

Decision 06-11-014 November 9, 2006

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

Application of Southern California Edison Company (U 338-E) Requesting Authority to Maintain Current ERRA Rates Under the ERRA Trigger Mechanism Until January 1, 2007.

Application 06-09-001  
(Filed September 1, 2006)

**OPINION AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY TO MAINTAIN ITS CURRENTLY AUTHORIZED ENERGY RESOURCE RECOVERY ACCOUNT RATE LEVELS**

**1. Summary**

This decision authorizes Southern California Edison Company (SCE) to maintain its currently authorized Energy Resource Recovery Account (ERRA) rates for the duration of 2006. SCE shall consolidate any ERRA rate change with its other rate changes, including settlement proceeds that SCE receives from Duke Energy Trading and Marketing, L.L.C. authorized by Decision (D.) 06-09-035, to become effective on January 1, 2007.

**2. Background**

Section 454.5(d) (3) of the Public Utilities Code provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.<sup>1</sup> It also provides for recorded revenues and costs incurred under an approved procurement plan to be tracked in a power procurement balancing account. Until January 1, 2006, the balance of that

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<sup>1</sup> All statutory references are to the Public Utilities Code unless otherwise stated.

account is not to exceed 5% (threshold point) of the electrical utility's actual recorded generation revenues for the prior calendar year, excluding revenues collected for the Department of Water Resources (DWR).

Pursuant to § 454.5(d) (3), an ERRA was established to track the differences between fuel and purchased power revenue requirements and actual recorded costs of an approved procurement plan.<sup>2</sup> That decision also established a trigger mechanism to ensure that the 5% threshold point would not be reached. The trigger mechanism requires any electrical corporation whose ERRA balance reaches 4% of its prior year's recorded generation revenues, excluding revenues collected for the DWR, to file an expedited application for approval to adjust its rates in 60 days from the filing date. Any such expedited application is to include (1) a projected account balance in 60 days or more from the date of filing depending on when the balance will reach the 5% threshold and (2) propose an amortization period for the 5% of not less than 90 days. Although the statutory trigger requirement expired on January 1, 2006, it has been extended to the term of the long-term contracts, or ten years, whichever is longer.<sup>3</sup>

At the end of June 2006, SCE had a \$27 million undercollected balance in its ERRA, or 0.68%, of its prior year recorded generation revenues excluding revenues collected for the DWR. At the end of July 2006 the balance changed from a slight undercollection to an overcollection of \$231 million, or 5.79% of prior year recorded generation revenues. That balance exceeded both the four percent trigger point of \$160 million and five percent threshold point of

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<sup>2</sup> Decision (D.) 02-10-062 (2002), *mimeo.*, p. 77.

<sup>3</sup> D.04-12-048 (2004), *mimeo*, p. 103.

\$200 million. SCE filed the required expedited application 32 days later on September 1, 2006. Concurrent with its application, SCE tendered an exhibit setting forth its testimony on this proceeding. That testimony is received into evidence as Exhibit 1.

### **3. Requested Authority**

SCE seeks authority to maintain its currently effective ERRA rates for the duration of 2006, and consolidate any ERRA rate change with other rate changes to become effective on January 1, 2007.

### **4. Discussion**

SCE attributed its overcollected ERRA balance at the end of July to its seasonal rate design practices. This is because its residential customers' generation rates are increased in summer months and decreased in winter months. At the same time, an opposite adjustment is made to its customers' distribution rates, so that on a total rate basis its customers are indifferent to the seasonal rate changes. This rate design results in ERRA undercollected accruals during the winter months when residential customers' generation rates are set artificially low. However, during the summer months, these undercollections are unwound in the normal course of business because the summer generation rates are designed to produce greater revenues. The July overcollected balance was exacerbated by the unprecedented peak electric demand caused by the heat wave that occurred during the month.

SCE forecasts that its ERRA overcollection will remain above the five percent threshold point for the remainder of 2006. The overcollected balance was projected to reach a peak of \$339 million, or 8.49%, by month end October 2006 before subsiding to \$298 million, or 7.46%, at year end 2006.

Rather than changing its ERRRA rates at this time, SCE seeks authority to maintain its currently effective ERRRA rates for the duration of 2006, and consolidate any ERRRA rate change with other rate changes scheduled to become effective on January 1, 2007. One of the January 1, 2007 rate changes SCE proposes to consolidate with is general rate case (GRC) residential rate increases approved by D.06-05-016 and D.06-06-067 which was deferred from implementation until January 1, 2007, pursuant to Commission Resolution E-4023, dated October 19, 2006.

Approval of SCE's request would avoid a "roller-coaster" effect on residential bills by consolidating separate residential customer rate changes within the next two months. It would also mitigate the impact of residential customer bills resulting from a comparatively large increases resulting from GRC-authorized rate increases and the July heat wave. This request should be adopted because it is in the ratepayers' interest and unopposed.

## **5. Category and Need for Hearing**

In Resolution ALJ 176-3178, dated September 7, 2006, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were not necessary. This matter appeared on the Commission's September 6, 2006 Daily Calendar. There is no filed opposition to this application. Based on the record, we affirm that this is a ratesetting proceeding, and that hearings are not necessary.

## **6. Comment Period**

This is an uncontested matter in which SCE is the only party. Accordingly, pursuant to Rule 14.6(c) (1)(10) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is being waived.

## **7. Assignment of Proceeding**

Michael R. Peevey is the Assigned Commissioner and Michael J. Galvin is the assigned Administrative Law Judge in this proceeding.

### **Findings of Fact**

1. Section 454.5(d) (3) provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.

2. The balance in an ERRA balancing account is not to exceed 5% of the electric utility's actual recorded generation revenues for the prior calendar year excluding revenues collected for the DWR.

3. A trigger mechanism was established that requires any electrical corporation whose ERRA balance reaches 4% of its prior year's recorded generation revenues excluding revenues collected for the DWR, to file an expedited application for approval to adjust its rates in 60 days from the filing date.

4. SCE's \$231 million overcollected ERRA balance at the end of July 2006 exceeded both its four percent trigger point of \$160 million and five percent threshold point of \$200 million.

5. SCE's GRC residential rate increases approved by D.06-05-016 and D.06-06-067 were deferred from implementation until January 1, 2007.

6. SCE seeks to consolidate the impact of its overcollected ERRA balance with residential rate increases to take effect on January 1, 2007.

7. There is no opposition to this application.

### **Conclusion of Law**

This application should be approved and become effective immediately so that SCE may timely consolidate residential rate changes on January 1, 2007.

**O R D E R**

**IT IS ORDERED** that:

1. Southern California Edison Company (SCE) is authorized to maintain its currently authorized Energy Resource Recovery Account (ERRA) rates for the duration of 2006.
2. SCE shall consolidate any ERRA rate change with its other rate changes to become effective on January 1, 2007.
3. Application 06-09-001 is closed.

This order is effective today.

Dated November 9, 2006, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
GEOFFREY F. BROWN  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
Commissioners