisions. Those offers that were not selected were rejected for good reasons (e.g., low market value/high prices, insufficient risk reduction benefits, etc.), as described further in Confidential Appendix A.

Sedway Consulting concludes that SCE administered its evaluation and selection process fairly and selected the best offers to meet its risk mitigation needs. In its assessment, Sedway Consulting employed the same general principles as were described in the design fairness discussion. In addition, Sedway Consulting's fully separate, independent evaluation allowed it to develop its own offer rankings and confirm that SCE was fairly and appropriately evaluating the offers received in response to the Gas RFO.

3. Describe the IOU's Least Cost Best Fit (LCBF) methodology (or provide the IOU's own description). Evaluate the strengths and weaknesses of the IOU's LCBF methodology. (This should include a thorough analysis of the RFO results.)

As described above, SCE employed a Least Cost Best Fit methodology that identified the highest net market value (i.e., least cost) combination of contracts that best fit the utility's needs. Each offer's net market value was calculated by subtracting the offer's expected costs (where applicable: fixed-for-floating price payments, option premium payments) from the expected fixed-for-floating swap or option settlement revenues that SCE may receive if the offered product was part of its gas hedging portfolio.

In the final offer evaluation and selection, SCE used the net present value of each offer's net market value in a linear-programming optimization model (CPLEX) to determine the optimal selection of final offers, given various constraints (e.g., SCE's and DWR's maximum mmBtu/day purchase limits, bidder quantity limitations, etc.) and varying levels of risk reduction.

A thorough analysis of the RFO results is presented in the confidential appendix.

Recommendations for Potential Future Enhancements

Sedway Consulting believes that SCE's Gas RFO evaluation process was fair and reasonable. However, there are several areas or ideas that SCE may wish to consider in an effort to improve its processes in future solicitations:

1. **Single call options and spreads.** SCE's indicative offer spreadsheets included a pair of call options and a pair of call spreads for which bidders could provide prices. The final offer spreadsheets only had a single call option and a single call spread. It may help simplify and streamline the Gas RFO process if SCE can develop its preference for the characteristics of the single call option and single call spread at the launch of the RFO.
2. **Offer spreadsheet highlighting.** Some confusion was caused by a minor inconsistency in SCE's offer spreadsheets between a notation that bidders should only enter information in blue-shaded fields and an auto-shading feature that shaded some cells in green after the bidder began entering information. This should be rectified in future offer spreadsheets (perhaps by changing the notation to mention blue-shaded and green-shaded fields).

Sedway Consulting has some additional, relatively minor recommendations that pertain to specific areas of SCE's evaluation process that are discussed in this report's confidential appendix.

4. How did the IOU conduct outreach to bidders, and was the solicitation robust?

SCE's Outreach Activities

Sedway Consulting believes that SCE pursued reasonable and adequate procedures for notifying potential counterparties about the Gas RFO. When the Gas RFO was launched, SCE notified regulatory agencies and numerous industry participants, including, but not limited to, the 18 firms with which SCE was enabled with International Swaps and Derivatives Association (ISDA) agreements.⁴ Also, SCE dedicated a section of its company website to the Gas RFO, providing a means for interested counterparties to download the RFO Instructions and related materials, familiarize themselves with the

⁴ Having an ISDA agreement with SCE was a requirement for the provision of a final offer. However, SCE was willing to entertain interest from other counterparties (and indeed did), provided that such counterparties were willing to attempt to negotiate an ISDA agreement in time for final offers.

RFO timeline, and ask questions about the participation process. The website also provided contact information (both telephone numbers and email addresses) for the two SCE staff managing the Gas RFO so that interested counterparties could contact those staff with any questions or concerns they had regarding the Gas RFO.

On November 14, 2008, SCE held a Gas RFO conference call for interested counterparties. The teleconference provided interested counterparties an opportunity to learn more about the Gas RFO, hear presentations from SCE staff regarding key aspects of the RFO, and ask specific questions regarding the RFO participation process. SCE recorded the teleconference and made a replay available for interested counterparties from November 15, 2008 to November 28, 2008 via a teleconference bridge posted on the Gas RFO website.

Given this level and diversity of activity, Sedway Consulting concludes that SCE did an adequate job of publicizing the 2008 Gas RFO, as ultimately evidenced by the robust response from interested counterparties.

4. Describe project-specific negotiations. Highlight any areas of concern including unique terms and conditions.

Negotiations and project-specific matters are discussed in the confidential appendix.

5. If applicable, describe safeguards and methodologies employed by the IOU to compare affiliate bids or UOG ownership proposals. If a utility selected a bid from an affiliate or a bid that would result in utility asset ownerships, explain and analyze whether the IOU's selection of such bid(s) was appropriate.

No SCE affiliates participated in this Gas RFO, nor were any utility ownership proposals offered.

6. Do you agree with the IOU that the contract(s) merit Commission approval?
Explain.

Conclusion

Sedway Consulting believes that SCE conducted a fair and effective solicitation and evaluation of the offers received in response to its November 6, 2008 Gas RFO. All submitted 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 evaluation process with its own evaluation of the submitted offers. Sedway Consulting reviewed SCE's evaluation and modeling methodologies and results and did not identify any bias for or against any specific counterparty, product type, or submitted offer. Thus, Sedway Consulting views the final selection decision as reasonable and sound.

Sedway Consulting monitored communications (both email and telephonic) between SCE and interested counterparties and believes that SCE treated all counterparties consistently and fairly. Sedway Consulting concludes that SCE made the appropriate selection and rejection decisions in conducting its 2008 Gas RFO. As described more fully in the confidential appendix, Sedway Consulting agrees with the IOU that the selected contracts merit Commission approval.

Attachment 3

Sedway Consulting, Inc.

**INDEPENDENT EVALUATION REPORT
FOR SOUTHERN CALIFORNIA EDISON'S
2008 ALL SOURCE SOLICITATION**

Submitted by:

*Alan S. Taylor
Sedway Consulting, Inc.
Boulder, Colorado*

February 5, 2009

Introduction and Background

On July 17, 2008, Southern California Edison (SCE) issued its 2008 All Source Request for Offers (RFO) for products that could help the utility meet its capacity and energy needs through September 30, 2013. SCE sought offers for the following products:

- Unit Contingent Dispatchable Toll
- Unit Contingent Dispatchable Toll without Resource Adequacy Benefits
- Unit Contingent Non-Dispatchable Qualifying Facilities Toll
- Resource Adequacy Capacity (SCE to buy and SCE to sell)
- Daily Call Option
- Financial Daily Call Option

Role of Independent Evaluator and Focus of Report

The California Public Utilities Commission (CPUC) has issued several decisions in the last several years that now require California's investor-owned utilities to retain an Independent Evaluator (IE) in All Source/intermediate resource solicitations.¹ In mid-2008, in compliance with these CPUC decisions, SCE retained Sedway Consulting, Inc. (Sedway Consulting) as an IE to monitor SCE's 2008 All-Source solicitation, provide an independent evaluation of SCE's process and the proposals it may receive, and help the CPUC and SCE's Procurement Review Group (PRG) participants by providing them with information and assessments to ensure that the solicitation was conducted fairly and that the best combination of offered products were acquired. This IE report provides an assessment of SCE's All-Source solicitation from the initial phase of the solicitation (i.e., the publicizing of the issuance of the RFO) through the selection of final contracts. Specifically, this report addresses Sedway Consulting's activities and conclusions regarding the following five areas/questions:

- **All Source RFO issuance and outreach activities**
- **Evaluation process design**
- **Evaluation process administration**
- **Negotiation of contracts/confirmations**
- **Selection and rejection choices of final offers**

The remainder of this report follows the template that was issued by the CPUC as part of R.06-02-013 (Attachment B: CPUC Independent Evaluator Template [Short Form]) to organize and structure IE reports regarding solicitations undertaken by California utilities. That template includes seven questions/topic areas that are depicted in boxes in this report and the confidential appendix.

¹ D.04-12-048 (Findings of Fact 94-95, Ordering Paragraph 28) and D.06-05-039 (Finding of Fact 20, Conclusion of Law 3, Ordering Paragraph 8).

1. Describe in detail the role of the IE throughout the solicitation.

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 proposals, as documented in this IE report. Sedway Consulting reviewed SCE's RFO document, outreach efforts, evaluation processes, modeling methodologies, communications with bidders, negotiations with bidders, and evaluation results. Members of the IE team:

- reviewed and made suggested improvements to the RFO materials prior to their issuance,
- participated in SCE's bidders' conference call,
- commented on evaluation methods and processes,
- participated in the opening of initial and final proposals (and retained Sedway Consulting's own copies of each proposal for its own evaluation),
- performed an independent evaluation of all offers,
- joined in all of SCE's All Source RFO planning and evaluation meetings,
- participated in executive-level Risk Management Committee (RMC) meetings in which proposal disqualification, shortlisting and selection decisions were made, and
- participated in all PRG meetings in which the All Source proposals, evaluation and selection results were discussed.

Sedway Consulting's activities are described in more detail in relevant sections of this report and confidential appendix.

Overview of Conclusions

Sedway Consulting concluded that SCE conducted a fair and effective solicitation and evaluation of the proposals that it received in response to its 2008 All-Source RFO and made the correct selection decisions. All qualified proposals were evaluated consistently, appropriately, and without bias. Sedway Consulting believes that SCE treated all counterparties consistently and fairly. Sedway Consulting concludes that SCE made the appropriate selection and rejection decisions in developing its 2008 All-Source short list and in selecting final offers to accept. That said, Sedway Consulting has several minor recommendations for procedural improvements to SCE's All-Source RFO process that are addressed later in the report.

This IE report has a confidential appendix that includes an overview of the types of proposals received, an overview of the evaluation results, and confidential assessments of specific areas of the evaluation process. This material is being afforded confidential treatment for several reasons. First, it is important to protect participants from having

their project pricing and operational information provided to their competitors. Second, SCE's customers could be harmed if too much information was made publicly available, allowing some participants to focus on manipulating the negotiation process and/or gaming future solicitations rather than delivering the best All Source products at the lowest possible prices. Third, submitted offer information is subject to confidentiality agreements that have been executed between SCE and each of the counterparties as part of the All Source RFO process.

Design of SCE's Evaluation and Selection Process

Prior to the opening of proposals, Sedway Consulting reviewed SCE's evaluation materials/presentations and conducted interviews and email exchanges with SCE's evaluation personnel to learn how SCE's evaluation process would be performed. Sedway Consulting requested SCE to provide as much information as possible prior to the receipt of proposals. This, in essence, allowed Sedway Consulting to lock down and archive the basic evaluation parameters for the process. Such information included regional market forecasts for electricity and natural gas prices, energy and capacity valuation assumptions, cost of capital components, and discount rate assumptions. These assumptions were incorporated into Sedway Consulting's own evaluation models and formed the basis for independently assessing the benefits and costs of proposed products/resources that were bid into SCE's solicitation.

- | |
|---|
| <p>2. Please evaluate the fairness of the IOU's bidding and selection process (i.e., quantitative and qualitative methodology used to evaluate the bids, consistency of evaluation methods with criteria specified in the bid documents, etc.).</p> |
|---|

Description of Evaluation Process

The initial stage of SCE's process entailed screening all proposals for compliance with and general responsiveness to the RFO. As described in the confidential appendix to this report, all but two proposals ultimately passed the screening stage and were evaluated by SCE and Sedway Consulting using a number of models. SCE's evaluation process entailed a determination of each offer's net present value of costs and benefits, expressed on a \$/kW-month basis. This evaluation metric was used to develop a ranking of the offers and identify outliers during the shortlisting selection process. In the final offer evaluation and selection, SCE used the net present value information in an optimization model to determine the best combination of offers that met the utility's needs and constraints at the lowest cost.

Prior to the opening of proposals, Sedway Consulting incorporated SCE's latest market assumptions into Sedway Consulting's proprietary evaluation model. This model was used to determine each proposal's expected energy benefits without any further input from SCE. Procedures for calculating capacity benefits and energy payments were anchored prior to bid opening so that both SCE's and Sedway Consulting's evaluation teams were following consistent methodologies and Sedway Consulting's independent results could be used to cross-check SCE's results.

As described in greater detail in this report's confidential appendix, SCE developed cost "adders" to reflect the credit risks or collateral posting requirements of different counterparties. Those counterparties with lower credit ratings or collateral requirements that were likely to have an adverse impact on SCE's credit position had their offers supplemented with evaluation adders to reflect these risks. The credit/collateral adders played an important role in the evaluation and selection process, particularly given the severity of the global credit crisis that began in the second half of 2008.

Sedway Consulting believes that SCE's evaluation process complied with the CPUC's "Least Cost Best Fit" (LCBF) criteria. In addition, Sedway Consulting believes that the evaluation process was fairly designed and administered such that all counterparties and product types were treated consistently and fairly and had equal opportunity to make the final selection by SCE.

Description of Selection Process

SCE and Sedway Consulting reviewed all final offers, evaluated their net present value costs and benefits, and confirmed consistency in results. SCE used a linear-programming optimization model (CPLEX) to determine the optimal selection of final offers, given various constraints (e.g., monthly and annual capacity needs, bidder quantity limitations, etc.).

Assessment of Fairness of Evaluation Process Design

Sedway Consulting concluded that SCE's evaluation design was rigorous and fair. It was consistent with evaluation approaches that Sedway Consulting has seen applied in other utilities' solicitations. In evaluating the fairness of SCE's process, Sedway Consulting employed the following principles:

1. Did the design inappropriately favor one technology over another?
2. Was the design inappropriately biased in favor of one type of bidder versus another?
3. Were the selection criteria flexible enough or structured in a way to facilitate SCE acquiring sufficient energy and capacity to meet customer needs for the next five years?

4. Were all components of an offer's quantified metric calculated consistently so as to avoid introducing discontinuities that might distort the results and lead to incorrect offer selection?

Subject to some minor recommendations addressed in this report's confidential appendix, Sedway Consulting concluded that SCE's evaluation process was designed to treat all technologies and types of bidders fairly, employing a consistent methodology that did not favor or disadvantage any technology or bidder – while obviously recognizing justifiable offer-specific differences (e.g., locational value for resource adequacy).

Receipt and Evaluation of Offers

On August 12, 2008, SCE received a significant number of offers in its All Source solicitation. A member of Sedway Consulting's IE team was in attendance and retrieved electronic and hard-copy versions for the IE team's analysis. Both SCE and Sedway Consulting performed their analyses of the submitted proposals during August 2008, periodically discussing proposal deficiencies and requests to specific bidders for supplemental information. Sedway Consulting participated in SCE's shortlisting selection discussions and agreed with the recommended short list that was approved on August 27, 2008. SCE then commenced negotiations with shortlisted bidders on terms and conditions of the applicable product confirmation agreements in September and early October. Members of the Sedway Consulting team monitored many of those negotiation sessions and reviewed the email communication regarding redlined confirmation agreements. For all counterparties that were able to reach agreement with the utility, SCE requested and received final offers on October 14, 2008 (for unit-contingent tolls, unit-contingent tolls without RA benefits, qualifying facility tolls, and RA Capacity) and on October 15, 2008 (for daily call options and daily financial call options). Sedway Consulting performed a parallel evaluation of these final offers and participated in the offer selection meetings that culminated with the execution of selected offer agreements on the morning of October 16, 2008.

Description of Sedway Consulting's Parallel Evaluation Process

Sedway Consulting conducted a parallel evaluation of the indicative and final All Source offers, using its proprietary bid evaluation models. One model was used for financial and physical call options. This model calculated the value of each option using a probability-weighted set of power and gas forward prices. The net present value of each option's cost and value were combined and divided by the offer's associated capacity to yield a \$/kW-month evaluation metric.

A second model that was used to evaluate capacity resources; this was Sedway Consulting's Response Surface Model (RSM) – a power supply evaluation tool that uses the following information for each offer:

- Capacity
- Commencement and expiration dates for power deliveries
- Capacity pricing
- Fuel pricing
- Heat rates
- Variable O&M pricing
- Start-up costs and fuel requirements
- Ancillary service capabilities
- Credit/collateral adders
- Debt equivalence risk factor.²

All of the above information (if applicable) can be specified for any number of operating modes for any offer (e.g., base combined-cycle, duct-fired, power augmentation, etc.).

The RSM is a spreadsheet-based tool that was calibrated to approximate the economic costs and benefits of each capacity-related offer, based on the assumptions and representation of the southern California electricity and natural gas markets in SCE's evaluation model. The RSM calculated each offer's monthly fixed costs and net energy revenues (if applicable), and developed a net levelized market value of each option, expressed in \$/kW-month.

An offer's net market value was a combination of fixed and variable cost factors. On the fixed side, the RSM calculated monthly fixed costs associated with capacity payments and credit adders. In addition, the RSM calculated each offer's value of capacity by multiplying a forecast of capacity value (developed from RA tag information acquired through SCE's 2007 All Source solicitation) by an offer's RA capacity. This yielded a capacity benefit that was netted against an offer's other fixed costs. These fixed costs and benefits were aggregated for each year into annual totals and discounted and converted into an equivalent levelized fixed price, expressed in \$/kW-month. This was done by taking the present value of the stream of costs and dividing it by the present value of the kW-months of capacity associated with the offer.

On the variable cost side, the RSM developed estimates of the monthly net energy revenues and ancillary service revenues that SCE would be expected to realize if it acquired and scheduled a project's generation. The net energy revenues are the difference between the revenues received from selling a project's power into the market and the variable costs of generating that power. For a fully dispatchable project, SCE would be expected to schedule a resource to generate in all hours that the market price of electricity exceeded the resource's \$/MWh variable cost of generation. Thus, the net energy revenues for a proposed project represent the gains that would be realized from market sales after paying for a project's fuel costs, variable O&M charges, and start-up costs. Ancillary service revenues were based on the capability and availability of

² Debt equivalence was calculated for informational purposes only; current CPUC policy has directed California utilities not to include debt equivalence in their quantified evaluation metrics.

evaluated resources to provide spinning and non-spinning reserves and a forecast of the expected prices for such ancillary services. The RSM estimated SCE's net energy revenues for each month and each offer by interpolating between net energy revenue estimates that were extracted from a set of calibration runs from SCE's detailed evaluation model. These runs were structured by Sedway Consulting and executed prior to the receipt of the All Source proposals. Ancillary service revenues were developed by assessing which hours (if any) an option would be available for providing spinning or non-spinning reserves and multiplying the resource's capacity by the expected price.

The RSM then converted these annual net energy revenues and ancillary service revenues into a levelized \$/kW-month value, using the same arithmetic process that was performed with the annual fixed costs. This conversion normalized the net energy and ancillary service revenues (i.e., accounted for the different amounts of capacity provided by each offer) and yielded a value that could be netted with the levelized fixed price in calculating each offer's levelized net market value. The offers were ranked in descending order based on this levelized net market value. The top-ranked offers had the highest net levelized market value, representing those options with the lowest fixed costs, or the greatest net energy and ancillary service revenues, or a good combination of both.

This net market value is similar to SCE's \$/kW-month net value metric, except for a calculation difference involving the use of summed versus discounted kW-months in the denominator of the calculation. This calculation difference did not introduce significant ranking or comparative differences in the process, as SCE's ultimate selection procedure just uses each offer's net market value (i.e., non-normalized with the kW-month attribute) as an input to an optimization model that identifies that combination of offers that maximizes total market value, subject to constraints.

Sedway Consulting concluded that SCE administered its evaluation and selection process fairly. In its assessment, Sedway Consulting employed the same general principles as were described in the design fairness discussion; in addition, the fact that Sedway Consulting performed a fully separate, independent evaluation allowed it to develop its own ranking and confirm that SCE was fairly and appropriately evaluating all proposals and employing an appropriate and fair selection process.

3. Describe the IOU's Least Cost Best Fit (LCBF) methodology (or provide the IOU's own description). Evaluate the strengths and weaknesses of the IOU's LCBF methodology. (This should include a thorough analysis of the RFO results.)

As described above, SCE employed a Least Cost Best Fit methodology that identified the highest net market value (i.e., least cost) combination of contracts that best fit the utility's

needs. Each offer's net market value was calculated by subtracting the offer's expected costs (where applicable: capacity payments, option premium payments, fuel costs, O&M costs, and/or start costs) from the expected energy, capacity, ancillary service and/or option settlement revenues that SCE may receive if the offered product was part of its supply portfolio. In the final offer evaluation and selection, SCE used the net present value of each offer's net market value in an optimization model to determine the best combination of offers that met the utility's needs and constraints at the lowest cost.

A thorough analysis of the RFO results is presented in the confidential appendix.

Recommendations for Potential Future Enhancements

There are several areas or ideas that SCE may wish to consider in an effort to improve its processes in future All Source solicitations. For example, the IE contact/email address should be included in the main RFO document and all bidders should be encouraged to copy the IE on all emails they send to SCE. In SCE's 2008 All Source, this email procedure was communicated to all counterparties partway through the solicitation, with mixed success. Most bidders adopted the procedure; however, some occasionally did not – and Sedway Consulting had to acquire bidder information (e.g., confirmation redlines) via SCE. In order to maximize the value of the IE, important bidder information should always come directly to the IE from the bidder (thereby precluding any allegations that the bidder's information was modified). In fact, for final offer submission, this is critical. Indeed, Sedway Consulting did receive all final offer information directly from every bidder. However, including the IE contact/email address in the RFO document from the start would help ensure the correct flow of information from the very beginning.

Sedway Consulting has some additional, relatively minor recommendations that pertain to specific areas of SCE's evaluation process that are discussed in this report's confidential appendix.

4. How did the IOU conduct outreach to bidders, and was the solicitation robust?
--

SCE's Outreach Activities

Sedway Consulting believes that SCE pursued reasonable and adequate procedures for notifying potential interested parties. Specifically, SCE dedicated a section of its company website to the solicitation, providing a means for interested parties to download the RFO and related materials, ask questions, and read posted responses. On or about the RFO launch date of July 17, 2008, SCE notified approximately 1,600 contacts (compiled

from previous power supply solicitations, regulatory service lists, etc.) that the RFO had been released and invited them to participate.

Several weeks later, on July 29, 2008, SCE held a bidders' conference call to provide an overview of the All Source solicitation. The conference call provided interested parties an opportunity to learn more about the solicitation, hear presentations, and ask questions. Sedway Consulting participated in this conference call.

Sedway Consulting concluded that SCE did an adequate job of publicizing the 2008 All-Source solicitation, as ultimately evidenced by the robust response that it received from the bidding community.

5. Describe project-specific negotiations. Highlight any areas of concern including unique terms and conditions.

Negotiations and project-specific matters are discussed in the confidential appendix.

6. If applicable, describe safeguards and methodologies employed by the IOU to compare affiliate bids or UOG ownership proposals. If a utility selected a bid from an affiliate or a bid that would result in utility asset ownerships, explain and analyze whether the IOU's selection of such bid(s) was appropriate.

Affiliate matters are discussed in the confidential appendix. There were no utility ownership offers in this solicitation.

7. Do you agree with the IOU that the contract(s) merit Commission approval? Explain.

Conclusion

Sedway Consulting believes that SCE conducted a fair and effective solicitation and evaluation of the All Source offers that it received in response to its July 17, 2008 RFO. All 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 proposals. Sedway Consulting reviewed SCE's evaluation and modeling methodologies and results and did not find any bias for or against any proposals in SCE's evaluation processes or selection decisions.

Sedway Consulting monitored the back-and-forth email traffic between SCE and the bidders and believes that SCE treated all bidders consistently and fairly. Sedway Consulting concludes that SCE made the appropriate selection and rejection decisions in its final selections of offers. As described more fully in the confidential appendix, Sedway Consulting agrees with the IOU that the selected contracts merit Commission approval.

Attachment 4

**DECLARATION OF THOMAS W. FILLMORE REGARDING THE
CONFIDENTIALITY OF CERTAIN DATA**

I, THOMAS W. FILLMORE, declare and state:

1. I am a project manager in Southern California Edison's (SCE's) Energy Supply and Management Department (ES&M). As such, I had responsibility for managing the preparation of confidential attachments contained in SCE's Fourth Quarter 2008 Procurement Plan Compliance Report (Q4 2008 QCR). I make this declaration in accordance with Decisions 06-06-066 and 08-04-023 issued in R.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.

2. I have reviewed the attachments to Q4 2008 QCR (Attachments). Listed below are the data in the Attachments 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 these data correspond. Also set forth is an explanation of why the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that would allow partial disclosure:

Location of Confidential Data	Line, Column or Table Number	Matrix Category	Reason why data cannot be aggregated, etc.
Attachment B	Table 1 - Collateral Type/Credit Mechanism Column	VII.B – Bilateral Contract Terms and Conditions – Contracts and Power purchase agreements between utilities and non-affiliated third parties.	Data required to be presented in this form to fully comply with CPUC request.
Attachment B	Table 2 - Transaction Value Column	VII.B – Bilateral Contract Terms and Conditions – Contracts and Power Purchase Agreements between Utilities and Non-affiliated Third Parties; I.B.2 Utility recorded gas procurement and cost information.	Data required to be presented in this form to fully comply with CPUC request

Attachment C	All Tables	XIII Energy Division Monthly Data Request AB57	Data required to be presented in this form to fully comply with CPUC request
Attachment D	All Tables	I.B.2 – Utility Recorded Procurement and Cost Information; I.A.4. Long-term fuel (gas) buying and hedging plans.	Data required to be presented in this form to fully comply with CPUC request
Attachment H	Table 1 Price and Nominal Value Columns	VII.B - Bilateral Contract Terms and Conditions – Contracts and Power purchase agreements between utilities and non- affiliated third parties.	Data required to be presented in this form to fully comply with CPUC request
Attachment J	All	VI.A – Net Open Position Information – Utility Bundled Net Open Position for Capacity.	Data required to be presented in this form to fully comply with CPUC request

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

4. I am informed and believe and thereon allege that the data in the table above cannot be aggregated, redacted, summarized, masked or otherwise protected in a manner that would allow partial disclosure of the data while still protecting confidential information.

5. I am informed and believe and thereon allege that the data in the table in paragraph 2 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 February 6, 2008 at Rosemead, California.


THOMAS W. FILLMORE