

Decision 10-02-019 February 25, 2010

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Southern California Edison Company (U 338 E) for Approval of its Forecast 2010 ERRRA Proceeding Revenue Requirement, to Consolidate all Commission-Authorized Revenue Requirements, and to Set Unbundled Rate Components Beginning January 1, 2010.

Application 09-08-001  
(Filed August 3, 2009)

**DECISION REDUCING RATES BY \$20 MILLION**

**1. Summary**

Southern California Edison Company's (SCE) 2009 revenue requirement is approximately \$4.041 billion. In this proceeding, we find that SCE's 2010 revenue requirement is approximately \$3.091 billion, a \$950 million reduction. However, we also find that there is an expected substantial decline in estimated kilowatt-hour (kWh) sales in 2010. The estimated revenue from existing rates applied to lower kWh sales provides only \$20 million more than the 2010 estimated revenue requirement; therefore, we reduce rates by \$20 million.

**2. SCE's Original Forecast**

Southern California Edison Company (SCE) filed this Energy Resource Recovery Account (ERRA) forecast application on August 3, 2009. In its application, SCE requested the Commission to: 1) authorize SCE's 2010 ERRRA proceeding revenue requirement in the amount of \$3.451 billion, and 2) consolidate all Commission-authorized revenue requirements (including the

ERRA proceeding revenue requirement) and set unbundled rate components to recover those revenue requirements beginning January 1, 2010.

### **2.1. SCE's Original 2010 Sales and Load Forecast**

SCE's original forecast for 2010 is shown in Table III-5 of Exhibit SCE-1. As shown in Table III-5, the retail sales forecast of 84,855 gigawatt-hours (GWh) less 7,999 GWh of direct access sales yielded a bundled service customer sales forecast of 76,856 GWh. The bundled customer sales forecast was then multiplied by the average annual distribution loss factor. This procedure produced the original Independent System Operator level bundled service customer load forecast for 2010.

### **2.2. SCE's Original 2010 ERRA Proceeding Revenue Requirement**

SCE's original 2010 ERRA proceeding revenue requirement of \$3.451 billion represented a decrease of \$589.9 million from the ERRA revenue requirement included in its 2009 rate levels. Chapter II of SCE's initial prepared testimony, Exhibit SCE-2, itemized all of the components of SCE's requested ERRA proceeding revenue requirement for calendar year 2010. As explained therein, fuel and purchased power expenses comprised most of the ERRA proceeding revenue requirement. However, it also included: 1) the December 31, 2009 balances in various balancing accounts that SCE needs to recover from or return to customers, and 2) other miscellaneous expenses, such as spent nuclear fuel expense and Department of Energy decontamination and decommissioning fees.

After taking into account the expected kilowatt-hour (kWh) sales decrease in 2010, SCE originally estimated a decrease in revenue associated with the ERRA proceeding in the amount of \$403.3 million, or a 3.62% decrease from

SCE's current total rate levels. SCE explained its proposal in Section B of Chapter II of its prepared testimony, Exhibit SCE-1.

### **2.3. SCE's Original 2010 Consolidated Revenue Requirement**

SCE is utilizing this proceeding to consolidate all Commission-adopted revenue requirements into rate levels at one time upon a final Commission decision in this proceeding. Table II-4 in SCE's original testimony set forth its initial proposed 2010 consolidated revenue by Commission proceeding to be reflected in 2010 rates. That table showed the following estimated changes in 2010 revenue requirements: 1) a decrease of \$589.9 million from this ERRA proceeding; 2) an increase of \$209.6 million from the 2009 General Rate Case (GRC) proceeding; 3) an estimated increase of \$698.4 million from various miscellaneous proceedings; and 4) a decrease of \$58.9 million from the Department of Water Resources (DWR) power and bond charges, for a total revenue requirement increase of \$259.2 million. After taking estimated 2010 sales changes into account, SCE requested a consolidated, total system revenue increase of \$655.5 million, or 5.9%.

### **3. SCE's Updated Forecast**

On November 16, 2009, SCE served its updated testimony in this proceeding. SCE's November 16 testimony is designated Exhibit SCE-3. The purpose of this testimony is to: 1) update SCE's 2010 sales and load forecast; 2) update SCE's 2010 ERRA proceeding revenue requirement; 3) provide an estimate of the 2010 Cost Responsibility Surcharge (CRS) components for Direct Access (DA), Departing Load (DL), and Community Choice Aggregation (CCA) customers; and 4) update SCE's estimated 2010 consolidated revenue requirement.

### **3.1. SCE's Updated Sales and Load Forecast**

SCE's updated forecast for 2010 is shown in Table II-1 of Exhibit SCE-3. As shown in Table II-1, the retail sales forecast of 83,435 GWh less 9,341 GWh of direct access sales yielded a bundled service customer sales forecast of 74,094 GWh. This updated bundled service customer sales forecast is 2,762 GWh lower than SCE's bundled service customer sales forecast included in its original testimony. After multiplying this updated bundled service customer sales forecast by the average annual distribution loss factor per its forecast methodology, SCE produced the updated Independent System Operator level bundled service load forecast for 2010.

### **3.2. SCE's Updated 2010 ERRA Proceeding Revenue Requirement**

SCE's updated 2010 ERRA proceeding revenue requirement is \$3.091 billion, which represents a decrease of \$950 million from the current ERRA proceeding revenue requirement and is \$360 million less than the estimated 2010 ERRA proceeding revenue requirement set forth in SCE's August 3, 2009 forecast application. As SCE explained in its update testimony, the further reduction in the estimated 2010 ERRA proceeding revenue requirement is primarily due to: 1) SCE's revised sales forecast and 2) updated estimates of December 31, 2009 balancing account balances in various balancing accounts that include recorded data through October 31, 2009. SCE's updated 2010 forecast assumes an average natural gas price of \$6.06/ Million British Thermal Units (MMBTu) that is based on an October 8, 2009 New York Mercantile Exchange (NYMEX) gas price forward curve. Although this average

gas price has increased by \$0.47/MMBtu<sup>1</sup> from the gas price used to support SCE's August 3, 2009 application, the increase is more than offset by decreases in SCE's revised sales forecast and the updated December 31, 2009 balancing accounts' balances. SCE included all documents and updated tables supporting its updated 2010 ERRA proceeding revenue requirement in Appendix A to Exhibit SCE-3.

### **3.3. SCE's Updated 2010 CRS**

In its updated testimony, SCE provided an estimate of the CRS components applicable to DA, DL, and CCA customers. Because the Commission had not yet issued a final decision in the 2010 DWR revenue requirement proceeding, SCE's updated information utilized SCE's 2010 DWR Power Charge included in the Proposed Decision (PD) of Administrative Law Judge (ALJ) Wong, issued November 3, 2009 in the 2010 DWR revenue requiring proceeding (Rulemaking 09-06-019). SCE used the DWR Power Charge included in the PD to determine the total portfolio indifference rate. On December 3, 2009, the Commission issued its decision in that proceeding Decision 09-12-005, and adopted the 2010 Power Charge that was included in the PD. To the extent necessary, SCE will update its CRS calculation in its advice letter to be filed in compliance with the final Commission decision in this proceeding.

A market price benchmark of \$61.64 Megawatt-hours (MWh) was provided to SCE by the Commission's Energy Division on November 3, 2009.<sup>2</sup>

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<sup>1</sup> The average natural gas price used in SCE's original testimony was based on the May 22, 2009 NYMEX gas price forward curve of \$5.59/MMBtu.

<sup>2</sup> The Commission has not yet adopted a capacity cost adder to the market price benchmark for 2010. The Energy Division uses the same adder adopted for 2009.

All documents and tables supporting SCE's updated 2010 CRS components were included in Appendix B to Exhibit SCE-3.

### **3.4. SCE's Updated 2010 Consolidated Revenue Requirement**

As shown on Line 50 of Table-5 of Exhibit SCE-3, SCE's total system 2010 consolidated revenue requirement is estimated to decrease by \$601.6 million. This is the sum of: 1) SCE's requested total system 2010 ERRA proceeding revenue requirement decrease of \$950.3 million; 2) an estimated \$168.2 million increase associated with SCE's GRC base revenue requirement; 3) an estimated \$731.4 million increase resulting from various other revenue requirement changes; and 4) an estimated \$550.8 million decrease in DWR's 2010 power charge revenue requirements. Although the over-all consolidated revenue requirement is expected to decrease by approximately \$601 million, as shown on Line No. 50 of Table V-5, after taking into account the estimated decrease in kWh sales in 2010, total estimated 2010 rate levels will only change slightly from the existing 2009 rate levels. This is because the estimated revenue from the existing rates applied to lower kWh sales (i.e. present rate revenue) will provide only \$20 million more revenue than the estimated 2010 over-all consolidated revenue requirement and, therefore, rates will be reduced accordingly. SCE provided more information to support the estimated revenue requirement changes included in Table-5 in Appendix C to Exhibit SCE-3. The estimates SCE has included in Table-5 will be replaced by actual authorized amounts in the compliance advice letter to be submitted upon a final Commission decision in this proceeding.

### **4. Discussion**

At the prehearing conference (PHC) on September 30, 2009, a schedule was adopted which required the Division of Ratepayer Advocates (DRA), the only

party other than SCE, to serve its testimony November 20, 2009. The schedule then provided for SCE to serve rebuttal testimony and both parties to serve opening and closing briefs. On November 20, 2009, DRA advised the Commission that it reviewed the documents and workpapers submitted by SCE to support its application in this 2010 ERRR forecast proceeding, the responses to data requests, and the updated forecast filed by SCE on November 16, 2009. Based on that review, DRA determined that there are no outstanding issues that DRA needs to address in testimony and, thus, it would not be serving testimony in this application.

Consequently, SCE proposed an expedited schedule eliminating hearings and providing for opening briefs to be filed December 23, 2009, with reply briefs filed December 30, 2009. DRA agreed. The presiding ALJ concurred. SCE filed its opening brief on December 23; DRA did not file. Neither party filed reply briefs.

We have independently reviewed the record and concur with SCE's updated analysis, as more particularly set forth in our Findings of Fact and Conclusions of Law.

SCE's updated ERRR proceeding revenue requirement is \$3.091 billion, which represents a decrease of \$950.3 million from the current ERRR proceeding revenue requirement. The updated November 16 year-end 2009 estimated ERRR balancing account overcollection is \$64.6 million, compared to an estimated undercollection of \$131 million in SCE's original testimony. SCE's updated total system 2010 consolidated revenue requirement is estimated to decrease by \$601.6 million. This is the sum of: 1) SCE's request total system 2010 ERRR proceeding revenue requirement decrease of \$950.3 million; 2) an estimated \$168.2 million increase associated with SCE's GRC base revenue requirement;

3) an estimated \$731.4 million increase resulting from various other revenue requirement changes; and 4) an estimated \$550.8 million decrease in DWR's 2010 power charge and bond charge revenue requirements. Although the over-all consolidated revenue requirement is expected to decrease by approximately \$601 million, after taking into account the estimated decrease in kWh sales in 2010, total estimated 2010 rate levels will only be reduced slightly from the existing 2009 rate levels. This is because the estimated revenue from the existing rates applied to lower kWh sales (i.e., present rate revenue) will provide only \$20 million more revenue than the estimated 2010 over-all consolidated revenue requirement and, therefore, rates will be reduced accordingly.

#### **5. Comments on Proposed Decision**

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by SCE. Reply comments were not filed.

#### **6. Assignment of Proceeding**

Michael R. Peevey is the assigned Commissioner and Robert Barnett is the assigned ALJ in this proceeding.

#### **Findings of Fact**

1. On August 3, 2009, SCE filed its annual ERRRA forecast application and served supporting testimony on the Commission staff and interested parties.

2. In its application, SCE requested the Commission to: 1) authorize SCE's 2010 ERRRA proceeding revenue requirement in the amount of \$3.451 billion, and 2) consolidate all Commission-authorized revenue requirements (including the

ERRA proceeding revenue requirement) and set unbundled rate components to recover those revenue requirements beginning January 1, 2010.

3. SCE's original 2010 ERRA proceeding revenue requirement of \$3.451 billion represented a decrease of \$589.9 million from the ERRA revenue requirement included in its 2009 rate levels.

4. After taking into account the expected kWh sales decrease in 2010, SCE originally estimated a decrease in revenue associated with the ERRA proceeding in the amount of \$403.3 million, or a 3.62% decrease from SCE's current total rate levels.

5. SCE initially estimated its 2010 consolidated revenue requirement would increase by \$259.2 million.

6. The initial 2010 consolidated revenue requirement increase represented the sum of: 1) a decrease of \$589.9 million from this ERRA proceeding; 2) an increase of \$209.6 million from 2009 GRC proceeding; 3) an estimated increase of \$698.4 million from various miscellaneous proceedings; and 4) a decrease of \$58.9 million from DWR power and bond charges.

7. After taking estimated 2010 sales changes into account, SCE forecast a consolidated, total system revenue increase of \$655.5 million, or 5.9% compared to present 2009 rate levels.

8. SCE set forth in its testimony a forecast of its 2010 load and sales, and its methodology for determining its forecast.

9. SCE set forth in its testimony a forecast of its 2010 energy production and costs for its portfolio of resources, and its methodology for developing its forecast of energy production.

10. SCE set forth in its testimony a discussion of its financing costs that relate to: 1) its forecast power production and procurement during 2010 that should be recovered through the ERRA, and 2) the operation of the ERRA itself.

11. SCE set forth in its testimony its estimated 2010 fuel inventory carrying costs for nuclear and diesel fuel inventories for inclusion in its 2010 ERRA revenue requirement, and its estimated 2010 collateral carrying costs.

12. On November 16, 2009, SCE served supplemental testimony to update its 2010 revenue requirement proposal in this proceeding.

13. The purpose of SCE's supplemental testimony was to: 1) update SCE's 2010 sales and load forecast; 2) update SCE's 2010 ERRA proceeding revenue requirement; 3) provide an estimate of the 2010 CRS components for DA, DL, and CCA customers; and 4) update the estimated 2010 over-all consolidated revenue requirement.

14. SCE's updated ERRA proceeding revenue requirement is \$3.091 billion, which represents a decrease of \$950 million from the current ERRA proceeding revenue requirement, and is \$360 million less than the estimated 2010 ERRA proceeding revenue requirement originally forecast in SCE's August 3, 2009 forecast application.

15. The reduction in SCE's updated ERRA proceeding request is due to: 1) SCE's revised sales forecast, and 2) updated estimates of December 31, 2009 balancing account estimates that include recorded data through October 31, 2009.

16. The November 16 updated ERRA revenue requirement for 2010 is based on a gas price forward curve of \$6.06/MMBtu. Although this average gas price has increased by \$0.47/MMBtu from the gas price used to support SCE's August 3, 2009 application, this increase is more than offset by decreases in SCE's

revised sales forecast and the updated December 31, 2009 balancing account balances.

17. The updated November 16 year-end 2009 estimated ERRA balancing account overcollection is \$64.6 million, compared to an estimated undercollection of \$131 million in SCE's original August 3 testimony.

18. In the compliance advice letter that SCE will file to implement this decision, SCE will utilize the most recent available data necessary to calculate the CRS components applicable to DA, DL, and CCA customers.

19. SCE's updated total system 2010 consolidated revenue requirement is estimated to decrease by \$601.6 million. This is the sum of: 1) SCE's requested total system 2010 ERRA proceeding revenue requirement decrease of \$950.3 million; 2) an estimated \$168.2 million increase associated with SCE's GRC base revenue requirement; 3) an estimated \$731.4 million increase resulting from various other revenue requirement changes; and 4) an estimated \$550.8 million decrease in DWR's 2010 power charge and bond charge revenue requirements.

20. Although the over-all consolidated revenue requirement is expected to decrease by approximately \$601 million, as shown on Line No. 50 of Table V-5, after taking into account the estimated decrease in kWh sales in 2010, total estimated 2010 rate levels will only be reduced slightly from the existing 2009 rate levels. This is because the estimated revenue from the existing rates applied to lower kWh sales (i.e. present rate revenue) will provide \$20 million more revenue than the estimated 2010 over-all consolidated revenue requirement and, therefore, rates will be reduced accordingly.

### **Conclusions of Law**

1. It is reasonable to adopt SCE's updated forecast 2010 ERRA proceeding revenue requirement changes and revenues as set forth herein.

2. SCE's updated 2010 ERRA proceeding revenue requirement of \$3.091 billion is adopted.

3. SCE's total system 2010 consolidated revenue requirement decrease of \$601.6 million is adopted. Although the overall consolidated revenue requirement is expected to decrease by approximately \$601 million, after taking into account the estimated decrease in kWh sales in 2010, total estimated 2010 rate levels will only be reduced slightly from the existing 2009 rate levels.

4. SCE's forecast estimates for its 2010 load and sales, energy production and costs, power procurement and ERRA balancing account financing costs, and fuel inventory and collateral carrying costs, are reasonable and are adopted.

5. SCE's request to consolidate its ERRA proceeding revenue requirement with other rate changes adopted in other proceedings on or before March 1, 2010, or as soon thereafter as possible, is adopted.

6. SCE's proposal to update the DA CRS to include final figures for the DWR power charge is adopted.

## **O R D E R**

### **IT IS ORDERED** that:

1. Southern California Edison Company is ordered to make an advice filing within 10 days of the effective date of this decision, or on March 1, 2010, whichever is later, to implement new rates as authorized in this and other decisions, to be made effective beginning March 1, 2010, or as soon thereafter as possible.

2. Southern California Edison Company shall include a final March 1, 2010 consolidated revenue requirement table in its advice filing that includes all Commission-adopted amounts as of that date.

3. Southern California Edison Company's Exhibit SCE-1 (redacted), Exhibit SCE-2, Exhibit SCE-3 (redacted), and confidential (unredacted) Exhibit SCE-1 and Exhibit SCE-3, are admitted.

4. Southern California Edison Company's confidential Exhibits SCE-1 and SCE-3 are filed under seal and shall remain sealed for a period of three years from the effective date of this decision, or until further order of the Commission, whichever comes first.

5. Application 09-08-001 is closed.

This order is effective today.

Dated February 25, 2010, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
DIAN M. GRUENEICH  
JOHN A. BOHN  
TIMOTHY ALAN SIMON  
NANCY E. RYAN  
Commissioners

