



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application of SOUTHERN CALIFORNIA EDISON COMPANY (U338E) for Authority to, Among Other Things, Increase Its Authorized Revenues For Electric Service in 2009, And to Reflect That Increase In Rates.

A.07-11-011
(Filed November 19, 2007)

PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

On November 19, 2007, Southern California Edison Company (SCE) filed its Test Year (TY) 2009 general rate case (GRC) application with the California Public Utilities Commission (Commission). SCE is seeking an increase of \$726 million in TY 2009 relative to 2006 authorized levels for electric service.

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) protests this Application. Since the Application first appeared on the Commission's Daily Calendar on November 20, 2007, this Protest is timely filed.

II. BACKGROUND

On July 23, 2007, SCE tendered its Notice of Intent (NOI) to file a GRC application for TY 2009 as well as post- test years 2010 and 2011. DRA issued notices of deficiencies on August 26, 2007, and August 31, 2007, relating to SCE's transmission and distribution showing. On September 19, 2007, DRA notified SCE that the company had substantially cleared the identified deficiencies and that DRA considered the NOI acceptable for filing. On November 19, 2007, SCE filed its TY 2009 GRC application

and provided as support over 5,000 pages of testimony¹ and over 42,000 pages of workpapers.²

For TY 2009, SCE seeks a revenue requirement of \$5.199 billion, an increase of \$726 million over revenues at present rates.³ SCE states that this amounts to an increase of 6.23% for overall rates, or a 16.2% increase in base rates. By way of illustration, SCE estimates the impact of its request on “domestic” customers as a 7.7% increase, a 5.8% increase on “light-small and medium power customers,” a 4.4% increase on large power customers, including Special Contract Sales, and a 6.8% increase on “agricultural & pumping customers.”⁴

In addition to the increase requested for TY 2009, SCE also asks for an additional \$216 million in 2010 and \$287 million in 2011.⁵ SCE claims that these increases are “necessary for the long-term reliability of our system and our ability to meet acceptable levels of customer service.”⁶

Some of the major factors cited by SCE as justifications for its proposed increases are: (1) infrastructure requirements;⁷ (2) customer growth;⁸ (3) regulatory and

¹ SCE Notice of Availability, p. 1.

² SCE Notice of Availability, p. 3.

³ According to SCE, this amount includes the effect of sales growth and a one-time refund of \$72 million due to an over-collection for Post-Retirement Benefits Other than Pensions (PBOPs). (Ex. SCE-01, p. 1.)

⁴ SCE Notice of Availability, p. 15, Table 2.

⁵ Ex. SCE-01, p. 1.

⁶ Ex. SCE-01, p. 1.

⁷ See Ex. SCE-03, Vol. 1, p. 8.

⁸ See Ex. SCE-03, Vol. 1, p. 12.

environmental requirements; (4) workforce demographics;⁹ (5) changing customer service needs;¹⁰ and (6) technological change.¹¹

Table 1 shows the areas in which SCE is proposing major increases in expenses in TY 2009 with DRA’s approximation of the difference between SCE’s proposal and the base year 2006:

TABLE 1
MAJOR EXPENSE AREAS IN 2009
(2006 dollars)

Areas	Increase (\$million)
Transmission and Distribution O&M	\$125
Generation O&M	86
Pensions & Benefits	75
Legal and Worker’s Compensation	29
Other Administrative and General	68
Operations Support	34
Consumer Services	24
Information Technology	30
Other Expenses	50
TOTAL	\$521

⁹ See Ex. SCE-03, Vol. 1, p. 20.

¹⁰ See Ex. SCE-04, Vol. 1, p. 6.

¹¹ See Ex. SCE-05, Vol. 1, p. 15.

Table 2 shows the areas in which SCE seems to be proposing major increases in capital expenditures in TY 2009 with DRA's approximation of the amounts SCE is proposing:

TABLE 2
MAJOR CAPITAL EXPENDITURES IN 2009
(nominal dollars)

Areas	\$million
Transmission and Distribution	\$2,400
Generation	296
Operations Support	396
Information Technology	198
Customer Service	40
TOTAL	\$3,330

III. DRA'S REVIEW

DRA intends to investigate and analyze all aspects of the utility's request, and to develop independent forecasts in areas that include the following: electric generation, transmission and distribution plant, operation and maintenance expenses, customer service needs/operations support, depreciation, rate base, administrative and general expenses, and information technology. DRA is also conducting an audit and evaluating the utility's post- test year ratemaking proposals. DRA will present its estimates, recommendations and findings in its Results of Operations and related reports.

The due date for DRA's testimony should be after the first week of May, 2008 so that DRA can review 2007 recorded adjusted operating costs in making its recommendations. It is DRA's understanding that some of SCE's 2007 recorded data will not be available before April 2008, and DRA believes that having 2007 recorded adjusted operating costs may reduce unnecessary disputes over actual 2007 operating costs and will ultimately assist the Commission in determining the appropriate level for SCE's TY 2009 revenue requirement.

IV. CURRENTLY IDENTIFIED RATE CASE ISSUES

As noted above, SCE is seeking a significant increase over its currently authorized rates. DRA is in the process of conducting discovery on SCE's justifications for its requests and will make recommendations to the Commission as appropriate. The following is a non-exhaustive list of the areas DRA presently intends to explore. Discovery and analysis may eliminate some of the issues in these areas and others may arise.

A. Infrastructure Requirements

1. Generation

SCE maintains joint ownership in two nuclear sites (San Onofre Nuclear Generating Station (SONGS), and Palo Verde Nuclear Generating Station) and two coal-fired base load generating facilities, one that is operational (Four Corners) and one that has discontinued operations (Mohave Generating Station).¹² SCE also owns the gas-fired Mountainview Generating Station and is "pursuing construction of five combustion turbine peaker plants."¹³ Finally, SCE operates and maintains 36 hydroelectric generating facilities consisting of 79 generating units.¹⁴

From DRA's initial review of SCE's showing, it appears that SCE expects its nuclear plant and gas-fired plant capital expenditures to decrease in the test year,¹⁵ but is forecasting major increases in capital outlay for its coal-fired and hydroelectric facilities.¹⁶

¹² Ex. SCE-02, Vol. 1, pp. 7, 19.

¹³ Ex. SCE-02, Vol. 1, p. 26.

¹⁴ Ex. SCE-02, Vol. 1, p. 28.

¹⁵ Ex. SCE-02, Vol. 1, p. 14.

¹⁶ Ex. SCE-02, Vol. 1, p. 22, 29.

DRA intends to conduct its own review of SCE's past expenditures and make its own forecast of reasonable generation capital expenditures.

2. Transmission and Distribution Plant

SCE's electric transmission and distribution plant consists of a variety of elements including overhead lines and towers, substations, transformers, poles, conductors, and service drops. For 2007 – 2011, SCE is requesting an additional \$10.9 billion (nominal dollars) for capital expenditures.¹⁷ SCE states that its requested increases for the Transmission and Distribution Business Unit are “crucial” to reduce its backlog of deferred items from its Infrastructure Replacement program and to restore its system to avoid wide- scale outages during high load periods.¹⁸ Thus, of the \$10.9 billion SCE seeks, approximately \$2.8 billion is for “capital replacements” and \$4.9 billion is to increase capacity of transmission lines and substations for load growth.¹⁹ DRA intends to investigate the need for these requests.

B. Operations and Maintenance Expenses

1. Generation Operating Expenses

Generation Operations and Maintenance (O&M) expenses cover repairs, operating crew compensation and replace parts. SCE is seeking increases in O&M expenses over 2006 recorded for all of its generating facilities.²⁰ SCE states that some of its requested increases are for funding to comply with federal and state regulations such as Nuclear Regulatory Commission (NRC) requirements and pending changes in state air quality

¹⁷ Ex. SCE-03, p. 8-9.

¹⁸ Ex. SCE-03, Vol. 1, p. 1.

¹⁹ Ex. SCE-03, Vol. 1, p. 9.

²⁰ Ex. SCE-02, Vol. 1, pp. 13, 18, 20, 21, and 29.

permits.²¹ SCE attributes other forecasted increases to the advancing age of its facilities and its workforce.²²

DRA will investigate SCE's requested increases for generation operating expenses.

2. Transmission and Distribution Operating Expenses

SCE asks the Commission to approve transmission and distribution O&M expenses for TY 2009 of \$554 million (2006 dollars).²³ This is an increase of \$125 million over 2006 recorded. SCE states that its request reflects its "best judgment about the work necessary to meet customer and load growth demands, reduce our backlog of deferred items from our Infrastructure Replacement program, meet our maintenance and inspection obligations, and expand and train our workforce to continue to meet customers needs."²⁴

DRA will investigate SCE's requested increases for transmission and distribution operating expenses.

C. Customer Service Needs/ Operations Support

SCE seeks an increase of \$25 million for its TY 2009 Customer Service Business Unit operations over its 2006 recorded adjusted levels.²⁵ SCE states that the primary drivers for the proposed increase include customer growth, "additional resources" for Community Choice Aggregation, Account Management, Energy Centers, Technical Support, Local Public Affairs and Consumer Affairs functions, and additional

²¹ Ex. SCE-02, Vol. 1, pp. 18, 21.

²² See Ex. SCE-02, pp. 29-30.

²³ Ex. SCE-02, Vol. 1, p. 8.

²⁴ *Id.*

²⁵ Ex. SCE-04, Vol. 1, p. 10.

communications to customers on planned and unplanned outages and environmental issues.²⁶

DRA will review SCE's showing in this area and conduct its own analysis of customer growth and the need for additional funding.

D. Depreciation

SCE proposes depreciation expense in the amount of \$1.242 million for 2009. This request represents an increase of \$370 million, or 42% over the authorized level recorded in 2006.²⁷

DRA will review the various components of depreciation such as plant balances and reserves, service life, and salvage value. At this point, DRA expects to focus on SCE's salvage value (cost of removal) estimates as these have been the most controversial depreciation issue in most GRCs.

E. Rate Base

SCE describes the major components of rate base as Fixed Capital, Adjustments, Working Capital and Deductions for Reserves.²⁸ DRA intends to analyze all of these components and their sub-parts to determine the appropriate rate base value.

F. Administrative and General Expenses

Administrative and General (A&G) expenses include departmental expenses associated with day-to-day operations such as salaries, office supplies and related expenses. A&G expenses also include expenses not directly incurred by any single department, such as franchise expenses, insurance premiums and pensions and benefit expenses.²⁹

²⁶ Ex. SCE-04, Vol. 1, p. 10.

²⁷ Ex. SCE-11, Vol. 2, p. 25.

²⁸ Ex. SCE-11, Vol. 2, p. 56.

²⁹ Ex. SCE-07, Vol. 1, p. 2.

From DRA's initial review, it appears that SCE is requesting increases in all these areas. DRA will analyze SCE's A&G requests and its justifications for them, and make its own recommendations as to their cost and/or value to ratepayers.

G. Information Technology

On November 6, 2007, SCE informed DRA in a telephone conversation that SCE was planning significant changes to its Information Technology (IT) and Enterprise Resource Planning requests from what SCE had originally submitted in its NOI.³⁰

Ultimately, SCE changed its testimony and workpapers in three SCE exhibits: SCE-05 (Enterprise Resource Planning), SCE-09 (Information Technology) and SCE-04 (Customer Service). From DRA's initial review, it seems that SCE has delayed the scheduled implementation date of one project beyond the 2009 TY, but claims the "overall project is still cost-effective for SCE's customers."³¹

DRA will analyze this and SCE's other claims for its proposed for IT capital and associated O&M expenses.

H. Post-Test Year Ratemaking

SCE seeks Commission authorization to file annual advice letters to implement Post- Test Year Ratemaking revenue requirement adjustments in 2010 and 2011.³² SCE proposes that its revenue requirement in attrition years be adjusted by applying separate mechanisms to expense and capital-related revenue requirements. Labor and non-labor expenses would be escalated by formulas adopted for the test year. Capital increases would be based on SCE's Board approved budget, not average historical levels. The associated revenue requirement that is not spent would be subject to ratepayer refund. SCE also seeks a Z-factor for exogenous expenses above \$10 million.

³⁰ Data Request DRA-SCE-049-JJT, Q/A 1.

³¹ Ex. SCE-14, p. 4.

³² Ex. SCE-11, Vol. 1, p. 94.

DRA will present its own independent analysis of the company's Post- Test Year Ratemaking proposal.

I. Audit

DRA will conduct an audit to: (1) examine SCE historic recorded data in the base and other relevant year and (2) review and analyze utility records related to a variety of expenses for accuracy and appropriateness for ratemaking purposes. As needed, DRA's audit team will make adjustments to remove expenditures for one-time costs, costs that have no direct ratepayer benefit, and/or costs that may be part of other proceedings.

V. CATEGORIZATION OF PROCEEDING

DRA recommends that this proceeding be categorized as "ratesetting." DRA also asks that the Commission open an Order Instituting Investigation to include consideration of issues not necessarily specified in SCE's TY 2009 GRC application or in this Protest.

VI. PROCEDURAL ISSUES

SCE proposes a procedural schedule that includes evidentiary hearings. DRA agrees that hearings are likely to be needed to resolve the numerous issues raised by this Application. DRA does not agree to the schedule SCE proposes and intends to propose its own schedule at the pre-hearing conference (PHC).

As a preliminary matter, DRA recommends that, rather than holding separate sets of evidentiary hearings on Applicant's direct and rebuttal testimony, the hearings be consolidated. Thus, DRA intends to propose a schedule whereby Applicant's witnesses testify on both their direct and rebuttal testimony, and then DRA and intervenors present their witnesses' testimony. This approach was used in the most recent GRCs of the Sempra utilities, PG&E, and SCE, and is more efficient than the Rate Case Plan process SCE suggest the Commission follow.³³

³³ Re Time Schedules for the Rate Case Plan and Fuel Offset Proceedings (1989) 30 CPUC 2d 576, D.89-01-040.

Assuming timely responses to data requests, DRA expects to be able to serve its testimony in early May 2008.

VII. CONCLUSION

DRA respectfully recommends that the proceeding be categorized as ratesetting, that a reasonable schedule be set that includes adequate time for discovery, the preparation of testimony and evidentiary hearings, and that the scope of the proceeding include, but not be limited to, the issues identified in this Protest.

Respectfully submitted,

/s/ LAURA J. TUDISCO

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December 20, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES**” in **A.07-11-011** by using the following service:

E-Mail Service: sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

U.S. Mail Service: mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on December 20, 2007 at San Francisco, California.

/s/ JANET V. ALVIAR

Janet V. Alviar

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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