



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA

**FILED**

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Application of Southern California Edison )  
Company (U-338-E) for a Commission Finding )  
that its Procurement-Related and Other )  
Operations for the Record Period January 1 )  
through December 31, 2009 Complied with its )  
Adopted Procurement Plan; for Verification of its )  
Entries in the Energy Resource Recovery )  
Account and Other Regulatory Accounts; and for )  
Recovery of \$29.947 Million Recorded in Four )  
Memorandum Accounts. )

Application No. 10-04-002  
(Filed April 1, 2010)

**SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY TO PROTEST**  
**OF THE DIVISION OF RATEPAYER ADVOCATES**

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Dated: **May 20, 2010**

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DIVISION OF RATEPAYER ADVOCATES**

**I.**

**INTRODUCTION**

Pursuant to Rule 2.6(e) of the Commission’s Rules of Practice and Procedure, Southern California Edison Company (SCE) hereby submits its reply to the Division of Ratepayer Advocates’ (DRA’s) May 10, 2010 protest of SCE’s April 2010 Energy Resource Recovery Account (ERRA) Review application, A.10-04-002. SCE’s application sets forth its procurement-related operations for the Record Period January 1, 2009 through December 31, 2009. In addition to presenting its procurement-related operations for review, SCE’s application also sets forth the operation of various regulatory accounts (i.e., balancing and memorandum accounts). The majority of these accounts, like the ERRA balancing account, require Commission audit and review to ensure that the entries recorded therein are accurate and consistent with prior Commission decisions. SCE, however, is requesting the Commission find that its recorded costs in four of these accounts are reasonable, and to approve recovery of \$29.947 million associated with

undercollections in these accounts: (1) the Department of Energy Litigation Memorandum Account (DOELMA); (2) the Litigation Cost Tracking Account (LCTA); (3) the Market Redesign and Technology Upgrade Memorandum Account (MRTUMA); and (4) the Project Development Division Memorandum Account (PDDMA). In addition, SCE has also requested the Commission review its recorded costs in the Mohave Balancing Account (MBA) for reasonableness (SCE is not seeking a rate increase associated with this account).

In its protest, DRA argues that SCE's request for reasonableness review of the DOELMA, LCTA, MRTUMA, PDDMA, and MBA is "inconsistent" with its request that the Commission audit other non-ERRA accounts. DRA also raises the same arguments against inclusion of non-ERRA accounts in this proceeding that it raised in last year's ERRA Review proceeding, A.09-04-002. DRA acknowledges this issue is pending before the Commission. Apparently, DRA wants to re-litigate its arguments here, notwithstanding the fact that the Commission is already considering them in A.09-04-002 and will soon decide.

The Commission should reject DRA's request to re-litigate this issue and find that these non-ERRA accounts are appropriately reviewed in the ERRA Review proceeding pending a contrary finding in A.09-04-002. This would be consistent with the Commission's decisions in prior ERRA Review proceedings approving review of these accounts, as well as the Commission's scoping memo in A.09-04-002, in which the Commission stated that it was appropriate to include non-ERRA accounts in the scope of the ERRA Review proceedings. It is also consistent with SCE's tariffs, many of which require that non-ERRA regulatory accounts be presented for Commission review in the ERRA Review proceeding, as well as Commission decisions requiring review of certain non-ERRA accounts in this proceeding.

## II.

### **SCE'S NON-ERRA ACCOUNTS ARE APPROPRIATELY REVIEWED BY THE COMMISSION IN THIS ERRA REVIEW PROCEEDING**

#### **A. The Commission Regularly Reviews Non-ERRA Accounts in the ERRA Review Proceeding**

Consistent with its tariffs and Commission orders, SCE normally includes non-ERRA accounts for review in the ERRA Review proceeding. Presenting these accounts here ensures their review by the Commission on a timely and regularly-scheduled basis. Indeed, many of SCE's Commission-approved tariffs specifically require that non-ERRA regulatory accounts be presented for Commission review in the ERRA Review proceeding. There are also Commission decisions and resolutions, discussed below, that specifically require the review of certain accounts in the ERRA Review proceeding, such as the MRTUMA, ESMA, and PDDMA. For ease of reference, SCE has attached as Attachment "A" to this reply the preliminary statements for each of the accounts at issue, highlighting where the account specifies it is either audited or reviewed for reasonableness in the ERRA Review proceeding.

To date, the Commission has approved this process and, accordingly, has reviewed non-ERRA accounts in connection with SCE's 2008, 2007, 2006, and 2005 ERRA Review applications, A.08-04-001, A.07-04-001, A.06-04-001, and A.05-04-004, respectively. Indeed, in its scoping memo in last year's ERRA Review proceeding, A.09-04-002, the Commission explicitly recognized that it had been reviewing non-ERRA accounts in this proceeding and stated that this was an appropriate practice. SCE has included as Attachment "B" the Commission's scoping memo in A.09-04-002 and discusses that proceeding in greater detail below.

#### **B. The Commission May Audit Certain Non-ERRA Accounts in This Proceeding While Reviewing Other Non-ERRA Accounts for Reasonableness**

The non-ERRA accounts SCE is requesting that the Commission review are summarized in the table below. As shown in this table, SCE is requesting the Commission audit most of these accounts, to ensure that the entries recorded therein are accurate and consistent with the Commission's decisions establishing these accounts. Audit review of these accounts is prescribed in SCE's tariffs, which have been approved by

the Commission’s Energy Division. SCE also notes that the Commission has issued certain decisions requiring SCE to present certain non-ERRA accounts for audit in the ERRA Review proceeding.<sup>1</sup> As noted above, the Commission has reviewed the recorded operation of many of these accounts in connection with SCE’s prior ERRA Review proceedings.

<b>Non - ERRA Accounts</b>	<b>Operation / Audit Review</b>	<b>Reasonableness Review</b>
Base Revenue Requirement Balancing Account (BRRBA)	X	
California Alternative Rates For Energy (CARE) Balancing Account	X	
Department of Energy Litigation Memorandum Account (DOELMA)		X
Energy Settlement Memorandum Account (ESMA)	X	
Litigation Costs Tracking Account (LCTA)		X
Market Redesign and Technology Upgrade MA (MRTUMA)(Chapter XV)		X
Medical Programs Balancing Account (MPBA)	X	
Mohave Balancing Account (MBA) (Chapter XVI)		X
New System Generation Balancing Account (NSGBA)	X	
Nuclear Decommissioning Adjustment Mechanism (NDAM)	X	
Palo Verde Balancing Account (PVBA)	X	
Pension Costs Balancing Account (PCBA)	X	
Post Employment Benefits Other Than Pensions (PBOP) Costs BA	X	
Project Development Division Memorandum Account (PDDMA)		X
Public Purpose Programs Adjustment Mechanism (PPPAM)	X	
Results Sharing Memorandum Account (RSMA)	X	
SmartConnect™ Balancing Account (Chapter XIII)	X	
Solar Photovoltaic Program Memorandum Account (SPVPMMA)	X	

As shown in the table above, SCE is requesting the Commission to review five non-ERRA accounts for reasonableness: (1) the DOELMA; (2) the PDDMA; (3) the MRTUMA; (4) the LCTA;<sup>2</sup> and 5) the MBA. In its protest, DRA claims that SCE’s request for reasonableness review of these accounts is “inconsistent” with its request that the Commission audit the remaining non-ERRA accounts. This is not the case. The Commission is fully capable of reviewing these non-ERRA accounts for reasonableness in

<sup>1</sup> For example, in its decision in SCE’s 2009 General Rate Case proceeding, D.09-03-025, the Commission ordered SCE to present the recorded operation of the Palo Verde Balancing Account (PVBA) for review in the ERRA Review proceeding. See D.09-03-025, Ordering Paragraph 7.

<sup>2</sup> On page 5 of Resolution E-3894, the Commission stated that the ESMA (which includes the LCTA) “be subject to audit under the ERRA [Review] proceedings.” See Resolution E-3894, p. 5. The Commission also provided that SCE would be entitled to recover its recorded costs in the LCTA after demonstrating that they are “reasonably related” to the refund settlements recorded in the ESMA. See Resolution E-3894 at pp. 5-6. SCE is therefore requesting the Commission to review its recorded litigation costs in the LCTA for reasonableness because it is requesting authority to recover the under-collection in the LCTA in this proceeding.

this proceeding; indeed, the Commission has specifically ordered that two accounts, the MRTUMA and PDDMA, must be reviewed for reasonableness in the ERRA Review proceeding.<sup>3</sup> Clearly, the Commission would not have ordered these accounts be reviewed for reasonableness if it believed that such a review was “inconsistent” with the proceeding’s scope.<sup>4</sup> Furthermore, in its scoping memo in A.09-04-002, the Commission included reasonableness review of the DOELMA within the scope of SCE’s April 2009 ERRA Review proceeding. The Commission would not have included the DOELMA in the scope of that proceeding if reasonableness review in the ERRA Review proceeding was not permitted.

**C. The Commission Will Address DRA’s Request to Exclude Non-ERRA Accounts in A.09-04-002**

Last year, in its protest in the 2009 ERRA Review proceeding (A.09-04-002), DRA for the first time questioned the appropriateness of the Commission’s continued review of non-ERRA balancing and memorandum accounts in the ERRA Review proceeding. The Commission stated on page 5 of its scoping memo that it is appropriate to include and review non-ERRA accounts in the ERRA Review proceeding, and ordered DRA to continue its review of SCE’s non-ERRA accounts. Recognizing the problems inherent in moving these accounts to another proceeding, the Commission left it to DRA to develop a record justifying why they should be removed from the ERRA Review proceeding and consolidated for review in a separate proceeding. In particular, in pages 5-6 of its scoping memo, the Commission observed the following issues that would need to be addressed before such a finding could be made: (1) the extent of the problems related to addressing non-ERRA accounts in the ERRA proceeding; (2) where and how the other IOUs address each of the non-ERRA accounts presented by SCE in this proceeding; and (3) why it would be appropriate to override previous Commission determinations that certain non-ERRA accounts should be addressed in SCE’s ERRA Review proceeding.

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<sup>3</sup> See D.09-03-025, Finding of Fact 310 (citing Resolution E-4087), and Conclusion of Law 29 (citing D.06-05-016).

<sup>4</sup> In its scoping memo in SCE’s April 2006 ERRA Review proceeding, A.07-04-001, the Commission stated that it would not review the MBA until SCE first addressed the permanent status of the Mohave Generating Station, as required under Ordering Paragraph 9 of SCE’s 2006 General Rate Case Decision, D.06-05-016. See D.07-12-027, Finding of Fact 4. As SCE explains in Chapter XVI of Exhibit SCE-2, the permanent status of Mohave has now been addressed and SCE is therefore requesting the Commission to review the MBA in this ERRA Review proceeding.

In its report, DRA presented testimony on this issue that was addressed by SCE in rebuttal testimony. The parties have briefed this issue and are awaiting the Commission's proposed decision in that proceeding. See Attachment "C", which contains a copy of the relevant sections of SCE's and DRA's opening and reply briefs in A.09-04-002. Notwithstanding DRA's acknowledgement that its arguments are already being considered by the Commission, DRA apparently wants the Commission to again consider its arguments, and has requested that these issues be included in the scoping memo. The Commission should reject DRA's request. It is not appropriate for the Commission to reconsider an issue that has already been briefed and submitted for Commission decision in another proceeding.

As SCE explained in pages 38-40 of its opening brief in A.09-04-002, DRA has not provided the Commission with sufficient justification to remove SCE's non-ERRA accounts from the scope of the ERRA Review proceeding. DRA's report failed to sufficiently address the three issues identified by the Commission in its scoping memo. Instead of explaining the extent of problems related to addressing these non-ERRA accounts in this proceeding, DRA simply observed that the number of non-ERRA accounts in SCE's ERRA proceedings had grown and continues to grow. This observation by itself does not justify the Commission finding that review of these non-ERRA accounts is problematic, especially when DRA has not stated that it is having difficulty reviewing these non-ERRA accounts in this proceeding, and has successfully reviewed these accounts in past ERRA proceedings.

SCE understands that the parties may have to revisit the scope of this proceeding if the Commission, in its final decision in A.09-04-002, ultimately decides to depart from its longstanding practice of including non-ERRA accounts in the scope of ERRA. However, until such time as the Commission issues a contrary ruling, SCE is obligated and believes that it should continue with its practice of reviewing non-ERRA accounts in the instant proceeding. This is consistent with the Commission's prior decisions approving review of these accounts in A.08-04-001, A.07-04-001, A.06-04-001, and A.05-04-004, as well as the scoping memo in A.09-04-002. It is also consistent with SCE's tariffs, many of which require that non-ERRA regulatory accounts be presented for Commission review in the ERRA Review proceeding, as well as the Commission's decisions requiring review of certain non-ERRA accounts in this proceeding.

### III.

#### **SCE'S RATE NOTICE FOR THIS PROCEEDING COMPLIES WITH RULES 3.2(B)-(D) OF THE COMMISSION'S RULES OF PRACTICE AND PROCEDURE**

Rules 3.2(b)-(d) of the Commission's Rules of Practice and Procedure require the utilities notify their customers of a requested rate increase after filing an application with the Commission. Pursuant to these requirements, on April 19 and May 19, 2010, respectively, SCE filed proofs of compliance (POCs) with Rules 3.2(b) and (c), and Rule 3.2(d). In these POCs, SCE demonstrates that it has timely served notice of its requested rate increase on the cities and counties (via letter), members of the public (via newspaper), and its customers (via bill insert) in its service area. A copy of SCE's rate notice is attached to these POCs, which identifies the four accounts associated with SCE's requested rate increase (i.e., the DOELMA, PDDMA, MRTUMA, and LCTA). SCE's notice also provides information regarding how interested parties can view SCE's application and related testimony, contact SCE and the Public Advisor's office, and participate in this proceeding.

In its protest, DRA argues that SCE should have included the MBA in its rate notice. Apparently, DRA interprets Rule 3.2 as requiring that utilities notify customers when filing an application requesting reasonableness review of balancing or memorandum accounts. This is not correct. Rule 3.2 only requires the utilities to notice rate increases – it does not require utilities to notify the public after filing an application requesting the Commission review recorded amounts in balancing and/or memorandum accounts for reasonableness. SCE did not include the MBA in its notice for this proceeding because it is not seeking a rate increase associated with the MBA. As explained in SCE's testimony in support of this ERRA Review application, the revenue requirement associated with the MBA was previously approved by the Commission in its decision in SCE's 2006 General Rate Case (GRC) proceeding (A.04-12-014), D.06-05-016.<sup>5</sup> In that decision, the Commission required SCE to file an application and "make an affirmative showing of reasonableness on the need for, and extent of, all costs recorded in the balancing account."<sup>6</sup>

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<sup>5</sup> See SCE's discussion of the background of the MBA on pages 209-210 of Exhibit SCE-2.

<sup>6</sup> See p. 210 of Exhibit SCE-2.

That is what SCE proposes to do here.<sup>7</sup> DRA offers no support whatsoever for its assertion, and the Commission should therefore reject it.

**IV.**

**SCE PROPOSES SLIGHT MODIFICATIONS TO DRA’S REQUESTED SCHEDULE**

In its application, SCE proposed a schedule that would allow for a Commission decision by year-end 2011. In its protest, DRA offers an alternative schedule that provides for a proposed decision from the Commission by the end of January 2011. SCE is concerned that DRA’s schedule will not allow for a final Commission decision in this proceeding by the end of February 2011, meaning that SCE will not be able to implement its requested rate change beginning March 2011, concurrent with its 2011 consolidated rate change. To avoid this issue, SCE recommends the following revised schedule:

Pre-Hearing Conference:	June 1, 2, or 3, 2010
DRA/Intervenor Testimony:	September 20, 2010
Utility Rebuttal Testimony:	October 18, 2010
Hearings (if needed):	November 8-10, 2010
Concurrent Briefs:	To be determined
Proposed Decision	January 14, 2011
Comments on Proposed Decision:	February 3, 2011
Replies to Comments:	February 8, 2011
Final Commission Decision	February 2011

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<sup>7</sup> It is possible that DRA is also requesting the Commission to review SCE’s compliance with Rule 3.2 in SCE’s 2006 GRC, A.04-12-014, to determine if SCE noticed the requested funding level for the MBA in that proceeding. If this is the case, then the Commission should deny DRA’s request. The Commission clearly believed that SCE complied with Rule 3.2 in A.04-12-014; otherwise, why would it have authorized SCE’s requested revenue requirement for the MBA in its final decision in that proceeding, D.06-05-016, and instructed SCE to have its recorded costs in the MBA reviewed for reasonableness in a later proceeding? The Commission should not permit DRA to use SCE’s request for reasonableness review of its recorded entries in the MBA as a means to reconsider the Commission’s initial authorization of recovery of this account’s balance in D.06-05-016.

SCE's revised schedule gives DRA until mid-September to prepare its report, prevents customer confusion resulting from frequent rate changes, and represents a reasonable compromise between the parties' requested schedules. As such, it should be adopted by the Commission.

V.

**CONCLUSION**

For the reasons stated above, SCE requests that the Commission review its non-ERRA accounts, including the MBA, in this ERRA Review proceeding and to adopt the schedule it has proposed above.

Respectfully submitted,

/s/  
\_\_\_\_\_  
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May 20, 2010

**Attachment A**



PRELIMINARY STATEMENT

Sheet 12

(Continued)

YY. Base Revenue Requirement Balancing Account (BRRBA) (Continued)

7. Rate Level Changes

Pursuant to D.04-01-048, D.04-03-023, D.04-07-022, and D.06-05-016 SCE shall update its Distribution and Generation Rate levels to reflect the most current Commission-adopted revenue requirements in its August Energy Resource Recovery Account (ERRA) application. The balance forecast to be recorded in the Distribution Sub-account of the BRRBA (either overcollected or undercollected) on December 31<sup>st</sup> of the current year, plus an amount for FF & U, shall be included in the Distribution revenue requirement to either be returned to, or recovered from, SCE's retail electric customers in Distribution rate levels. Likewise, the balance forecast to be recorded in the Generation Sub-account of the BRRBA (either overcollected or undercollected) on December 31<sup>st</sup> of the current year, plus an amount for FF & U, shall be included in the Generation revenue requirement to either be returned to, or recovered from SCE's retail electric customers in Generation rate levels. Prior to implementing consolidated Commission-authorized revenue requirements and rate levels to recover those revenue requirements, the BRRBA balance will be updated to reflect the latest recorded balance available.

8. Review Procedures

Pursuant to D.04-01-048, D.04-03-023, D.04-07-022, D.06-05-016, and D.09-03-025 (T) the recorded operation of the BRRBA for the Record Period (or previous calendar year 12-month period) shall be reviewed by the Commission in SCE's annual April ERRA application to ensure that the entries made in the BRRBA are stated correctly and are consistent with Commission decisions.

SCE shall provide a monthly report showing the activity in the BRRBA to Energy Division within 30 days of the end of each month.

(Continued)

(To be inserted by utility)  
Advice 2336-E  
Decision 09-03-025

Issued by  
Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)  
Date Filed Mar 30, 2009  
Effective \_\_\_\_\_  
Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 3

(Continued)

AA. CALIFORNIA ALTERNATIVE RATES FOR ENERGY (CARE) BALANCING ACCOUNT

3. Operation of CBA (Continued)

b. CARE Administration (Over)/Under Collection calculated as follows:

- (1) Credit entry equal to the Annual Authorized CARE and FERA Administrative Costs divided by 12 as recorded in the PPPAM; (T)
- (2) Debit entry equal to the actual amount of CARE and FERA Administrative costs incurred (excluding costs associated with the automatic enrollment program and the Energy Division audit that, pursuant to D.02-09-021, shall be tracked separately - See 3.c and 4.d below) (T)

c. Automatic Enrollment-related Expenses

Debit entry equal to the actual amount of expenses associated with the automatic enrollment program.

d. Energy Division Audit-related Expenses

Debit entry to the actual amount of expenses that SCE reimburses the Energy Division related to Energy Division's audit of SCE's CARE programs.

If the sum of "a" through "d" above results in a positive amount (under-collection), then such amount shall be debited to the CBA. If the sum of "a" and "d" above results in a negative amount (over-collection), then such amount shall be credited to the CBA.

4. California Alternate Rates for Energy Balancing Account (CBA) Year-End Transfer:

On December 31 of each year, SCE will record an entry to reflect the annual transfer of the December 31 recorded balance in the CBA per D.06-12-038.

5. Public Purpose Programs Charge Rate Level Changes:

Pursuant to D.04-01-048 and D.04-03-023, SCE shall update its Public Purpose Programs Charge rate levels to reflect the most current Commission-adopted revenue requirements in its August Energy Resource Recovery Account (ERRA) application.

6. Review Procedures

Pursuant to D.04-01-048 and D.04-03-023, the recorded operation of the CBA for the Record Period (or previous calendar year 12-month period) shall be reviewed by the Commission in SCE's annual April ERRA application to ensure that the entries made in the CBA are stated correctly and are consistent with Commission decisions.

SCE shall provide a monthly report showing the activity in the CBA to Energy Division within 30 days of the end of each month.

(To be inserted by utility)

Advice 2300-E  
Decision 08-11-031

Issued by

Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)

Date Filed Dec 19, 2008  
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Resolution \_\_\_\_\_

PRELIMINARY STATEMENT

Sheet 57 (T)

(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

42. Department of Energy Litigation Memorandum Account (DOELMA)

The purpose of the Department of Energy Litigation Memorandum Account (DOELMA) is to record:

- (1) SCE's incremental litigation costs; and (2) damages and other proceeds received by SCE from the federal government associated with the breach of contract complaint brought by SCE against the DOE for failure to take possession of San Onofre Nuclear Generating Station (SONGS) spent nuclear fuel.

Incremental litigation costs recorded in the DOELMA shall only include costs incurred by SCE for outside counsel, expert witnesses, and other outside litigation costs specifically identified with SCE's breach of contract litigation with the DOE. SCE's in-house counsel costs and other in-house DOE-related litigation costs shall not be recorded in the DOELMA.

SCE shall maintain the DOELMA by making monthly entries as follows:

- a. A debit entry to record incremental costs incurred by SCE for outside counsel, expert witnesses, and other outside litigation costs specifically identified with the DOE litigation;
- b. A credit entry to record proceeds received by SCE from the federal government; and
- c. An entry to record interest expense by applying the Interest Rate to the average of the beginning-of-month and end-of-month DOELMA balances.

2. Disposition of Net Amount Recorded in the DOELMA

At a future date, SCE shall make a proposal to dispose of the net amount recorded in the DOELMA in an application before the Commission. In its application, SCE shall also justify the reasonableness of its incremental litigation costs recorded in the DOELMA.

(Continued)

(To be inserted by utility)

Advice 2151-E

Decision \_\_\_\_\_

Issued by

Akbar Jazayeri

Vice President

(To be inserted by Cal. PUC)

Date Filed Aug 9, 2007

Effective Sep 8, 2007

Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 33 (T)

(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

28. Energy Settlements Memorandum Account (ESMA)

The purpose of the Energy Settlements Memorandum Account (ESMA) is to record: 1) refund amounts received by SCE resulting from FERC investigation settlement agreements associated with wholesale power purchases made on behalf of SCE's Bundled Service customers during portions of 2000 and 2001; and 2) other costs and offsets associated with settlement agreements. Entries to the ESMA shall be made in accordance with Commission Resolution E-3894 (dated November 19, 2004).

SCE shall maintain the ESMA by making monthly entries as follows:

- a. A credit entry equal to settlement agreements refund amounts received by SCE;
- b. A credit entry equal to the entire amount of refunds received from SDG&E associated with settlement agreements;
- c. A debit entry equal to set-aside costs for outside attorneys and consultants associated with settlement agreements;
- d. A debit entry equal to payment amounts that SCE is required to provide to other market participants in the California Power Exchange in accordance with applicable settlement agreements;
- e. A debit entry equal to amounts retained by SCE's shareholders associated with net proceeds from Settlement Agreements.

Interest shall accrue monthly to the ESMA by applying one-twelfth of the three month Commercial Paper rate (expressed as an annual rate) as reported by the Federal Reserve to the average monthly ESMA balance.

Amounts recorded in the ESMA shall be reviewed by the Commission in an applicable Energy Resource Recovery Account (ERRA) proceeding.

Litigation Costs Tracking Account

In accordance with Resolution E-3894, SCE shall maintain a Litigation Costs Tracking Account within the ESMA to track: 1) litigation costs that are "set-aside" in the FERC investigation settlement agreements; and 2) actual litigation costs incurred by SCE. Amounts recorded in the Litigation Costs Tracking Account shall be subject to audit in SCE's ERRA proceedings.

SCE may request recovery of actual litigation costs that exceed amounts "set-aside" in the FERC-investigation settlement agreements in a separate application. Entries to the Litigation Costs Tracking Account shall be made as follows:

- a. A debit entry equal to SCE's actual litigation costs associated with FERC-investigation settlement agreements;
- b. A credit entry equal to litigation costs "set-aside" in FERC-investigation settlement agreements.

Interest shall accrue monthly to the Litigation Costs Tracking Account by applying one-twelfth of the three-month Commercial Paper, as reported by the Federal Reserve, to the average monthly balance in the Litigation Costs Tracking Account.

(Continued)

(To be inserted by utility)  
Advice 2151-E  
Decision \_\_\_\_\_

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Date Filed Aug 9, 2007  
Effective Sep 8, 2007  
Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 56

(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

41. Market Redesign and Technology Upgrade Memorandum Account (MRTUMA)

The purpose of the Market Redesign and Technology Upgrade Memorandum Account (MRTUMA) is to record SCE's incremental costs associated with the California Independent System Operator's (CAISO) MRTU initiative. (T)

1. Operation of the MRTUMA

Debit entries (on a CPUC-jurisdictional, revenue requirement basis including book depreciation, applicable taxes, and an authorized return on rate base) to the MRTUMA shall be made monthly, and include the following:

- a. Software licensing and implementation costs;
- b. Computing hardware and networking equipment costs; and
- c. Direct labor and non-labor costs, including MRTU-related operational expenses and Information Technology expenses for the maintenance and support of the new MRTU application. (T)

2. Disposition of Amounts Recorded in the MRTUMA

SCE shall request recovery of amounts recorded in the MRTUMA in an ERRRA Reasonableness of Operations proceeding, or other regulatory proceeding as directed by the Commission. (T)

Interest expense shall accrue monthly in the MRTUMA by applying one-twelfth of the Federal Reserve's three-month Commercial Paper Rate – non-financial, from the Federal Reserve's Statistical Release H.15 (expressed as an annual rate) to the average monthly balance in the MRTUMA. If a non-financial rate is not published by the Federal Reserve in a given month, SCE shall use the Federal Reserve's three-month commercial paper rate – financial.

(Continued)

(To be inserted by utility)

Advice 2336-E  
 Decision 09-03-025

Issued by  
Akbar Jazayeri  
 Vice President

(To be inserted by Cal. PUC)

Date Filed Mar 30, 2009  
 Effective Mar 30, 2009  
 Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 3

(Continued)

VV. Medical Programs Balancing Account (Continued)

3. Operation of MPBA: (Continued)

b. Generation Sub-Account:

- i. Recorded CPUC-jurisdictional generation-related medical, dental and vision expense (before capitalization);
- ii. Less: an entry equal to the result of multiplying the generation authorized medical, dental, and vision expense (before capitalization rate) by the applicable generation MDP;
- iii. Equals: Generation medical, dental and vision expense (over)/undercollection before capitalization
- iv. Less: the amount capitalized determined by multiplying (iii) above by the Capitalization Rate.
- v. Equals: Generation medical, dental and vision expense (over)/undercollection after capitalization

Interest Expense shall accrue monthly to the generation sub-account of the MPBA by applying the Interest Rate to the average of the beginning-of-month and end-of-month balances in the generation sub-account of the MPBA.

4. Disposition of the MPBA Balance

SCE shall transfer on an annual basis any (over)/undercollection recorded in the MPBA as of December 31<sup>st</sup> to the Base Revenue Requirement Balance Account (BRRBA) to be recovered from or returned to customers. The operation of the MPBA shall be reviewed in the annual April 1<sup>st</sup> ERRA reasonableness proceeding.

(Continued)

(To be inserted by utility)

Advice 2336-E  
 Decision 09-03-025

Issued by

Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)

Date Filed Mar 30, 2009  
 Effective Mar 30, 2009  
 Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 3

(Continued)

NN. Mohave Balancing Account (Continued)

2. Definitions: (Continued)

f. Rate of Return on Rate Base

The rate of return on SCE's rate base shall be the currently authorized rate of return adopted in SCE's most recent Cost of Capital decision.

g. Worker Protection Expenses

Worker Protection expenses consist of recorded worker protection benefits associated with employees impacted by the Mohave shutdown and shall include, but are not limited, to the following:

- Severance payments
- Retraining expenses
- Early retirement expenses
- Extended health coverage expenses;
- Outplacement expenses;
- Other employee-related expenses approved by the Commission.

3. Operations of the MBA

a. One time transfer of the balance recorded in the Mohave Employee-Related Memo Account (MERMA).

b. Monthly entries in the MBA shall be made on a monthly basis as follows:

- i. Debit entry equal to recorded Capital-related Expenses;
- ii. Plus: debit entry equal to recorded Operating Expenses;
- iii. Less: Authorized Mohave Revenue Requirement less a provision for FF & U, adopted in D.06-05-016 multiplied by the generation MDP found in the Base Revenue Requirement Balancing Account (BRRBA) Preliminary Statement;
- iv. Equals: the monthly (Over)/Under Collection.

Interest shall accrue monthly to the MBA by applying the Interest Rate to the average of the beginning of month and end of month balance in the MBA.

4. Review Procedures

Reasonableness of amounts recorded in the MBA shall be determined in SCE's April 1<sup>st</sup> ERRR annual reasonableness proceedings. Any (over)/undercollection in the MBA shall be transferred to the BRRBA to be recovered from or returned to customer on an annual basis.

(Continued)

(To be inserted by utility)

Advice 2003-E  
Decision 06-05-016

Issued by

Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)

Date Filed May 22, 2006  
Effective May 22, 2006  
Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 3 (T)

(Continued)

RR. NEW SYSTEM GENERATION BALANCING ACCOUNT (Continued):

New System Generation Rate Level Changes:

SCE shall update its New System Generation rate levels to reflect the most current Commission-adopted revenue requirements in its August Energy Resource Recovery Account (ERRA) application. The balance forecast to be recorded in the NSGBA (either over-collected or under-collected on December 31 of the current year), plus an amount for Franchise Fees & Uncollectibles (FF&U), shall be included in the New System Generation revenue requirement to either be returned to, or recovered from, SCE's retail electric customers in New System Generation rate levels. Prior to implementing consolidated Commission-authorized revenue requirements and unfunded rate levels to recover those revenue requirements, the NSGBA balance will be updated to reflect the latest recorded balance available.

Review Procedures:

The recorded operation of the NSGBA for the Record Period (previous calendar year 12-month period) shall be reviewed by the Commission in SCE's annual April ERRA reasonableness application to ensure that the entries made in the NSGBA are stated correctly and are consistent with Commission decisions.

SCE shall provide a monthly report showing the activity in the NSGBA to the Energy Division within 30 days of the end of each month.

(To be inserted by utility)

Advice 2336-E  
Decision 09-03-025

3010

Issued by

Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)

Date Filed Mar 30, 2009  
Effective \_\_\_\_\_  
Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 2

(Continued)

K. NUCLEAR DECOMMISSIONING ADJUSTMENT MECHANISM (Continued)

3. Operation of the NDAM (Continued)

- b. Debit entry equal to the Recorded Spent Nuclear Fuel Storage Fees, which are: (1) amounts associated with nuclear fuel storage at the General Electric Morris Storage Facility; and (2) amounts paid to the City of Anaheim for storage space at the SONGS 2&3 spend fuel pools; (T)
- c. Debit entry equal to the Recorded Department of Energy Decontamination and Decommissioning (DOE D&D) Fees. Such fees are associated with SONGS and Palo Verde, and are incurred by complying with the Energy Policy Act of 1992; (T)
- d. Credit entry equal to the recorded NDAM Revenue. (T)

The sum of (a) through (d) equals the activity recorded in the NDAM each month. (T)

Interest shall accrue monthly to the NDAM by applying the Interest Rate to the average of the beginning and ending monthly NDAM balances.

4. Nuclear Decommissioning Rate Level Changes:

Pursuant to D.04-01-048 and D.04-03-023, SCE shall update its Nuclear Decommissioning rate levels to reflect the most current Commission-adopted revenue requirements in its August Energy Resource Recovery Account (ERRA) application. The balance forecast to be recorded in the NDAM (either overcollected or undercollected on December 31<sup>st</sup> of the current year, plus an amount for FF&U, shall be included in the Nuclear Decommissioning revenue requirement to either be returned to, or recovered from, SCE's retail electric customers in Nuclear Decommissioning rate levels. Prior to implementing consolidated commission-authorized revenue requirements and unfunded rate levels to recover those revenue requirements, the NDAM balance will be updated to reflect the latest recorded balance available.

5. Review Procedures

Pursuant to D.04-01-048 and D.04-03-023, the recorded operation of the NDAM for the Record Period (or previous calendar year 12-month period) shall be reviewed by the Commission in SCE's annual April ERRA application to ensure that the entries made in the NDAM are stated correctly and are consistent with Commission decisions.

SCE shall provide a monthly report showing the activity in the NDAM to Energy Division within 30 days of the end of each month.

(Continued)

(To be inserted by utility)  
Advice 1808-E  
Decision 04-07-022

Issued by  
John R. Fielder  
Senior Vice President

(To be inserted by Cal. PUC)  
Date Filed Jul 16, 2004  
Effective Jul 16, 2004  
Resolution E-3895



Southern California Edison  
 Rosemead, California (U 338-E)

Original  
 Cancelling

Cal. PUC Sheet No. 44944-E  
 Cal. PUC Sheet No.

PRELIMINARY STATEMENT

Sheet 3

(Continued)

J. Palo Verde Balancing Account (Continued)

4. Review Procedures

SCE shall transfer any (over)/undercollection recorded in the PVBA annually to the Generation Subaccount in the BRRBA to be recovered from or returned to customers on an annual basis.

The operation of the PVBA shall be reviewed in SCE's annual April 1<sup>st</sup> ERRA reasonableness proceeding.

(Continued)

(To be inserted by utility)

Advice 2336-E  
 Decision 09-03-025

Issued by

Akbar Jazaveri  
Vice President

(To be inserted by Cal. PUC)

Date Filed Mar 30, 2009  
 Effective Mar 30, 2009  
 Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 3

(Continued)

OO. Pensions Costs Balancing Account (Continued)

3. Operation of PCBA: (Continued) (T)

b. Generation Sub-Account:

- i. Recorded CPUC-jurisdictional generation-related Pension expenses (before capitalization);
- ii. Less: an entry equal to the result of multiplying the generation authorized Pension costs (before capitalization rate) by the applicable generation MDPs;
- iii. Equals: Generation Pension Costs (over)/undercollection before capitalization;
- iv. Less: the amount capitalized determined by multiplying (iii) above by the capitalization rate;
- v. Equals: Generation Pension Costs (over)/undercollection after capitalization.

Interest shall accrue monthly to the generation sub-account of the PCBA by applying the Interest Rate to the average of the beginning-of-month and end-of-month balances in the generation sub-account of the PCBA.

4. Disposition of the PCBA Balance (T)

[ SCE shall transfer on an annual basis any (over)/undercollection recorded in the PCBA to the Base Revenue Requirement Balancing Account as of December 31<sup>st</sup> to be recovered from or returned to customers. The operation of the PCBA shall be reviewed in the annual April 1<sup>st</sup> ERRA reasonableness proceeding. ] (T)  
 (D)

(Continued)

(To be inserted by utility)

Advice 2336-E  
 Decision 09-03-025

Issued by

Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)

Date Filed Mar 30, 2009  
 Effective Mar 30, 2009  
 Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 3

(Continued)

PP. Post Employment Benefits Other Than Pensions (PBOP) Costs Balancing Account  
(Continued)

3. Operation of PBOP BA: (Continued) (T)

b. Generation Sub-Account:

- i. Recorded CPUC-jurisdictional generation-related PBOP expenses (before capitalization);
- ii. Less: an entry equal to the result of multiplying the generation authorized PBOP costs (before capitalization rate) by the applicable generation MDPs;
- iii. Equal: Generation PBOP Costs (over)/undercollection before capitalization;
- iv. Less: the amount capitalized determined by multiplying (iii) above by the Capitalization Rate; (T)
- v. Equals: Generation PBOP Costs (over)/undercollection after capitalization.

Interest Expense shall accrue monthly to the generation sub-account of the PBOP BA by applying the Interest Rate to the average of the beginning-of-month and end-of-month balances in the generation sub-account of the PBOP BA.

4. Disposition of the PBOP BA Balance (T)

SCE shall transfer on an annual basis any (over) undercollection recorded in the PBOP BA to the Base Revenue Requirement Balancing Account as of December 31<sup>st</sup> to be recovered from or returned to customers. The operation of the PBOP BA shall be reviewed in the annual ERRA reasonableness proceeding. (T)

(D)

(Continued)

(To be inserted by utility)

Advice 2336-E  
Decision 09-03-025

Issued by

Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)

Date Filed Mar 30, 2009  
Effective Mar 30, 2009  
Resolution \_\_\_\_\_



Southern California Edison  
Rosemead, California

Revised Cal. PUC Sheet No. 40529-E  
Cancelling Revised Cal. PUC Sheet No. 36299-E

PRELIMINARY STATEMENT

Sheet 7 (T)

(Continued)

FF. PUBLIC PURPOSE PROGRAMS ADJUSTMENT MECHANISM

4. PGC Annual Adjustments

Pursuant to Resolution E-3792 and consistent with P.U. Code §399.8, SCE shall file an advice letter on or before March 31<sup>st</sup> of each year through 2011 to adjust the annual PGC authorized revenue requirements. The annual adjustment shall be determined as follows:

- a. Determine the actual percentage change in electric sales (based on quantity). For the first adjustment determination to be submitted in March, 2003, the actual percentage change shall be the change between 2001 and 2002;
- b. Determine the percentage change in prices as measured by the change in the GDP deflator, as published by the U.S. Department of Commerce. For the first adjustment determination, SCE shall use the change in the GDP deflator in 2002;
- c. The lower percentage amount determined in "a" and "b", above, shall be used to adjust the authorized PGC revenue requirements.

If the lower of sales change and price change is negative in any one year, authorizations for the subsequent year shall remain constant. If the GDP deflator statistics for 2002 are not finalized by the U.S. Department of Commerce by March 31, 2003, or for any subsequent year, SCE should use the most recent published forecast for this advice letter filing and true-up the adjustment through an amended filing once the Department of Commerce publishes a final statistic.

5. Public Purpose Programs Charge Rate Level Changes:

Pursuant to D.04-01-048 and D.04-03-023, SCE shall update its Public Purpose Programs Charge rate levels to reflect the most current Commission-adopted revenue requirements in its August Energy Resource Recovery Account (ERRA) application. The balance forecast to be recorded in the PPPAM (either overcollected or undercollected on December 31<sup>st</sup> of the current year, plus an amount for FF&U, shall be included in the Public Purpose Programs Charge revenue requirement to either be returned to, or recovered from, SCE's retail electric customers in Public Purpose Programs Charge rate levels. Prior to implementing consolidated commission-authorized revenue requirements and unfunded rate levels to recover those revenue requirements, the PPPAM balance will be updated to reflect the latest recorded balance available.

6. Review Procedures

Pursuant to D.04-01-048 and D.04-03-023, the recorded operation of the PPPAM for the Record Period (or previous calendar year 12-month period) shall be reviewed by the Commission in SCE's annual April ERRA application to ensure that the entries made in the PPPAM are stated correctly and are consistent with Commission decisions.

SCE shall provide a monthly report showing the activity in the PPPAM to Energy Division within 30 days of the end of each month.

(To be inserted by utility)

Advice 1986-E  
Decision 05-09-043  
7C11 05-11-011

Issued by

Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)

Date Filed Mar 30, 2006  
Effective Apr 29, 2006  
Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 59

(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

44. Project Development Division Memorandum Account (PDDMA)

The purpose of the Project Development Division Memorandum Account is to track the Project Development Division recorded support costs, as authorized in D.06-05-016 and D.09-03-025. The recorded costs in PDDMA shall exclude costs related to proposed project developments. (T)

1. Entries to the PDD shall be made monthly as follows:

a. A debit entry for recorded PDD support expenses including, but not limited, to the following:

- (1) identifying locations for new generation; (T)
- (2) evaluating generation technologies; (T)
- (3) tracking regulatory and legislative generation-related initiative; (T)
- (4) the development of the best option outside negotiation (BOON) for future generation need; (T)
- (5) resource planning and request for offer (RFO) development and evaluation. (T)

Interest shall accrue monthly by applying one-twelfth of the Federal Reserve three-month Commercial Paper Rate – Non-Financial, from Federal Reserve Statistical Release H.15 (expressed as an annual rate) to the average monthly balance. If in any month a non-financial rate is not published, SCE shall use the Federal Reserve three-month Commercial Paper Rate – Financial.

Reasonableness of amounts recorded in the PDDMA shall be determined in SCE's April 1<sup>st</sup> ERRA Reasonableness proceedings. Recorded PDD costs found reasonable shall be transferred to the Base Revenue Requirement Balancing Account (BRRBA) on an annual basis.

(Continued)

(To be inserted by utility)  
Advice 2336-E  
Decision 09-03-025

Issued by  
Akbar Jazaveri  
Vice President

(To be inserted by Cal. PUC)  
Date Filed Mar 30, 2009  
Effective \_\_\_\_\_  
Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 9

(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

8. Results Sharing Memorandum Account

The purpose of the Results Sharing Memorandum Account (RSMA) is to annually compare the authorized and actual Results Sharing expenses paid out for 2009, 2010 and 2011 and to record the difference pursuant to D.09-03-025 Ordering Paragraph 16. (T)

a. SCE shall maintain the RSMA by making entries at the end of each month as follows:

1. A debit entry for the actual Results Sharing amount paid out after capitalization. (T)
2. A credit entry equal to the result of multiplying the authorized amount for Results Sharing by the applicable (Distribution / Generation) MDP as set forth in Preliminary Statement YY, Base Revenue Requirement Balancing Account (BRRBA) after capitalization. (T)

**Total Company Authorized – Results Sharing Before Capitalization  
In Thousands**

	2006 Dollars	2009 Dollars
Generation	13,772	15,278
Transmission & Distribution	36,170	40,301
Customer Service	14,128	15,742
Administrative & General	<u>31,782</u>	<u>35,411</u>
<b>Total Before Capitalization</b>	<b>95,852</b>	<b>106,732</b>

Interest shall accrue monthly by applying one-twelfth of the Federal Reserve three-month Commercial Paper Rate – Non-Financial, from Federal Reserve Statistical Release H.15 (expressed as an annual rate) to the average monthly balance. If in any month a non-financial rate is not published, SCE shall use the Federal Reserve three-month Commercial Paper Rate – Financial.

Any underexpended CPUC Results Sharing balance, as recorded in the RSMA, shall be transferred to the BRRBA annually and reviewed in the annual April 1<sup>st</sup> ERRA reasonableness proceeding.

(Continued)

(To be inserted by utility)

Advice 2336-E  
Decision 09-03-025

Issued by

Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)

Date Filed Mar 30, 2009  
Effective \_\_\_\_\_  
Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 4

(Continued)

QQ. Edison SmartConnect™ Balancing Account (SmartConnect™ BA) (Continued)

6. Review Procedures

The recorded operation of the SmartConnect™ BA for the Record Period (or previous calendar year 12-month period) shall be reviewed by the Commission in SCE's annual April ERRA application to ensure that the entries made in the SmartConnect™ BA are stated correctly and were incurred for Phase III activities as authorized by the Commission in D.08-09-039.

SCE shall provide a monthly report showing the activity in the SmartConnect™ BA to the Energy Division within 30 days of the end of each calendar month.

(To be inserted by utility)  
Advice 2277-E  
Decision 08-09-039

Issued by  
Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)  
Date Filed Oct 20, 2008  
Effective Sep 18, 2008  
Resolution \_\_\_\_\_



PRELIMINARY STATEMENT

Sheet 64

(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

48. Solar Photovoltaic Program (SPVP) Memorandum Account

(N)

1. Purpose

The purpose of the Solar Photovoltaic Program Memorandum Account (SPVPMA) is to record incremental O&M and capital-related revenue requirement (i.e. depreciation, return on rate base, and taxes) associated with the first \$25 million of direct capital expenditures incurred in the Solar PV Program. However, if the Commission does not act on SCE's Solar PV Application filed on March 27, 2008 in 2008, SCE requests to record incremental O&M and capital-related revenue requirement associated with the direct capital expenditures above \$25 million in the SPVPMA until a final Commission decision is issued in that application. Consistent with D.06-05-039, SCE will calculate the rate of return on rate base using SCE's current authorized rate of return of 8.75%, plus 1%, since this new plant will be utility-owned renewable generation.

2. Operation of the SPVPMA

Monthly entries to the SPVPMA shall be determined as follows:

- a. A debit entry equal to SCE's recorded incremental O&M expenses associated with the SPVP.
- b. A debit entry equal to SCE's recorded incremental capital-related revenue requirement (including book depreciation, applicable taxes, and an authorized rate of return on recorded rate base) associated with the SPVP.
- c. A credit entry to transfer the balance in the SPVPMA to the SPVPBA upon Commission authorization.

Interest expense shall accrue to the SPVPMA by applying the Interest Rate to the average monthly SPVPMA balance.

(N)

(To be inserted by utility)

Advice 2226-E  
Decision \_\_\_\_\_

64C12

Issued by

Akbar Jazayeri  
Vice President

(To be inserted by Cal. PUC)

Date Filed Mar 27, 2008  
Effective Sep 18, 2008  
Resolution E-4182

Decision 09-06-049 June 18, 2009

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

Application of Southern California Edison  
Company (U338E) for Authority to Implement  
and Recover in Rates the Cost of its Proposed  
Solar Photovoltaic (PV) Program.

Application 08-03-015  
(Filed March 27, 2008)

**DECISION ADDRESSING A SOLAR PHOTOVOLTAIC PROGRAM  
FOR SOUTHERN CALIFORNIA EDISON COMPANY**

standard 20-year power purchase agreement contract for use in the request for offer.

3. Southern California Edison Company shall transfer the balance in the Solar Photovoltaic Program Memorandum Account to the Solar Photovoltaic Program Balancing Account for future rate recovery after Commission's review of the balance in the energy resource recovery account reasonableness proceeding.

4. Southern California Edison Company shall file an annual compliance report in this proceeding as described in Section 6.2 of this decision. The first report shall be filed on July 1, 2010, and subsequent reports filed on July 1 thereafter. The filing of the compliance report does not re-open the proceeding.

5. Application 08-03-015 is closed.

This order is effective today.

Dated June 18, 2009, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
TIMOTHY ALAN SIMON  
Commissioners

I reserve the right to file a concurrence.

/s/ Dian M. Grueneich  
Commissioner

**Attachment B**



**FILED**

06-24-09  
02:47 PM

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

Application of Southern California Edison Company (U338E) for a Commission finding that its Procurement-Related and Other Operations for the Record Period January 1 through December 31, 2008 complied with its Adopted Procurement Plan; for Verification of its Entries in the Energy Resource Recovery Account and Other Regulatory Accounts; and for Recovery of \$35.796 Million Recorded in Four Memorandum Accounts.

Application 09-04-002  
(Filed April 1, 2009)

**ASSIGNED COMMISSIONER'S RULING AND SCOPING MEMO**

Pursuant to Rule 7.3(a) of the Commission's Rules of Practice and Procedure<sup>1</sup> and following the prehearing conference held on June 2, 2009, this scoping memo sets the procedural schedule, assigns the presiding officer and addresses the scope of this proceeding.

**1. Background**

In Decision (D.) 02-10-062 and D.02-12-074, the Commission determined that certain procurement related operations should be reviewed annually in the Energy Resource Recovery Account (ERRA) proceeding. This review includes utility retained generation (URG) expenses, Southern California Edison

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<sup>1</sup> All subsequent references to Rules are to the Commission's Rules of Practice and Procedure. The current version of the Rules is available on the Commission's website: [www.cpuc.ca.gov](http://www.cpuc.ca.gov).

Company's (SCE) administration of existing qualifying facility (QF) contracts, bilateral contracts, inter-utility power contracts, renewable resource contracts, natural gas tolling agreements, and California Department of Water Resources contracts allocated to SCE's customers in D.02-09-053. In addition, the Commission requires SCE to demonstrate that its least-cost dispatch operations and related spot market transactions during the Record Period complied with Standard of Conduct Four in its Commission-approved procurement plan, as clarified in D.05-01-054. In this application SCE sets forth its procurement related operations for the Record Period January 1, 2008 through December 31, 2008 for such review and demonstration.

Also, as required by D.02-10-062, SCE sets forth the entries recorded in the ERRR Balancing Account and other regulatory accounts for review. SCE requests that the Commission find its operations and entries related to these regulatory accounts to be appropriate, correctly stated, and in compliance with the relevant Commission decisions. SCE also seeks to recover the net under-collected balance of \$35.386 million recorded in four of these accounts.

A protest to the application was filed by the Division of Ratepayer Advocates (DRA) on May 6, 2009. SCE filed a reply to the protest on May 18, 2009.

## **2. Scope**

The principal issues to be resolved in this proceeding are:

- Whether SCE's recorded fuel expenses and energy expenses for the Record Period were reasonable;
- Whether SCE's contract administration, dispatch of generation resources, and related spot market transactions for the Record Period complied with Standard of Conduct Four in SCE's Commission-approved procurement plan;

- Whether other operations subject to Commission review in this ERRA proceeding were reasonable; and
- Whether SCE should be authorized a revenue increase of \$35.796 million, or 0.323%, for under-collections in four memorandum accounts authorized by the Commission: (1) the Department of Energy Litigation Memorandum Account, (2) the Market Redesign and Technology Upgrade Memorandum Account (MRTUMA), (3) the New System Generation Memorandum Account, and (4) the Project Development Division Memorandum Account.

In its protest to the application, DRA stated that it anticipated issues regarding the following:

- Whether outages and the fuel procurement activities for SCE's URG and allocated California Department of Water Resources contracts were reasonable;
- Whether SCE administers and manages the QF and non-QF contracts in accordance with the contract provisions, uses prudent auditing practices and follows Commission guidelines;
- Whether SCE achieved least cost dispatch of its energy resources, including day-ahead and hour-ahead transactions;
- Whether the entries in the ERRA balancing account and other balancing and memorandum accounts are reasonable;
- Whether the inclusion in this ERRA application of additional, non-ERRA annual balancing accounts is reasonable; and
- Whether the instant application was properly served pursuant to Commission Rules of Practice and Procedure, Rule 3.2.

Whether the inclusion of non-ERRA annual balancing accounts is reasonable is discussed below. The other potential issues relate directly to SCE's application and fall within the scope of this proceeding.

### **3. Non-ERRA Accounts**

DRA notes that SCE has included a number of non-ERRA accounts for review in this proceeding. According to DRA, the other two major Investor

Owned Utilities (IOUs) address similar non-ERRA annual accounts in a variety of different ways. Some of these annual accounts have been included in the ERRA compliance filings by the other IOUs, while others have not been included at all. Also, one IOU has indicated that it will include a portion of these non-ERRA annual account reviews in its ERRA Forecast filing (as opposed to its ERRA Compliance filing). DRA seeks clarification regarding the appropriateness of including these non-ERRA annual accounts in the ERRA proceeding and urges that a consistent mechanism or approach be adopted.

DRA suggests that one possible method for addressing these inconsistencies would be to bifurcate the annual non-ERRA accounts from the pure ERRA issues and develop a separate track or phase of the instant proceeding. DRA's preferred approach would be to require that all annual non-ERRA accounts be submitted together as one filing separate from the ERRA filing, to be filed by all three IOUs at the same time, and then consolidated by the Commission. DRA states that the value of such an application that addresses all annual non-ERRA accounts, such as the MRTUMA, would be that the analysis of the expenditures could be performed across all IOUs. According to DRA, a comparison of how all of the IOUs are addressing a particular account would be easier and more useful if the analysis of those accounts were done contemporaneously.

In reply to the protest, SCE states that the Commission has the discretion to review issues in the ERRA reasonableness proceeding that are not ordinarily considered ERRA issues whenever it decides it is appropriate to do so and the Commission has repeatedly decided that it is appropriate and reasonable to so. SCE indicates that, by including these accounts in this proceeding, it is

complying with previous Commission decisions and Resolutions as well as the requirements of its Commission-approved tariffs.

Based on discussion at the Prehearing Conference (PHC), it is clear that non-ERRA accounts have been included and reviewed in past SCE ERRA applications; there were no substantive issues in SCE's last ERRA compliance filing; DRA has begun analyzing the non-ERRA accounts in this proceeding; and DRA's proposed schedule includes time to analyze the non-ERRA accounts. Also, in order to remove non-ERRA accounts from SCE's ERRA filings, it appears a number of Commission determinations in previous decisions, resolutions and approved tariffs may have to be modified. What is not clear is the extent of the problems related to addressing non-ERRA accounts in the ERRA proceeding; where and how the other IOUs address each of the non-ERRA accounts presented by SCE in this proceeding; and why it would be appropriate to override previous Commission determinations that certain non-ERRA accounts should be addressed in SCE's ERRA proceeding.

Since the Commission has previously determined that certain non-ERRA accounts should be included in SCE's ERRA compliance filing, it is appropriate for SCE to do so and appropriate for the Commission to address these accounts as part of this proceeding. Also, since DRA is currently analyzing the non-ERRA accounts and included the time for such analysis in its proposed schedule, there is no reason to bifurcate this proceeding to analyze non-ERRA accounts separately.

There may be merit to DRA's suggestion that it would be more appropriate to address non-ERRA accounts collectively for all three IOUs, but the record on this issue would have to be more fully developed, in order for the Commission to consider the need for, and make, such changes. DRA may

include this issue as part of its direct testimony, with the understanding that any Commission determined changes as to where, or how, these non-ERRA accounts are reviewed would only relate to the timeframe of future SCE ERRA compliance filings, not to the instant proceeding.

#### 4. Schedule

The following schedule that was discussed and developed at the PHC will be used for this proceeding.<sup>2</sup>

#### PROCEDURAL SCHEDULE

Event	Date
DRA Testimony due	August 18, 2009
Rebuttal Testimony due	September 15, 2009
Evidentiary Hearings Commission Courtroom State Office Building 505 Van Ness Avenue San Francisco, CA 94102	September 29 - 30, 2009, at 9:00 a.m. as needed
Opening Briefs due	October 21, 2009
Reply Briefs due (anticipated submission date)	October 30, 2009
Proposed Decision expected by	January, 2010
Final Decision expected by	February, 2010

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<sup>2</sup> Parties agreed that if it were determined, at a later date, that evidentiary hearings were not required, a telephonic conference call would be held in order to revise the schedule as necessary.

The goal is to resolve this matter as soon as possible after it is submitted. However, in no event will resolution exceed 18 months from the date of this scoping memo, pursuant to the requirements of Public Utilities Code Section 1701.5.

#### **5. Category of Proceeding and Need for Hearings**

This ruling confirms the Commission's preliminary finding in Resolution ALJ 176-3232, dated April 16, 2009, that this proceeding is a ratesetting proceeding and that hearings are required. This ruling, only as to category, may be appealed under Rule 7.6.

#### **6. *Ex Parte* Communications**

Parties shall observe and comply with the applicable Commission *ex parte* communications rules set forth in Rules 8.2(c), 8.3 and 8.5.

#### **7. Assignment of Presiding Officer**

Pursuant to Rule 13.2(b), Administrative Law Judge (ALJ) Fukutome is the presiding officer for this proceeding.

#### **8. Final Oral Argument**

Pursuant to Rule 13.13, any requests for a final oral argument before the Commission must be filed and served at the same time as opening briefs.

#### **9. Filing, Service and Service List**

In this proceeding, there are several different types of documents participants may prepare. Each type of document carries with it different obligations with respect to filing and service.

Parties must file certain documents as required by the Rules or in response to rulings by either the assigned Commissioner or the ALJ. All formally filed documents must be filed with the Commission's Docket Office *and* served on the

service list for the proceeding. Article 1 of the Rules contains all of the Commission's filing requirements. Resolution ALJ-188 sets forth the interim rules for electronic filing, which replaces only the filing requirements, not the service requirements.

Other documents, including prepared testimony, are served on the service list but not filed with the Docket Office. We will follow the electronic service protocols adopted by the Commission in Rule 1.10 of the Commission's Rules of Practice and Procedure for all documents, whether formally filed or just served. This Rule provides for electronic service of documents, in a searchable format, unless the appearance or state service list member did not provide an e-mail address. If no e-mail address was provided, service should be made by United States mail. In this proceeding, we require concurrent e-mail service to ALL persons on the service list for whom an e-mail address is available, including those listed under "Information Only." Parties are expected to provide paper copies of served documents upon request.

E-mail communication about this case should include, at a minimum, the following information on the subject line of the e-mail: A.09-04-002 - SCE ERRA. In addition, the party sending the e-mail should briefly describe the attached communication; for example, *Brief*. Paper format copies, in addition to electronic copies, shall be served on the assigned Commissioner and the ALJ.

The official service list for this proceeding is available on the Commission's web page. Parties should confirm that their information on the service list is correct, and serve notice of any errors on the Commission's Process Office ([Process\\_Office@cpuc.ca.gov](mailto:Process_Office@cpuc.ca.gov)), the service list, and the ALJ. Prior to serving any document, each party must ensure that it is using the most up-to-date service list. The list on the Commission's web site meets that definition.

Any person interested in participating in this proceeding who is unfamiliar with the Commission's procedures or who has questions about the electronic filing procedures should contact the Commission's Public Advisor at (866) 849-8390 or in San Francisco at (415) 703-2074, or (866) 836-7825 (TTY-toll free), or send an e-mail to [public.advisor@cpuc.ca.gov](mailto:public.advisor@cpuc.ca.gov).

IT IS RULED that:

1. The scope of this proceeding is as set forth in Sections 2 and 3 of this ruling.
2. The schedule of this proceeding is as set forth in Section 4 of this ruling.
3. This ruling confirms the Commission's preliminary finding in Resolution ALJ 176-3232 that the category for this proceeding is ratesetting and that hearings are required. This ruling, only as to category, is appealable under Rule 7.6.
4. Parties shall observe and comply with the applicable *ex parte* communications rules set forth in Rules 8.2(c), 8.3 and 8.5.
5. Administrative Law Judge Fukutome is the presiding officer for this proceeding.
6. Any party requesting a final oral argument before the Commission shall file and serve such request on the same date that opening briefs are due.
7. Parties shall serve all filings as set forth in Section 9 of this Ruling.

Dated June 24, 2009, at San Francisco, California.

/s/ TIMOTHY ALAN SIMON

Timothy Alan Simon  
Assigned Commissioner

**INFORMATION REGARDING SERVICE**

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated June 24, 2009, at San Francisco, California.

/s/ LILLIAN LI

Lillian Li

**Attachment C**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA

Application of Southern California Edison )  
Company (U 338-E) for a Commission Finding )  
that its Procurement-Related and Other )  
Operations for the Record Period January 1 )  
Through December 31, 2008 Complied with its )  
Adopted Procurement Plan; for Verification of its )  
Entries in the Energy Resource Recovery )  
Account and Other Regulatory Accounts; and for )  
Recovery of \$35.796 Million Recorded in Four )  
Memorandum Accounts. )

Application No. 09-04-002

(Filed April 1, 2009)

OPENING BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

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Dated: December 3, 2009

and beyond day-ahead transactions. Indices reflecting these transactions would be the more appropriate benchmarks to use; however, reliable prices are not published regularly for the hour-ahead markets and published forward prices tend to be for calendar months, quarters, and years, which do not correspond to the outages in question here.

For the outages in question, the most appropriate prices to benchmark against would be the published day-ahead indices for power, albeit with a few adjustments.<sup>43</sup>

Because DRA's methodology fails to consider even the most basic data with respect to the actual operation of SCE's system, the operation of the market, and SCE's transactions in the market, it does not reflect even a reasonable approximation of SCE's cost of replacement power during the outages in question. SCE urges the Commission to reject DRA's flawed methodology.

### C. Operation of Ratemaking Accounts

As it has in prior ERRA review proceedings, SCE has presented certain "non-ERRA" balancing and memorandum accounts to the Commission for review. In Chapter 7 of its Report, DRA reviewed SCE's entries in ten of these non-ERRA balancing and memorandum accounts, and found SCE's entries in seven of these accounts to be reasonable. However, DRA argues that the three accounts for which SCE seeks cost recovery (i.e., the NSGMA, PDDMA, and the DOELMA) "cannot be established through the material provided with [SCE's] Application, and thus recommends a disallowance of those funds."<sup>44</sup> DRA also questions the appropriateness of the Commission's continued review of these accounts in the ERRA Review proceeding. SCE addressed both of these issues on Pages 43-52 of its rebuttal testimony. Below, SCE will summarize its explanation of why the Commission should reject DRA's recommendations.

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<sup>43</sup> Exh. 4, p. 39.

<sup>44</sup> Exhibit 9, p. 1-7.

1. PDDMA

In its Report, DRA devoted just one paragraph to discussing SCE's request to recover \$3.910 million in costs recorded in the PDDMA during the Record Period. DRA did not provide a detailed analysis of SCE's recorded costs in the PDDMA, but instead simply stated that "SCE has not provided enough supporting and detailed evidence concerning the costs and expenditures in this account to warrant ratepayer recovery of the \$3.910 million incurred costs for 2008". On that basis, DRA recommended a disallowance of SCE's costs recorded in the PDDMA.<sup>45</sup>

The Commission should summarily reject DRA's disallowance recommendation and find these costs reasonable and recoverable. As SCE explained on Pages 43-44 of its rebuttal testimony, the costs recorded in the PDDMA were incurred in support of the purpose of the PDDMA as authorized in D.06-05-016 and D.09-03-025, and they do not exceed the \$4.95 million (\$2003) as forecasted in the 2006 GRC.<sup>46</sup> Furthermore, the supporting information that SCE provided for these expenses was the same as in prior ERRA Review applications. Although DRA now argues that this information is insufficient, it did not substantiate this finding in its Report, nor did it explain its review of the supporting materials provided by SCE. For example, SCE has recorded similar types of costs in the PDDMA for 2006 and 2007 that were reviewed by DRA. In those years, DRA explained its review of SCE's recorded costs in its applications, workpapers, monthly entries into the accounts and on a sample test basis, and also explained that it had reviewed copies of source documents supporting costs recorded in the accounts.

As in prior years, SCE provided support and documentation for the 2008 Record Period in its testimony and workpapers. SCE also responded to various data requests regarding accounts under review, including the PDDMA (and the NSGMA). After DRA issued its Report, it sent one additional data request regarding the PDDMA to SCE, 20.7.1, which SCE responded to on September 15, 2009.<sup>47</sup> In past ERRA Review proceedings, the Commission has found the

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<sup>45</sup> Id., p. 7-8.

<sup>46</sup> Exh. 4, p. 44.

<sup>47</sup> See Exh. 5, Appendix D, for a copy of SCE's relevant workpapers and data request responses.

level of information SCE offered in support of this account to be sufficient to justify recovery. DRA has offered no reason why the Commission should require more information in this proceeding.

## 2. NSGMA

In its Report, DRA also argued that the Commission should deny SCE's request to recover all costs recorded in the NSGMA during the Record Period because it believes that "SCE has not been authorized to recover any costs from ratepayers through this memorandum account."<sup>48</sup> DRA also suggested that the review of the costs recorded in the NSGMA should be delayed until a decision is issued in Phase II of Rulemaking (R.)06-12-013. As discussed below, the Commission already issued that decision.

SCE addressed both of DRA's arguments on Pages 44-46 of its rebuttal testimony. Regarding DRA's first argument, SCE explained that its costs recorded in the NSGMA during the 2008 Record Period are associated with the Long Beach Generation Purchased Power Agreement (PPA), which was approved by the Commission in D.07-01-041. This is a PPA that SCE entered into at the Commission's direction in the August 15, 2006 Assigned Commissioner's Ruling (ACR) in R.06-02-013. In that ACR, the Commission directed SCE to expand its New Generation requests for offers (RFO) to target new generation facilities that would be available to come on line by August 1, 2007. SCE did so, and accepted a bid from Long Beach Generation LLC (LBG) for a 10-year purchased power agreement. SCE recorded these costs in the NSGMA, instead of the ERRA balancing account, because pursuant to D.06-07-029 these costs are to be recovered from all benefiting customers and not just SCE's bundled-service customers.

SCE also explained in its rebuttal testimony why the Commission should not delay review of its costs recorded in the NSGMA until a decision is issued in Phase II of R.06-12-

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<sup>48</sup> Exh. 9, p. 7-9.

013.<sup>49</sup> To begin, in its decision in SCE's April 2008 ERRA Review Application, D.08-11-021, the Commission allowed SCE to recover the amounts recorded in the NSGMA during the 2007 Record Period. Clearly, the Commission did not feel it necessary to delay review of SCE's costs recorded in the NSGMA until a decision was issued in Phase II of R.06-12-013.

Furthermore, as SCE also noted in its rebuttal testimony, the Commission has already issued a decision in Phase II of R.06-12-013, D.07-09-044.<sup>50</sup> In that decision, the Commission adopted a joint party settlement and, in doing so, outlined the categories of costs that could be recorded in a new balancing account and recovered from customers. On October 4, 2007, in Resolution E-4115, the Commission authorized SCE to establish the NSGMA and to: (1) transfer costs and credits associated with the LBG PPA that had been recorded in the ERRA balancing account to the NSGMA; (2) record ongoing costs and credits associated with the LBG PPA in the NSGMA; and (3) transfer amounts recorded in the NSGMA into a new balancing account (i.e., the New System Generation Balancing Account (NSGBA)) after the Commission issued its decision in Track 3 of Phase II in R.06-12-013. That decision, D.08-09-012, was issued on September 5, 2008. Therefore, in compliance with D.07-09-044 and D.08-09-012, SCE filed Advice Letter 2284-E to establish the NSGBA, which supersedes the NSGMA. In addition, in SCE's Preliminary Statement, NSGBA, as approved in SCE's Advice Letter 2284-E, requires that these new system generation costs be reviewed in SCE's annual ERRA Review proceedings.

SCE's testimony and data request responses support the conclusion that the \$26.051 million of costs recorded in the NSGMA during the Record Period conform to the directives provided in Section IX of the joint settlement agreement approved in D.07-09-044 and SCE's Preliminary Statement.<sup>51</sup> Therefore, the Commission should find the costs appropriate and recoverable.

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<sup>49</sup> Exh. 4, pp. 45-46.

<sup>50</sup> In its rebuttal testimony, SCE pointed out that DRA was a party to the joint settlement adopted by the Commission in its decision in Phase II of R.06-12-013, D.07-09-044. See Exh. 4, p. 45.

<sup>51</sup> After issuing its Report, DRA sent one data request, 21.7.2, to SCE regarding the NSGMA. SCE served its response on September 17, 2009, which provided DRA with additional supporting documents for the NSGMA, including journal entries, adjustments, bilateral power month end reports, and invoices for each month which  
Continued on the next page

### 3. DOELMA

Finally, and again without providing any supporting analysis, DRA argued that SCE has failed to meet its burden of proof to justify recovery of \$0.265 million of costs associated with the DOELMA.<sup>52</sup> The Commission should reject this argument. As explained on Page 47 of SCE's rebuttal testimony, SCE has presented testimony and workpapers supporting the \$0.265 million of expenses incurred during 2007 and 2008 that are recorded in the DOELMA. All of the expenses are associated with outside counsel costs that SCE incurred in its effort to recover damages and other proceeds from the federal government. This litigation stems from a breach of contract complaint against the Department of Energy (DOE) for failure to take possession of SONGS spent nuclear fuel. If SCE is successful in this litigation, all recoveries will be refunded to customers. If the Commission does not approve these expenses, and prohibits SCE from recovering its costs, then SCE has no real incentive to seek recovery of damages in this action.

Subsequent to submitting its Report, DRA sent data request 21.7.1. On September 17, 2009, SCE served its response, which included comprehensive cost reports which summarize all expenses recorded, all journal entries, all adjustments, and all invoices for monthly expenditures incurred in 2007 and 2008.<sup>53</sup> Of course, DRA should have issued its data request during the discovery period for this proceeding before issuing its Report. In any event, SCE has now provided DRA with additional evidence to demonstrate that its incurred expenses are reasonable and recoverable. DRA has not questioned SCE further about the reasonableness of these expenses.

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Continued from the previous page

break down all relevant costs associated with the recorded amounts. See Exh. 6, Appendix E, for a copy of SCE's relevant workpapers and, on Page 58, its response to data request 21.7.2.

<sup>52</sup> Exh. 9, p. 7-10.

<sup>53</sup> See Exh. 7, Appendix F, for a copy of SCE's workpapers and its response to data request 21.7.1.

4. **DRA Did Not Perform Due Diligence Regarding These Accounts**

On Pages 47-49 of its rebuttal testimony, SCE explained DRA's failure to perform its due diligence regarding its review of these non-ERRA accounts. SCE noted that it had provided the same level of information to support these accounts as in prior ERRA Review proceedings, such as SCE's April 2007 ERRA Application, A.07-04-001, and its April 2008 ERRA Application, A.08-04-001. SCE explained that in both of these proceedings DRA had reviewed SCE's supporting testimony and workpapers and explained its review processes and findings in its reports, which SCE cited at length. However, in this proceeding, DRA had made no such validation for the PDDMA, DOELMA, and NSGMA. Obviously, if DRA believed that the information provided by SCE was somehow deficient, it should have followed up with additional data requests specifying the additional information that it believed was necessary for a complete assessment. Finally, on Pages 49-50 of its rebuttal testimony, SCE described its efforts to cooperate with DRA during its analysis of these accounts.

For the foregoing reasons, DRA's recommendation with regard to the above three memorandum accounts is unsupported. Indeed, DRA has not presented any evidence in this proceeding addressing SCE's rebuttal testimony, despite having the opportunity to do so at the October 29 hearing. The Commission should therefore find that the costs recorded in these accounts are reasonable, incurred in compliance with Commission decisions and resolutions, and recoverable.

5. **The Commission Should Continue to Examine Non-ERRA Accounts in the ERRA Review Proceeding**

In its protest to SCE's application, and again in Chapter 9 of its Report, DRA questioned the appropriateness of the Commission's continued review of non-ERRA balancing and memorandum accounts in the ERRA Review proceeding. In its reply to DRA's protest, SCE explained why the Commission's review of these accounts in the ERRA Review proceeding was appropriate. In particular, SCE explained that the Commission and DRA had reviewed these

accounts in at least the past four ERRA Review proceedings. SCE also cited certain Commission decisions and resolutions that require review of these accounts in the ERRA Review proceeding. Finally, SCE noted that the Commission-approved tariff language in all but one of the accounts that SCE presented for review in this proceeding specifies that they are to be reviewed in the ERRA Review proceeding.

In its June 24, 2009 Assigned Commissioner's Ruling and Scoping Memo (Scoping Memo) the Commission agreed with SCE that it was appropriate to include and review non-ERRA accounts in the ERRA Review proceeding, and ordered DRA to continue its review of SCE's non-ERRA accounts in this proceeding. As DRA acknowledges in its Report, the Commission left it to DRA to develop a record justifying why these accounts should be removed from the ERRA Review proceeding and consolidated for review in a separate proceeding. In particular, the Commission observed the following issues that would need to be addressed before such a finding could be made: (1) the extent of the problems related to addressing non-ERRA accounts in the ERRA proceeding; (2) where and how the other IOUs address each of the non-ERRA accounts presented by SCE in this proceeding; and (3) why it would be appropriate to override previous Commission determinations that certain non-ERRA accounts should be addressed in SCE's ERRA Review proceeding.

As SCE noted on Pages 50-52 of its rebuttal testimony, DRA has either ignored or failed to sufficiently address these issues in its Report. Furthermore, DRA has not explained the extent of problems related to addressing these non-ERRA accounts in this proceeding. Instead, it just observes that the number of non-ERRA accounts in SCE's ERRA proceedings "has grown and continues to grow".<sup>54</sup> This observation by itself does not justify the Commission finding that review of these non-ERRA accounts is problematic, especially when DRA has not stated that it is having difficulty reviewing these non-ERRA accounts in this proceeding, and has successfully reviewed these accounts in past ERRA proceedings.

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<sup>54</sup> Exh. 9, p. 9-2.

Finally, DRA argued that these accounts should be removed from this proceeding because they require reasonableness review, instead of compliance review, by the Commission. This argument was also addressed in SCE's reply to DRA's protest, in which SCE explained that the Commission has not limited the ERRA Review proceeding to only a review of the utility's compliance with its procurement plan and SOC 4. For example, as explained in SCE's reply, the Commission has considered the reasonableness of forced outages in prior ERRA Review proceedings, as well as in this proceeding. In addition, the Commission also reviews the reasonableness of SCE's administration of various contracts in the ERRA Review proceedings.

There is ample information provided by SCE for the Commission to conclude that the costs incurred in the non-ERRA accounts are reasonable and should be approved for recovery.

**D. MRTUMA**

In Chapter 6 of its Report, DRA recommended that the Commission deny SCE's request to recover \$5.1 million associated with its implementation of the Market Redesign and Technology Upgrade (MRTU). DRA also recommended that the Commission review the reasonableness of the costs recorded to the MRTUMA for all three IOUs in a consolidated proceeding. SCE addressed DRA's recommendation in Chapter 6 of its rebuttal testimony. Below, SCE will summarize its explanation of why the Commission should reject both of DRA's recommendations.

**1. SCE Has Complied With Resolution E-4087 and D.09-03-025**

In this proceeding, SCE is not requesting recovery of its 2007 and 2008 capitalized hardware and software costs because the work orders for these costs had not been closed by the end of the 2008 Record Period. Instead, SCE will request recovery of these capitalized costs in its April 2010 ERRA application, since the work orders for these costs were closed when the MRTU-related capital projects went into production after the first quarter of 2009. On Page 6-7 of its Report, DRA argued that SCE's present request for recovery of the costs recorded in its MRTUMA should be deferred until all work orders for 2007 and 2008 have been closed. DRA

also stated on Page 6-6 of its Report that “a full assessment of the reasonableness of MRTUMA costs cannot be made without the compliance to the Commission ruling in the GRC [D.09-03-025] that all incremental MRTU costs should [be] accumulated in MRTUMA for reasonableness.”

The Commission should reject DRA’s recommendation to delay SCE’s recovery of its costs recorded in the MRTUMA. As SCE explained on Pages 53-57 of its rebuttal testimony, DRA’s position is not consistent with Resolution E-4087, and is also based on an overly broad and unfounded interpretation of D.09-03-025. In its rebuttal testimony, SCE cited relevant passages from Resolution E-4087 that made clear the Commission’s intent that: (1) SCE should be allowed to request recovery of any amounts recorded in the MRTUMA on an annual basis in its ERRA Review proceedings; (2) costs associated with the implementation of MRTU will be incurred over several years; (3) there is no need to defer recovery of O&M or other costs recorded in any given year until the capital project work orders related to that year have closed; and (4) SCE has measures in place to protect against double recovery of MRTU-related costs from year to year. As SCE explained in its rebuttal testimony, the very fact that future costs remain uncertain is what prompted the Commission to authorize the recovery of recorded costs through a memorandum account once SCE has demonstrated that the recorded costs are reasonable. With this approval process in place, no purpose would be served by adopting DRA’s proposal that SCE should be prevented from requesting recovery of any costs related to a given year until all capital-related project work orders for that year have closed.

SCE also explained in its rebuttal testimony why DRA’s interpretation of D.09-03-025 was too broad. As SCE explained, in D.09-03-025 the Commission simply reaffirmed the requirements of Resolution E-4087. That is, before SCE can recover MRTU costs in rates, it must first record all categories of MRTU costs (i.e., capital-related, O&M and others) in the MRTUMA and the Commission must find the costs reasonable in SCE’s annual April ERRA proceeding. The Commission did not rule that SCE must await recovery of any MRTU costs until all costs over the multi-year development period of the program have been recorded.

Rather, the Commission ruled that SCE must record all categories of MRTU costs (i.e., capital-related, O&M, and others) in the account to be reviewed for reasonableness before they can be recovered. This applies both to 2007-2008 costs, and to 2009-2011 costs. As SCE pointed out, the fact that the costs are to be reviewed in the annual April ERRA Review proceedings (that is, each year), clearly indicates that the costs will be reviewed as they are recorded – recovery in one year need not wait for costs in subsequent years to be incurred and recorded.

SCE's current operation of the MRTUMA complies fully with the Commission's ruling. In accordance with Resolution E-4087, SCE has recorded MRTU-related incremental O&M for 2007 and 2008 in the MRTUMA and is seeking recovery of those costs in this ERRA proceeding. SCE has not requested recovery of capital-related revenue requirements for 2007 and 2008 in this proceeding since no capital project work orders were closed during those years and no capital-related revenue requirement amounts were recorded. The capital-related revenue requirements for 2007 and 2008 were recorded once the project work orders closed in April 2009 and will be included in the April 2010 ERRA Review proceeding (covering the 2009 Record Period). The MRTUMA as presented in this proceeding includes all MRTU-related costs that were incurred during 2007 and 2008, in compliance with the Commission's directives. SCE has submitted all relevant information to demonstrate that these costs are incremental and reasonable. The Commission should review these costs and grant SCE's request for recovery.

### **SUMMARY OF UNDISPUTED ISSUES**

#### **A. SCE Peakers**

In Chapter 5 of the first volume of SCE's supporting prepared testimony, Exhibit 1, SCE demonstrated that its peaker facilities (known as the SCE Peakers) were operated in a prudent manner during the Record Period. On Page 3-2 of its Report, DRA states that it reviewed the forced outages that occurred at the SCE Peakers during the Record Period and concluded that they were not unreasonable.

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for a Commission Finding that its Procurement-Related and Other Operations for the Record Period January 1 through December 31, 2008 Complied with its Adopted Procurement Plan; for Verification of its Entries in the Energy Resource Recovery Account and other Regulatory Accounts; and for Recovery of \$35.796 million recorded in Four Memorandum Accounts.

A.09-04-002  
(Filed on April 1, 2009)

**OPENING BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES ON  
SOUTHERN CALIFORNIA EDISON'S ERRA APPLICATION  
( PUBLIC )**

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December 3, 2009

SCE Rebuttal Testimony, filed October 8, 2009, p. 19.6. Contrary to SCE's representations, DRA does cooperate as much as possible with the IOUs in gathering and organizing information required to make informed recommendations about all of the ERRA applications, but that does not mean that SCE can ignore its initial and primary burden to 'prove its case.' Any attempt by SCE to shift the burden of proof to an intervener must be rejected.

## 2. MRTU

### a) Summary of Recommendations

SCE seeks recovery of \$5.1 million for implementation of Market Redesign and Technology Upgrade (MRTU or New Market – Go Live).<sup>7</sup> DRA is only contesting the incremental MRTU cost of \$5.1 million SCE seeks in this ERRA compliance proceeding. DRA believes SCE's request is premature. DRA also believes that the Commission should establish a separate proceeding and consolidate the evaluation of the reasonableness and prudence of all the three IOUs' MRTU costs in that proceeding.

The following summarizes DRA's recommendations for SCE MRTU Memorandum Account (MRTUMA):

- The Commission should deny SCE's \$5.1 million request for MRTU O&M expenses.
- The \$5.1 million for MRTU O&M expenses should be included a new application SCE may file to recover MRTU costs after all SCE MRTU work orders for 2007 and 2008 have been completed.
- SCE implementation cost for MRTU should be recorded in SCE MRTUMA.
- All expenses incurred by SCE for MRTU activities should be segregated and recorded in FERC accounts

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<sup>6</sup> The quote is: "[t]he burden rests heavily upon a utility to prove with clear and convincing evidence, that it is entitled to the requested rate relief and not upon the Commission, its staff, or any interested party to prove the contrary." (Re Southern California Edison Company." D.90-09-008. p. 24 and see, D.94-03-048, p. 25 and D.09-07-021, p. 97.

<sup>7</sup> SCE expended \$4.4 million for MRTU Release 1 from the 2006 General Rate Case (GRC) which was below the authorized spending cap reached in the settlement. Therefore, DRA does not address or contest the agreement reached in D. 09-03-025.

by labor, non-labor and other expenses. Similarly, outside service contracts should be recorded in FERC Account 923 memorandum account.

- Because SCE's books have not closed and the costs associated with the CAISO's MRTU initiative from 2007 and 2008 are unknown, DRA recommends that SCE expenditures associated with MRTU implementation should be submitted in accordance with Commission D.09-03-025.<sup>8</sup>
- Because of the comprehensive and unique nature of the MRTU implementation, the Commission should establish a separate proceeding and consolidate the evaluation of the reasonableness and prudence of all the three IOUs' MRTU costs in that proceeding.

DRA's recommendations are consistent with the Commission's ruling in D.

09.03.025 and Resolution E – 4087.<sup>9</sup> Further, DRA believes it must have access to all available capital and O&M expense information for the pertinent period to determine reasonableness of the IOUs' MRTU implementation costs.

**b) SCE Should Not Recover its MRTU Expenses at this Time**

**1) MRTU – A Dramatic Increase in Complexity**

The required supports for MRTU are dramatically more substantial and different than previous used by the CAISO to balance the electric demand and generation on the transmission grid under its control. The implementation of the MRTU initiative has required IOU's to significantly modify the systems and business processes it uses to procure, schedule, and deliver electricity to customers.

Some significant changes in the CAISO process are:

- The move from three zonal areas to approximately thirty two hundred nodal price points (nodes), including the move from pricing only three zones to pricing for each of the nodal price points.

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<sup>8</sup> D.09-03-025 Conclusions of Law, Items 150, 151, 179, 203 and 204.

<sup>9</sup> D.09-03-025 Finding of Fact, Items 227, 228, 269, 310 and 311.

- The introduction of a centralized day-ahead energy market.
- Co-optimization of three markets simultaneously; energy, ancillary services, and grid congestion which prior to April 1, 2009 were managed separately by the CAISO.
- The introduction of Residual Unit Commitment (RUC).
- Introduction of Congestion Revenue Rights – designed to help manage congestion costs.

DRA believes MRTU complexities, in conjunction with the above changes and other Commission initiatives require a uniform determination of the reasonableness MRTU implementation costs. The fact that key software components for MRTU implementation have been modified by the IOUs and have not been reviewed and analyzed by the Commission are testimonial to DRA concerns on this issue. While there are a number of changes to the previous CAISO processes associated with MRTU, the primary changes that most affect all the State's IOU operations include:

- Locational Marginal Pricing (LMP).
- The Full Network Model (FNM).
- The Integrated Forward Market (IFM).
- The Residual Unit Commitment (RUC) Market.
- The Hour-Ahead Scheduling Process (HASP) and the Real-Time Market (RTM).
- Congestion Revenue Rights (CRR).

Each software model provided by the CAISO was modified by the IOUs to fit the new MRTU business reality. However, the nature and purpose of the modifications that were made have not been verified, validated, or reviewed as required under PU Code Sections 1821 and 1822. These changes have a significant impact on how the IOUs manage its scheduling, procurement, interact with other scheduling coordinators, and settle energy transactions.

The implementation of MRTU requires sweeping changes to various IOU business processes related to energy procurement. Implementing MRTU significantly affects IOU's business functions in planning and trading of energy; managing the overall energy

supply portfolio risk, and reconciling transactions related to the trading and procurement of electricity. With these changes in business functions, the new market design brings new Information Technology (IT) infrastructure and new ways of doing business. The implementation required IOUs to make significant changes to its IT systems in order to interface with the CAISO and accommodate a new utility business model. As stated in direct testimony, SCE has already requested over \$60 million in expense and capital in their last GRC, which was rejected by the Commission. Therefore, resolving these issues in a consolidated fashion will be in the Commission, utilities and ratepayers' interest.

In Resolution E-4087 the Commission ordered SCE to establish the MRTU Memorandum Account to record incremental capital-related revenue requirement and incremental Operations and Maintenance (O&M) expenses associated with implementing the California Independent System Operator's (CAISO) MRTU initiative.<sup>10</sup> The recorded operation of the MRTUMA is to be reviewed by the Commission to ensure that the incremental entries are prudent, reasonable and recorded correctly. MRTU is a comprehensive program intended to enhance grid reliability and flaws in the California Independent System Operators (CAISO) markets. "It keeps California compatible with market designs that are working throughout North America and replaces aging technology with modern computer systems that keep pace with the dynamic needs of California's energy industry."<sup>11</sup>

Although CAISO's MRTU project has been in development since 2000 the program was not launched until April 1, 2009. The CAISO had targeted MRTU Release 1 for February 1, 2008; however, it was not implemented until April 1, 2009. At the time

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<sup>10</sup> Resolution E – 4087, Paragraphs 1 & 2.

<sup>11</sup> California ISO main webpage; [www.aiso.com](http://www.aiso.com). The CAISO was established in 1996, in D.95-12-063 the Commission ordered IOU's to transfer operational control of its transmission facilities to the CAISO, stating:

1. The ISO will have primary responsibility for the determination of the final operation and dispatch of the system to preserve reliability and achieve the lowest total cost for all uses of the transmission system. The ISO will have control over the operation of the transmission facilities. The participating investor and publicly owned utilities will continue to own those facilities and be responsible for their maintenance.

D. 95-12-063, p. 26.

the MRTU went live on April 1, 2009 the name, MRTU, was changed to the “New ISO Market”.

For the past five years the CPUC has provided support for the CAISO’s MRTU project. “The CPUC has been working with the [IOUs] and the CAISO to ensure that there will be an Locational Marginal Pricing (LMP) market design with consumer safeguards that will protect consumers from market manipulation as experienced during the energy crisis of 2001 – 2002 ...”<sup>12</sup> In May 2007 SCE estimated that it would have a total of \$35.4 million in capital and O&M costs in their MRTUMA by anticipated January 31, 2008<sup>13</sup> (Go Live) date. The \$35.4 million was the anticipated Go Live costs with O&M expenses of \$5.9 million, these numbers have dramatically changed. The Go Live date shifted to April 1, 2009 from January 31, 2008 and expenditures have risen from approximately \$35.4 million to nearly \$60.0 million, much of which was unidentified at the time. SCE’s total Go Live capital and O&M costs are yet unidentified because all incremental expenditures have NOT been provided in this current ERRA application as required by the 2007 Commission Resolution E- 4087.

DRA rejects SCE’s cost for Releases 1 because they are incomplete. DRA has determined they may have more than doubled from an expected \$35.4 million in capital and O&M costs quoted in the Commission Resolution E- 4087, to more than \$60 million today. In the SCE’s 2009 General Rate Case (GRC), D.09-03-025, DRA recommended that the Commission not adopt nearly \$60.0 million in costs associated with the implementation of MRTU. In that decision the Commission ordered SCE to continue recording MRTU costs in the MRTUMA.<sup>14</sup> The Commission agreed with DRA stating:

[w]e reject both of SCE’s proposals, which are contrary to Resolution E – 4087. In particular, SCE is expected to continue to record all MRTU – related capital and O&M cost for Phase 2 of the GRC, and any subsequent phases in the MRTUMA. Since these costs are unknown at this time and

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<sup>12</sup> Resolution E – 4087, p. 5.

<sup>13</sup> Id, p. 5.

<sup>14</sup> D. 09-03-025, pp.169 – 170 and pp. 290 – 292.

the scope of the MRTU phases are changing and evolving, it is important the MRTUMA remain active to record these costs.<sup>15</sup>

However, SCE did not record all incremental costs for Release 1 to the MRTUMA as ordered by the Commission.<sup>16</sup> DRA believes the reasonableness of the \$5.1 million being requested by SCE is inextricably linked to the total cost of implementing MRTU Release 1. SCE stated in Data Request Response (DRR) 2.6.4 and 4.6.1:

SCE did not request recovery of any capitalized software or capitalized hardware costs in support of MRTU for 2007 or 2008 in its April 1, 2009 ERRA application, A.09-04-002. Instead, SCE will request recovery of these costs in its April 1, 2010 ERRA application—after the work orders for these costs are closed. In light of the foregoing, SCE is not providing the requested information at this time because it is outside the scope of this proceeding.<sup>17</sup>

DRA disagrees with the forgoing assertion and believes a full assessment of reasonableness of MRTUMA costs for Release 1 cannot be made without the compliance to the Commission ruling in the GRC that all incremental MRTU costs should be accumulated in MRTUMA for reasonableness.<sup>18</sup>

DRA has not been provided the details of all incremental expenditures to determine, for example, the extent of capitalization of any other O&M expense or possible capital impacts of these costs. This is critical information needed in the determination of prudence and reasonableness of SCE's MRTUMA request and it has not been provided. The Commission agreed that in the ERRA filings Capital and Expenses should be assessed together.

## 2) MRTU – Release 1 Impacts

The MRTU initiative impacts each IOU in similar ways, for instance, at SCE the Power Procurement Business Unit (PPBU) systems and the departments within PPBU

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<sup>15</sup> D. 09-03-025, p. 292.

<sup>16</sup> D.09.03.025, Findings of Fact – Items 227,228,269,310 & 331 and COL, 150, 151 & 179.

<sup>17</sup> A.09-04-002, DRA Direct Testimony, Chapter 6, p. 6.

<sup>18</sup> Ibid.

that will be affected in their daily operations are Energy Supply and Management (ES&M), Power Procurement Finance (PPF), and the Market Strategy and Resources Planning (MS&RP) departments. There are multiple PPBU business functions and sub-functional areas that will be affected by the market design changes and protocols put in place by MRTU. The list of functions includes:<sup>19</sup>

- a. Planning:
  - 1. Demand Forecasting
  - 2. Price Forecasting
  - 3. Resource Portfolio Optimization – Short – Term and Long – Term Plans
  - 4. Transmission Management – Congestion Revenue Rights (CRRs)
  - 5. Market Monitoring and Analysis
  
- b. Trading:
  - 1. Day – Ahead Power Trading & Bid Optimization
  - 2. Real – Time Power Trading
  - 3. Gas Procurement
  
- c. Operations:
  - 1. Pre – Scheduling
  - 2. Real – Time Energy Management
  - 3. Outage Management
  
- d. Finance:
  - 1. CAISO Settlements and Allocations
  - 2. Counterparty Settlements
  - 3. Accounting – Receivables and Payables
  - 4. Reporting

The market design changes required by CAISO for each IOU for MRTU are so significant that they necessitate a wholesale change in PPBU's key applications and tools required to support these business functions. The current installed applications were designed, built, and maintained to support the current CAISO market rules and protocols for all IOUs. In order to implement the CAISO requirements SCE formed a project team consisting of SCE's Power Procurement, SCE Information Technology (IT) personnel

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<sup>19</sup> A. 07-11-011, SCE – 05, Chapter I – VI, Vol.3 - p. 190.

and consultants. SCE hired consultants to help: “(1) define business processes and system requirements, (2) acquire, configure, and test needed software systems, and (3) train all personnel in the operation of the new market and the use of the new system and processes.”<sup>20</sup> SCE also participated, and continue to participate in simulations and workshops with PG&E, SDG&E and CAISO. Because ratepayer costs interests were not reviewed until the projects have been defined and implemented, special care must be taken in the reasonableness review to insure ratepayers interest are protected.

**c) MRTU Expenses Should be Examined  
Across all IOUs**

We are troubled by the inconsistent applications for recovery of MRTU and ISO New Market costs by the IOU's (SCE, PG&E and SDG&E). Because of the newness of the 'ISO New Market Model' and the common factors driving all three IOU's reasonableness requests, their applications should be reviewed at the same time in a consolidated proceeding that is separate from the instant application.

The MRTU and 'ISO New Market' projects are unique. Although the implementation costs for each IOU are different, they are however driven by common factors namely CAISO directives and common FERC Tariff and comparable technical requirements. These MRTU projects are not largely driven by efficiency in the energy market, but are required by a CAISO policy directive. Additionally, neither the costs nor the cost/benefit effectiveness were considerations in project design. Not only are complete implementation cost showings for SCE not available for capital and O&M for 2007 and 2008, the ability to forecast Long-Run Marginal Price (LMP) from these investment are years away. DRA understands the MRTU project is complex and its future performance is currently are unknown. Therefore, it is imperative for the Commission to track MRTU project costs and its impacts within the artificial energy exchange market that has been created in order facilitate a comprehensive reasonableness review of MRTU implementation.

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<sup>20</sup> ERRR Reasonableness of Operations, 2008 – Chapters IX – XIV SCE – 2, p.97.

As previously stated, the IOU's are driven by common directives, tariff structure and technical requirement. The best approach would be to treat the MRTU Release 1 costs incurred by all of the IOU's in a consistent manner, best achieved by having an MRTU specific application from each IOU and considering those applications in a single consolidated proceeding. This approach is not new, and has been used in Resource Adequacy, Demand Response, Energy Efficiency, and Low Income cases. Such a consolidated approach better ensures that the Commission treats similar issues in a similar fashion, and best protects ratepayer interests. DRA believes SCE's request is premature and recommends a consolidated proceeding for the major IOUs be scheduled for June or July of 2010. This would allow time for DRA to develop a consistent format and set of Master Data Request questions for all three IOUs to address. Both SCE and PG&E filed their requests before they had completely closed their books on MRTU Release 1, while PG&E combined their request in a forecast proceeding format, it was still incomplete.

After the California Energy Crisis, FERC ordered a comprehensive redesign of the California electricity market structure. In response to the FERC order, the CAISO ultimately developed the MRTU initiative, and on September 21, 2006, the FERC approved the implementation of the MRTU initiative.<sup>21</sup> This mandated that participants in the CAISO markets, including SCE, make the necessary changes required to participate in the newly redesigned in similar manners. A common scheduling of MRTU release reviews allows ratepayers to review each request together in a comparative manner, not 3 to 5 year costs staggered cases.

The April 1, 2009 market launch is the beginning of a multi-year process the CAISO will undertake to implement additional market design features as part of the FERC – mandated MRTU initiative. Given the complexity and large-scale nature of MRTU, the implementation approach that the CAISO described to FERC involves three major releases: Release 1, which is the initial implementation that occurred on April 1,

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<sup>21</sup> See, e.g., 97 FERC ¶ 61,275, at 62,245.

2009; Release 1A, which includes Convergence Bidding, to be implemented within 12 months of Release 1; and Release 2 to be implemented within three years of the initial implementation date.<sup>22</sup> The costs of these ongoing releases are unknown and the dates must be assumed to be fluid. This is yet another reason to consolidate all three IOUs MRTU requests.

#### **d) MRTU Summary and Conclusions**

As shown in the foregoing discussions, the IOU's MRTU implementation is all driven by common CAISO directives, tariff structure, and technical requirements. DRA believes the best approach would be to review MRTU implementation costs in a consistent manner. This will best be achieved by a consolidated single Commission proceeding. This approach is not new; it is used by the Commission in Resource Adequacy, Demand Response, Energy Efficiency, and Low Income proceedings. Such a consolidated proceeding approach better ensures that the Commission treats similar issues in a similar fashion.

DRA also believes SCE's request for recovery of MRTU costs is premature and should be denied at this time. DRA recommends that a consolidated proceeding to address the three IOUs MRTU Release 1 implementation costs be scheduled for June or July of 2010, and SCE's costs be combined in their filing.

### **3. Project Development Division Memorandum Account (PDDMA)**

SCE Advice Letter 2003-E sets forth the Project Development Division Memorandum Account (PDDMA) pursuant to D.06-05-016 to track the Project Development Division's recorded costs related to proposed projects. SCE is requesting to recover XXXXXX from ratepayers for costs associated with project development. DRA is recommending a disallowance of XXXXXX based, in part, on the following table:

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<sup>22</sup> 116 FERC ¶ 61,274.

**SCE Project Development Division Memo  
Account 2008 Recorded Expenses**

**Table 1**

Description	A.08-03-015	A.09-04-018	A.09-04-008	Total Cost
Solar PV WDAT Expenses	XXXXXX	XX		XXXXXX
URS Engineering & construction services for Solar PV Program	XXXXXX			XXXXXX
Black & Veatch Engineering Services		XXXXXXXXXX		XXXXXX
Precision Electric in support of Solar PV Program	XXXXX			XXXXXX
Hensley: due diligence investigations, reviews etc.			XXXXXX	XXXXXX
Travel	XXXXXX	XXXXXXXXXX		XXXXXX
Labour	XXXXXX	XXXXXX		XXXXXX
Meeting Expenses	XXXXXX	XXXX		XXXXX
Employee Expenses (mileage, lodging, etc.)	XXXXX	XXXXXX		XXXXXX
Procurement	XXXXX	XXXXX		XXXXXX
Subscriptions/Memberships	XXXXXX	XXXXXX		XXXXXX
Research Reports	XXXXX	XXXXX		XXXXX
Conferences/Seminars	XXXXXX	XXXXX		XXXXXX
Sub Total	XXXXXXXXXX	XXXXXXXXXX	XXXXXX	XXXXXXXXXX
Interest				XXXXXXXXXX
<b>Total Disallowance</b>				<b>XXXXXXXXXX</b>

Project development includes, but is not limited to: new locations for generation, evaluating generation technologies, resource planning and request for offer development and evaluation, etc. However, pursuant D.06-05-016 the Commission authorized the PDDMA to “track costs that support new generation and that are *not* associated with proposed projects for future recovery in rates (emphasis added).”<sup>23</sup> The costs recorded for 2008 result in a net increase of XXXX from the previous 2007 record year. DRA’s recommended disallowance is based on the recorded expenditures’ association with SCE applications A.08-03-015, A.09-04-018, and A.09-04-008 which were, at the time of SCE’s 2008 ERRA Compliance application filing, still pending for approval by the Commission. Pursuant to A.08-03-015 this disallowance is also based on Resolution E-4182 which authorizes SCE to establish a Solar Photovoltaic Program Memorandum Account (SPVPMA) to “record all incremental operations and maintenance (O&M) and capital related revenue requirement associated with the first \$25 million of direct capital

<sup>23</sup> D.06-05-016, p. 3.

expenditures incurred in the Solar Photovoltaic Program (SPVP).”<sup>24</sup> In their March 2009 monthly status report on the Solar PV project required per Resolution E-4182, SCE states that they had spent XXXXXXXX to date on SPVP project costs as recorded in the SPVPMA.<sup>25</sup> Thus, any costs and expenditures associated with A.08-03-015 should have been transferred out of the PDDMA and into the SPVPMA as it was created solely for the purpose of tracking costs associated with SCE’s Solar PV program. Since DRA has no breakdown of the costs/expenditures recorded in the SPVPMA, it is, at this time, impossible for DRA to determine if the same costs are not being recorded in both memorandum accounts.

For applications A.09-04-018 and A.09-04-008, both applications are still pending before the Commission and thus, per Commission decision, SCE is not permitted to recover the costs associated with these projects from ratepayers until they receive final, non-appealable Commission approval. Therefore DRA recommends that any costs and expenditures directly related to the above applications, whether they have been approved or are pending Commission approval,<sup>26</sup> should be disallowed per the Commission’s orders as set forth in D.06-05-016, from recovery through this memorandum account in SCE’s 2008 ERRA application.

SCE’s response to DRA’s analysis is that the costs associated with A.08-03-015 were incurred before the application was filed with the Commission and the costs incurred supported broader, initial analysis and start-up activities necessary to determine the feasibility of the proposed project. SCE also states that the costs related to A.09-04-018 and A.09-04-008 were also incurred in 2008 before both applications were filed with the Commission in 2009. SCE claims that the engineering services and other related labor, travel, and meeting costs recorded in the PDDMA for these applications were necessary to determine the feasibility of the proposed projects. Although these project

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<sup>24</sup> Resolution E-4182 p. 1.

<sup>25</sup> “Monthly Status Report Regarding SCE Solar Photovoltaic Program (SPVP)”, Southern California Edison Company, March 25, 2009, p. 2.

<sup>26</sup> A.08-03-015 was approved by the Commission on D.09-06-049, however this occurred after SCE filed their annual ERRA application on April 1, 2009 and not during the Record Year.

costs were incurred prior to the applications being filed with the Commission, they are, nonetheless related to applications pending before the Commission that have the potential to be recovered through future rates. Thus SCE should not receive be able to collect funds for projects before/prior to receiving a Commission decision. If A.09-04-018 and A.09-04-008 are approved, then SCE should seek recovery of these expenses at that time. Similarly, if the applications are rejected, SCE should not be authorized to recover the costs associated with these projects.

DRA recommends that XXXXXX of the XXXXXX SCE is seeking to recover through the PDDMA be found reasonable.

#### **4. New System Generation Memorandum Account (NSGMA)**

Resolution E-4115 authorized SCE's request to create the New System Generation Memorandum Account (NSGMA) and transfer the costs and credits associated with the Long Beach Generation PPA from August 1, 2007 onward. However, pursuant to the same resolution, SCE was not authorized to recover these costs through ERRA and the resolution further ruled that through Phase II of R.06-02-013, the Commission would direct SCE to establish another account to determine how these costs should be reviewed and recovered.<sup>27</sup> Pursuant to D.08-09-012 that resulted from Track 3 of Phase II of R.06-012-013, SCE filed Advice Letter 2284-E in November 2008 to create the New System Generation Balancing Account (NSGBA) and after Energy Division approved AL 2284-E on January 22, 2009, SCE subsequently transferred the remaining balance of the NSGMA to the NSGBA in February of 2009. SCE is now requesting authorization from the Commission to recover the costs recorded in the NSGMA, cease recording entries in this account and close it.

Based on additional workpapers on costs associated with the Long Beach Peakers that SCE provided DRA in its rebuttal testimony, DRA recommends that SCE be allowed to recover the full amount of XXXXXXXXXX from ratepayers through the NSGMA

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<sup>27</sup> Resolution E-4115, pg 7.

account. SCE has shown that the costs incurred are reasonable and comply with the corresponding Commission decisions and resolutions that authorize SCE to establish the accounts and recover the costs recorded from ratepayers.

**5. Department of Energy Litigation Memo Account (DOELMA)**

The Department of Energy Litigation Memo Account (DOELMA) was established to track ongoing litigation costs associated with litigation between SCE and the Department of Energy. This account could be viewed as a balancing account because the hope is that successful litigation will result in a payment from the Department of Energy to SCE and the balance would go to ratepayers. The request in this Application is for \$265,000 incurred since March 2007.

Although DRA does not take issue with the reasonableness of the expenditures in this account, it continues to believe that a determination regarding this account is not and should not be a part of this Application.

The Resolution that authorized the opening of the account, along with the underlying Advice Letter, authorizes SCE to recover the funds as follows:

At a future date, SCE shall make a proposal to dispose of the net amount recorded in the DOELMA in an application before the Commission. In its application, SCE shall also justify the reasonableness of its incremental litigation costs recorded in the DOELMA.<sup>28</sup>

The Commission, thus, did not order that this account be addressed in ERRA, but by way of “an application.” This is completely different from other accounts, like the PDDMA and the NSGMA (discussed above) which were ordered to be addressed in an ERRA related application. The Commission’s stated in the Scoping Memo that:

Since the Commission has previously determined that certain non-ERRA accounts should be included in SCE’s ERRA compliance filing, it is appropriate for SCE to do so and

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<sup>28</sup> Advice Letter 2085-E, approved March 15, 2007

appropriate for the Commission to address these accounts as part of this proceeding.<sup>29</sup>

DOELMA is simply not one of those accounts. SCE should be ordered to submit its request for recovery of this litigation account when the litigation is concluded and in a separate application.

**6. All Non-ERRA Accounts Should be Addressed Outside of the ERRA Process in a Separate Proceeding**

As indicated more fully above and in DRA's testimony, several of SCE's non-ERRA accounts have been ordered through Commission Decisions to be addressed in ERRA proceedings. These accounts include BRRBA, CARE, DRPBA, NSGBA, NDAM, PPPAM, PDDMA, RSMA, and SCBA. Additional accounts through Commission Resolutions are to be addressed in ERRA proceedings. These accounts include ESMA, LCTA, MRTUMA and DOELMA. As indicated in the Scoping Memo:

DRA suggests that one possible method for addressing these inconsistencies would be to bifurcate the annual non-ERRA accounts from the pure ERRA issues and develop a separate track or phase of the instant proceeding. DRA's preferred approach would be to require that all annual non-ERRA accounts be submitted together as one filing separate from the ERRA filing, to be filed by all three IOUs at the same time, and then consolidated by the Commission. DRA states that the value of such an application that addresses all annual non-ERRA accounts, such as the MRTUMA, would be that the analysis of the expenditures could be performed across all IOUs. According to DRA, a comparison of how all of the IOUs are addressing a particular account would be easier and more useful if the analysis of those accounts were done contemporaneously.

Assigned Commissioner's Ruling and Scoping Memo, June 24, 2009, p. 4. That Scoping Memo also found that:

There may be merit to DRA's suggestion that it would be more appropriate to address non-ERRA accounts collectively for all three IOUs, but the record on this issue would have to

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<sup>29</sup> Assigned Commissioner's Ruling and Scoping Memo, June 24, 2009, p. 5.

be more fully developed, in order for the Commission to consider the need for, and make, such changes. DRA may include this issue as part of its direct testimony, with the understanding that any Commission determined changes as to where, or how, these non-ERRA accounts are reviewed would only relate to the timeframe of future SCE ERRA compliance filings, not to the instant proceeding.

Assigned Commissioner's Ruling and Scoping Memo, June 24, 2009, pp. 5-6.

It would be more appropriate to address many non-ERRA accounts collectively for all three IOUs. DRA seeks clarification from the Commission regarding the appropriateness of including non-ERRA accounts in the ERRA proceeding and urges that a consistent mechanism or approach be adopted and makes recommendations along those lines.

DRA has surveyed all balancing and memorandum accounts used by SCE, PG&E, and SDG&E.<sup>30</sup> The survey of SCE showed that of the 50 accounts it identified, it anticipates it may submit as many as 33 different accounts for review in its annual ERRA Compliance proceedings. The survey of SDG&E showed that of the 37 accounts SDG&E identified, SDG&E anticipates it may submit for review in its future annual ERRA Compliance proceedings as many as 6 different accounts.

DRA acknowledges that each IOU has included many non-ERRA balancing and memorandum accounts pursuant to Commission approval. Although the IOUs usually obtained Commission approval to submit these additional accounts in the ERRA Compliance proceedings, these approvals were over a period of several years. The total number of these non-ERRA accounts included in the ERRA Compliance proceedings has grown and continues to grow. Generally, PG&E and SDG&E each submit non-ERRA accounts in other proceedings such as the Annual Electric True-Up (AET) Proceeding, Low Income Energy Efficient, and Energy Efficiency Proceeding.

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<sup>30</sup> The responses to this survey were attached to DRA's testimony as SCE ERRA, A.09-04-002, response to DRA Data Request #12; PG&E ERRA, A.09-02-008, response to DRA Data Request #17; and SDG&E ERRA A.09-05-018, response to DRA Data Request #5, respectively.

All non-ERRA balancing accounts and memorandum accounts require reasonableness reviews, the scope of which is different from a compliance review. DRA believes reviews of the IOU's non-ERRA accounts are best suited for reasonableness review proceedings.

SCE, PG&E, and SDG&E should not submit non-ERRA balancing and memorandum accounts in any ERRA proceeding. Instead, these non-ERRA accounts should be combined together and submitted in a separate reasonableness review proceeding. DRA recommends that all three IOUs be ordered to file these non-ERRA account review application simultaneously and that they then be consolidated. Such a system would allow similar accounts to be compared across IOUs, for these same accounts to be addressed faster than if they were added to the individual IOU's General Rate Case, and would take them out of the ERRA process.

### **III. CONCLUSION**

DRA is not making a recommendation of any disallowances regarding PURPA contract administration and costs, SCE's non-qualifying facility contract administration and costs or balancing account review.

DRA is recommending that two forced outages relating to generation facilities owned by SCE be found to be unreasonable and that a disallowance be ordered.

DRA also believes SCE's request for recovery of MRTU costs is premature and should be denied at this time. DRA recommends that a consolidated proceeding to address the three IOUs MRTU Release 1 implementation costs be scheduled for June or July of 2010, and SCE's costs be combined in their filing.

DRA recommends that XXXXX of the XXXXXX SCE is seeking to recover through the PDDMA be found reasonable, but that the remainder not be allowed. DRA recommends that SCE be allowed to recover the full amount of XXXXXXXX from ratepayers through the NSGMA account. SCE should be ordered to submit its request for recovery of the DOELMA when the litigation is concluded and in a separate application.

Non-ERRA accounts should be combined together and submitted in a separate reasonableness review proceeding. DRA recommends that all three IOUs be ordered to

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA

Application of Southern California Edison )  
Company (U 338-E) for a Commission Finding )  
that its Procurement-Related and Other )  
Operations for the Record Period January 1 )  
Through December 31, 2008 Complied with its )  
Adopted Procurement Plan; for Verification of its )  
Entries in the Energy Resource Recovery )  
Account and Other Regulatory Accounts; and for )  
Recovery of \$35.796 Million Recorded in Four )  
Memorandum Accounts. )

Application No. 09-04-002

(Filed April 1, 2009)

REPLY BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

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Dated: December 22, 2009

methodology, and DRA ignores SCE's argument that these outages were reasonable and thus do not merit any disallowance.

#### IV.

#### **SCE'S RECORDED COSTS IN THE NSGMA, PDDMA, AND DOELMA ARE APPROPRIATELY STATED, REASONABLE, AND RECOVERABLE**

DRA originally recommended that the Commission disallow SCE's request to recover its costs recorded in the NSGMA, PDDMA, and NSGMA. In its opening brief, DRA no longer recommends that the Commission disallow SCE's request to recover its recorded costs in the NSGMA, but continues to argue for a disallowance associated with SCE's costs recorded in the PDDMA and DOELMA. SCE addresses DRA's arguments below.

##### **A. SCE Has Met Its Burden of Proof in This ERRA Review Proceeding**

DRA originally claimed that SCE's recorded costs in the NSGMA, PDDMA, and DOELMA "cannot be established through the material provided with [SCE's] Application, and thus recommends a disallowance associated with those funds".<sup>13</sup> As SCE explained in Chapter V of its rebuttal testimony, DRA fails to provide any supporting analysis for its conclusion that it could not ascertain the reasonableness of SCE's recorded costs in these accounts. Indeed, in its Report DRA devoted just one paragraph each to discussing SCE's recorded costs in the PDDMA and DOELMA. For both of these accounts, DRA simply stated that SCE should be denied recovery of its costs because it had not provided enough evidence to meet its burden of proof.

SCE addressed DRA's claim in Chapter V of its rebuttal testimony. SCE detailed its supporting information for each of these accounts, and explained that the level of information that it provided here was the same that it had provided in prior ERRA Review proceedings, including SCE's April 2007 and April 2008 ERRA Review applications, A.07-04-001 and A.08-04-001. DRA asserts on Page 9 of its opening brief that these prior proceedings are not relevant

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<sup>13</sup> Exh. 9, p. 1-7.

to establishing the burden of proof in this proceeding. SCE disagrees with DRA on this point. As discussed below, the Commission's prior decisions approving SCE's non-ERRA accounts in these two proceedings, D.07-12-027 and D.08-11-021, are relevant because they establish the legal standard that SCE is expected to meet when providing information regarding its non-ERRA accounts. These decisions constitute the precedent for the Commission's assessment of whether SCE has met its burden of proof in this proceeding.

In D.07-12-027, DRA reviewed SCE's request to recover \$4.863 million recorded in four non-ERRA memorandum accounts and "concluded that the accounts are appropriate and in compliance with the applicable Commission decisions."<sup>14</sup> SCE had submitted the same level of information in support of its request to recover the balance in these accounts that it has submitted in the present proceeding. After reviewing this evidence, the Commission stated: "We find that SCE has provided the necessary showing to support the reasonableness of its request related to the above items (a) through (i) [which included the four memorandum accounts]."<sup>15</sup> Likewise, in D.08-11-021, DRA reviewed SCE's evidence in support of ten non-ERRA ratemaking accounts, including its request to recover \$13.947 million recorded in two of these accounts, and found no exceptions to the Commission's requirements. Based on the level of information that SCE submitted in that proceeding -- which is the same that SCE submitted in the present application -- DRA concluded that SCE's request was reasonable, accurately recorded, and recoverable.<sup>16</sup> The Commission conducted its own independent review of SCE's showing, and agreed with DRA.<sup>17</sup>

SCE also disagrees with DRA's claim that, by criticizing DRA's analysis of these non-ERRA accounts, SCE is attempting to "shift the burden of proof" in this proceeding from SCE to DRA.<sup>18</sup> As the applicant in this ERRA Review proceeding, SCE is entitled to understand the basis for any disallowances that DRA recommends to the Commission so it may know how to

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<sup>14</sup> D.07-12-027, p. 3.

<sup>15</sup> *Id.*, p. 18.

<sup>16</sup> D.08-11-021, p. 6.

<sup>17</sup> *Id.*, p. 14.

<sup>18</sup> DRA Opening Brief, p. 7.

respond. SCE's right to due process demands no less. It is simply not acceptable for DRA to recommend a disallowance based solely on its summary conclusion that SCE has not met its burden of proof, when DRA has had months to request additional information from SCE. Both SCE and the Commission are justified in expecting DRA to fully support its recommendations in Commission proceedings.

**B. SCE's Recorded Costs in the PDDMA Consist of "Support" Functions Authorized in D.06-05-016**

As noted above, DRA originally recommended a disallowance associated with SCE's recorded costs in the PDDMA because DRA claimed that SCE had not provided enough "supporting and detailed evidence" to meet its burden of proof in this proceeding.<sup>19</sup> On Pages 43-44 of its rebuttal testimony, SCE detailed the information that it provided to DRA for this account. SCE also included a copy of its relevant workpapers and data request responses in Appendix D of Exhibit 5.

Before the October 29 hearing, SCE also met with DRA to discuss its recommendation for a disallowance regarding SCE's recorded costs in the PDDMA. During these conversations, DRA questioned SCE about certain costs, outlined on Page 17 of DRA's opening brief, which DRA claimed were associated with applications that were pending before the Commission at the time of SCE's April 2009 ERRA Review filing. These applications included SCE's Solar Photovoltaic Program (A.08-03-015), Fuel Cell Program (A.09-04-018), and Hydrogen Energy California (HECA) Feasibility Study (A.09-04-008). DRA wanted to know why SCE was requesting to recover these costs in this ERRA Review proceeding via the PDDMA, instead of through the respective project applications pending before the Commission.

As DRA notes in its opening brief, SCE explained that these costs were incurred before these applications were filed, and consisted of "support" functions that the Commission

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<sup>19</sup> Exh. 9, p. 7-8.

authorized in SCE's Test Year 2006 GRC decision, D.06-05-016. In that decision, the Commission clearly identified the support functions for which SCE is eligible to recover its costs via the PDDMA:

On the other hand, SCE makes the argument that the PDD will support the future of new generation in California even if they do not develop any projects. Support functions include: (1) identifying locations for new generation, (2) evaluating generation technologies, (3) tracking regulatory and legislative generation-related initiatives, and (4) the development of the [Best Option Outside Negotiation] BOON for future generation needs. These support functions are desirable and it is reasonable that they be funded in rates.<sup>20</sup>

In its decision, the Commission drew a distinction between PDDMA-eligible "supportive" costs, which may or may not result in a proposed new project, and non-eligible costs that are in fact associated with a proposed new project. The Commission also articulated a three-part test for SCE to recover its costs recorded in the PDDMA (emphasis added):

For this GRC, we will exclude SCE's entire PDD request from rates. We will however allow rate recovery of costs that support new generation and that are not associated with proposed projects. SCE should track such supportive project development costs in a memorandum account. Such costs can then be recovered in future rates to the extent that they are incurred, to the extent that SCE can justify their supportive nature, and to the extent that the total recorded PDD costs do not exceed SCE's forecasted amount.<sup>21</sup>

As the above underlined passage makes clear, for SCE to recover its recorded costs in the PDDMA it must demonstrate that its costs were: (1) actually incurred; (2) supportive in nature; and (3) less than SCE's forecasted amount established by the Commission in D.09-03-025.<sup>22</sup> In its opening brief, DRA does not argue that SCE has not established any of the foregoing elements in this proceeding, including the supportive nature of the activities listed on Page 17 of

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<sup>20</sup> D.06-05-016, pp. 52-53.

<sup>21</sup> Id.

<sup>22</sup> In SCE's Test Year 2009 GRC decision, D.09-03-025, the Commission affirmed its previous decision and set the PDD forecasted amount at \$5,012,000.

DRA's opening brief, because SCE has in fact done so. Rather, DRA recommends that SCE's costs associated with these supportive activities should be disallowed solely because they resulted in SCE pursuing the specific projects at issue in A.08-03-015, A.09-04-018, and A.09-04-008 (i.e., the Solar Photovoltaic Program, Fuel Cell Program, and HECA Feasibility Study) and thus "are nonetheless related to applications pending before the Commission [and] have the potential to be recovered through future rates".<sup>23</sup> Apparently, DRA has interpreted the Commission's above statement in D.06-05-016 that it would "allow rate recovery of costs that support new generation and that are not associated with proposed projects" to mean that once SCE files an application for approval of a specific project, it can no longer recover any of its initial supportive costs related to that project through the PDDMA. SCE disagrees with DRA's interpretation because it ignores the three-part test articulated above by the Commission.

The Commission made clear in D.06-05-016 that SCE is entitled to recover its costs recorded in the PDDMA, provided they are related to the type of support functions identified in that decision and do not exceed SCE's forecasted amount. This is so regardless of whether the support functions actually lead SCE to pursue a specific project; and, if SCE elects to pursue a specific project, regardless of whether the Commission approves SCE's related application. DRA simply does not understand that SCE must conduct these GRC-authorized support functions before it can determine whether to file an application to pursue a specific project and, if an application is filed, to continue forward progress while the application is being processed by the Commission. If the Commission were to adopt DRA's interpretation of D.06-05-016, then SCE would only be able to record (and recover) those costs recorded in the PDDMA that are associated with support activities that do not lead to the pursuit of a specific project. For those costs associated with support activities that do lead SCE to pursue a specific project, DRA apparently expects SCE to wait to recover these costs until (and only) if the Commission approves SCE's related application. This renders the entire purpose of the PDDMA moot.

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<sup>23</sup> DRA Opening Brief, p. 19.

It is not unusual for SCE to recover its costs associated with certain support functions that lead to applications before the Commission. For example, in SCE's April 2007 and April 2008 ERRA Review applications, SCE described certain support functions that it undertook to understand the potential for the development of clean coal, such as "clean coal study development"<sup>24</sup> and "contractor labor and expenses for the study of sites for new coal and/or other baseload generation".<sup>25</sup> After SCE established the initial viability of the technology, it filed the Clean Hydrogen Power Generation Feasibility Study Application, A.07-05-020, requesting the Commission to approve further steps toward developing this project. The Commission approved these costs in D.07-12-027 and D.08-11-021.

In the instant application, the activities associated with "URS Engineering & Construction Services for Solar PV Program" and "Precision Electric in Support of Solar PV"<sup>26</sup> were for support activities that enabled the filing of the Solar Photovoltaic Application, A.08-03-015, as well as for support activities necessary to keep this program on track while the application was pending. Similarly, the support activities for "Black & Veatch Engineering Services"<sup>27</sup> were for a feasibility study that Black & Veatch performed to consider potential siting locations for certain fuel cell installations. The results of this feasibility study led SCE to file its Fuel Cell Application with the Commission, A.09-04-018. These are precisely the kind of support functions authorized by the Commission in D.06-05-016.

DRA is also incorrect when it states that SCE's supportive costs recorded in the PDDMA "have the potential to be recovered through future rates".<sup>28</sup> Because these costs are supportive in nature, SCE has recorded them in the PDDMA for recovery in this ERRA Review proceeding, and not in A.08-03-015, A.09-04-018, and A.09-04-008. As a result, if the

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<sup>24</sup> A.07-04-001, Exh. 2, p. 103.

<sup>25</sup> A.08-04-001, Exh. 2, p. 99.

<sup>26</sup> DRA Opening Brief, p. 17.

<sup>27</sup> Id.

<sup>28</sup> Id., p. 19.

Commission does not approve SCE's recovery of these costs in this proceeding, then they have the potential to become stranded. This is also an unfair and irrational outcome.

Finally, SCE takes issue with DRA's attempt to introduce its new argument for a disallowance after the evidentiary record for this proceeding has concluded. As noted above, the aforementioned conversations between DRA and SCE took place prior to the October 29 hearing in this proceeding. If DRA wanted to introduce new evidence to support a disallowance of SCE's recorded costs in the PDDMA, then it should have cross-examined SCE's witness, Mark Nelson, or otherwise sought permission from the Commission to introduce supplemental testimony in this proceeding. This would have given SCE the opportunity to respond on the record, either through redirect examination or supplemental rebuttal testimony. But DRA elected not to do so, and instead is attempting to introduce this additional evidence via its opening brief in this proceeding. This is inappropriate, and the Commission should therefore disregard DRA's new argument for a disallowance.

C. The Commission Has Already Ruled That It Is Appropriate to Review the DOELMA in This Proceeding

SCE has presented evidence demonstrating the reasonableness of its recorded costs in the DOELMA, including comprehensive cost reports that summarize all expenses recorded, all journal entries, all adjustments, and all invoices for monthly expenditures incurred in 2007 and 2008.<sup>29</sup> DRA reviewed this evidence and, after initially claiming in its Report that SCE had not met its burden of proof to justify recovering its recorded costs, now states that it "does not take issue with the reasonableness of the expenditures in this account".<sup>30</sup>

Notwithstanding the foregoing, DRA nonetheless recommends that the Commission should postpone issuing a decision regarding the reasonableness of SCE's recorded costs. DRA's argument is based on the statement in SCE's underlying advice letter establishing this

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<sup>29</sup> See Exh. 7, Appendix F, for a copy of SCE's workpapers and responses to DRA's data request 21.7.2.

<sup>30</sup> DRA Opening Brief, p. 20.

account, Advice Letter 2085-E, that SCE shall present its recorded costs by way of “an application”. DRA states that this makes the DOELMA “completely different from other accounts, like the PDDMA and the NSGMA...which were ordered to be addressed in an ERRA-related application”.<sup>31</sup>

As SCE explained in its reply to DRA’s protest, the Commission specifically required three non-ERRA accounts to be presented in this proceeding (i.e., the MRTUMA, NSGMA, and PDDMA). The Commission has not required SCE to present its remaining non-ERRA accounts for review here. However, as SCE also explained in its reply, SCE decided to include these accounts in its ERRA Review application based on prior Commission decisions that have confirmed the ERRA Review proceeding as an appropriate forum for reviewing non-ERRA accounts. Based on these Commission decisions, as well as prior practice, SCE elected to include the DOELMA in its April 2009 ERRA Review Application. This is not inconsistent with the statement in Advice Letter 2085-E that SCE must present its recorded costs for review in “an application”. This proceeding is an application.

In its June 24, 2009 Scoping Memo, the Commission left it to DRA to justify why non-ERRA accounts should be presented for review in the future, via a separate application (emphasis added):

DRA may include this issue as part of its direct testimony, with the understanding that any Commission determined changes as to where, or how, these non-ERRA accounts are reviewed would only relate to the timeframe of future SCE ERRA compliance filings, not to the instant proceeding.<sup>32</sup>

The Commission’s ruling makes clear that in the present ERRA Review proceeding it is appropriate to review SCE’s non-ERRA accounts, including the DOELMA. In its opening brief, DRA has indicated that it has reviewed this account and does not take issue with SCE’s costs

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<sup>31</sup> Id.

<sup>32</sup> June 24, 2009 Scoping Memo, p. 5.

recorded therein. The Commission should therefore find that SCE's costs recorded in this account are reasonable and recoverable.

V.

**SCE IS ENTITLED TO RECOVER ITS RECORDED INCREMENTAL MRTU COSTS  
IN THIS ERRA REVIEW PROCEEDING**

In its opening brief, DRA repeats its argument that SCE's present request for recovery of \$5.1 million in incremental O&M costs recorded in the MRTUMA should be deferred until all work orders for 2007 and 2008 have been closed. SCE addressed these arguments on Pages 53-57 of its rebuttal testimony, and explained why DRA's position is inconsistent with Resolution E-4087 and reflects an overly broad and unfounded interpretation of D.09-03-025. DRA does not address any of SCE's arguments in its opening brief, and SCE therefore assumes that DRA has no response and has effectively conceded these points.

Instead, DRA now claims that certain "complexities" associated with the implementation of MRTU dictate the Commission's review of all of SCE's recorded incremental MRTU-related costs in a single application.<sup>33</sup> The Commission should not be persuaded by this argument. As explained in SCE's rebuttal testimony, the Commission has clearly determined that it is appropriate for SCE to present its recorded costs for Commission review on an annual basis and does not need to wait for subsequent costs to be incurred and recorded.

Furthermore, many of the purported "complexities" that DRA claims would justify the Commission deferring review of SCE's recorded costs are based on inaccurate information. An example of this is DRA's statement on Page 9 of its opening brief that "key software components for MRTU implementation have been modified by the [Investor Owned Utilities (IOUs)] and have not been reviewed and analyzed by the Commission". This statement is incorrect -- the California Independent System Operator (CAISO) provided business requirements and a portal through which MRTU market participants submit market bids and information. In addition, the

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<sup>33</sup> DRA Opening Brief, p. 9.

Commission should not “review” and “analyze” the various components of MRTU in a separate proceeding. As SCE has explained, MRTU was implemented under the direction of the CAISO and Federal Energy Regulatory Commission (FERC) jurisdiction. The CAISO was responsible for development of the MRTU market structure. All development, testing, market simulation, and all other aspects of MRTU, occurred under the review of the CAISO through FERC authorization and FERC-approved CAISO tariffs.

SCE’s current operation of the MRTUMA complies fully with the Commission’s ruling. In accordance with Resolution E-4087, SCE is seeking recovery of the incremental O&M costs recorded in the MRTUMA in 2007 and 2008 in this ERRA Review proceeding. SCE has not requested recovery of capital-related revenue requirements for 2007 and 2008 in this proceeding since no capital project work orders were closed during those years and no capital-related revenue requirement amounts were recorded. The capital-related revenue requirements associated with the capital investments incurred during 2007 and 2008 were recorded to the MRTUMA once the project work orders closed to plant-in-service in April 2009 and will be included in the April 2010 ERRA Review proceeding (covering the 2009 Record Period). The MRTUMA as presented in this proceeding includes all MRTU-related costs that were recorded during 2007 and 2008, in compliance with the Commission’s directives. SCE has submitted all relevant information to demonstrate that these costs are incremental and reasonable. The Commission should review these costs and grant SCE’s request for recovery.

## VI.

### **THE COMMISSION SHOULD REJECT DRA’S PROPOSAL TO CREATE A SEPARATE, CONSOLIDATED PROCEEDING TO REVIEW MRTU COSTS**

As SCE explained in its rebuttal testimony and reply to DRA’s protest, the Commission has already ruled that it is appropriate for the MRTUMA to be included in the ERRA Review proceeding. Indeed, in Resolution E-4087 the Commission required SCE to seek recovery of costs recorded in the MRTUMA in this proceeding. The Commission should therefore consider this a settled issue.

Notwithstanding the foregoing, DRA continues to argue that the Commission should establish a separate consolidated proceeding to review all three IOUs' MRTU implementation applications. DRA argues that a comparative review of the IOUs' costs is appropriate because "the IOUs are driven by common directives, tariff structure[s], and technical requirement[s]".<sup>34</sup> This is not entirely accurate. Of course, it is true that all market participants are driven by common factors and the CAISO tariff; however, the manner in which each IOU approaches the requirements can be wholly different. For example, CAISO provides a portal to submit MRTU market bids and information, known as "Scheduling Infrastructure Business Rules" (SIBR). Market participants can manually enter their bid and schedule data in SIBR; alternatively, they can streamline the process through an application programming interface (API) that can be used to interface with the participants' internal systems. In this case, SCE implemented the latter solution for a number of reasons, not the least of which is the sheer volume of resources and transactions for which SCE is responsible. In contrast, other participants made their own decisions on internal solutions based on their unique requirements. So, it is incorrect to assume that all participants' implementation costs should be comparable, simply because the same CAISO rules apply to everyone.

The Commission should also reject this argument because it overstates the "commonality" of the IOUs' implementation efforts. As SCE explained in its rebuttal testimony, a direct comparison of the IOUs' MRTU implementation efforts is inappropriate because the three IOUs had different resource portfolios, customer demands, reliability issues, and information systems in place prior to MRTU that had to be modified or replaced.<sup>35</sup> DRA completely ignores these distinctions in its opening brief.

SCE is concerned that DRA is interested in having the Commission perform a much broader assessment than the one prescribed in Resolution E-4087. Indeed, on Page 6-9 of its Report, Exhibit 9, DRA initially proposed a set of 16 factors that it claimed should be considered

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<sup>34</sup> *Id.*, pp. 14-15.

<sup>35</sup> Exh. 4, p. 59.

as part of the Commission's reasonableness review of SCE's and the other IOUs' cost to implement MRTU. SCE explained on Pages 58-59 of its rebuttal testimony why many of these 16 factors were irrelevant to the Commission's review of the IOUs' actual implementation of MRTU. Although DRA does not reference these factors in its opening brief, it nonetheless continues to assert that a "comprehensive" review of MRTU is required, and that it is "imperative for the Commission to track MRTU project costs and its impact within the artificial energy exchange market that has been created..."<sup>36</sup> DRA also states that the IOUs' respective MRTU software must be "verified, validated, and reviewed" by the Commission.<sup>37</sup> This kind of review is totally inappropriate as it is beyond the scope of the review prescribed in Resolution E-4087. Indeed, SCE notes that the Commission recently reaffirmed the limited scope of review of the IOUs' MRTU-related recorded costs in its final decision in Pacific Gas & Electric Company's (PG&E) June 2009 ERRA Forecast proceeding (A.09-06-001), D.09-12-021 (emphasis added):

Although this decision denies PG&E's Motion to include MRTU-related costs on procedural grounds and defers the issue to PG&E's ERRA Compliance filing (or separate application), the Commission notes that the scope of its review of PG&E's MRTU costs is not necessarily a traditional reasonableness review. The MRTU project is a project mandated by regulatory and reliability requirements of the California Independent System Operator and Federal Energy Regulatory Commission. Therefore, the Commission expects the review of these costs to primarily focus on whether the costs can be verified and are incremental.<sup>38</sup>

As the Commission recognized, MRTU is the result of numerous CAISO stakeholder processes and FERC orders. The Commission therefore has stated that to recover amounts recorded in the MRTUMA, SCE must first provide justification that its entries to the MRTUMA can be verified and are incremental.<sup>39</sup> The Commission has not required that IOUs make a

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<sup>36</sup> DRA Opening Brief, p. 14.

<sup>37</sup> *Id.*, p. 9.

<sup>38</sup> D.09-12-021, p. 3, fn. 1.

<sup>39</sup> *Id.*

broader showing to recover their costs associated with the implementation of MRTU. The “comprehensive” review that DRA is advocating would seek to second-guess the policies and decisions adopted by the CAISO and FERC in a federally-mandated program under which SCE is required to operate. This is inappropriate, and risks introducing confusion and uncertainty into a complex, federally-mandated program. The Commission should therefore continue to restrict its role to determining whether the costs recorded in the IOUs’ MRTU memorandum accounts are incremental and verifiable.

## VII.

### **THE COMMISSION SHOULD CONTINUE TO REVIEW NON-ERRA ACCOUNTS IN THE ERRA REVIEW PROCEEDING**

In its opening brief, DRA simply repeats the assertions presented in its Report (i.e., that the number of ERRA accounts “continues to grow” and non-ERRA accounts require reasonableness review instead of compliance review). DRA ignores SCE’s rebuttal testimony on this subject, in which SCE explained that the Commission should not create an entirely separate proceeding based on DRA’s mere observation that the number of non-ERRA accounts has grown. SCE also explained in its rebuttal testimony that the Commission does conduct a reasonableness review in the ERRA Review proceeding in certain areas (i.e., URG operations and the administration of various contracts). SCE also pointed out in its rebuttal testimony that DRA has failed to sufficiently address the issues set forth in the June 24, 2009 Scoping Memo.<sup>40</sup> The Commission should treat DRA’s complete failure to address these arguments in SCE’s rebuttal testimony as concession of this issue.

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<sup>40</sup> These issues include: (1) the extent of the problems related to addressing non-ERRA accounts in the ERRA proceeding; (2) where and how the other IOUs address each of the non-ERRA accounts presented by SCE in this proceeding; and (3) why it would be appropriate to override previous Commission determinations that certain non-ERRA accounts should be addressed in SCE’s ERRA Review proceeding. See June 24 Scoping Memo, p. 5.

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for a Commission Finding that its Procurement-Related and Other Operations for the Record Period January 1 through December 31, 2008 Complied with its Adopted Procurement Plan; for Verification of its Entries in the Energy Resource Recovery Account and other Regulatory Accounts; and for Recovery of \$35.796 million recorded in Four Memorandum Accounts.

Application 09-04-002  
(Filed on April 1, 2009)

**REPLY BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES ON  
SOUTHERN CALIFORNIA EDISON'S ENERGY RESOURCE RECOVERY  
ACCOUNT APPLICATION**

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December 22, 2009

## **E. Non-ERRA Accounts**

### **1. MRTU**

In Chapter 6 DRA recommended the Commission have the opportunity to review the reasonableness of all recorded costs associated with the implementation of MRTU (Release 1 the implementation phase) as directed by both Resolution E-4087 and D.09-03-025.

SCE's assertion that all IOUs cannot be ordered into a consolidated proceeding in this case because the other IOUs are not a party to this proceeding is meritless.<sup>7</sup> Such an order would be procedural and not substantive. The three IOUs will eventually seek return of the funds they spent implementing MRTU. An order in this proceeding detailing the procedures for seeking that relief would not prejudice any of their substantive rights and is appropriate.

Each IOU has similar language in their guiding Resolutions E-4093 and E-4088 for PG&E and SDG&E respectively. This language was put in place requiring reasonableness reviews by all IOU's to mitigate excessive spending without oversight. There are no estimates available of the full cost of the MRTU costs or the ISO New Market projects (Releases 1A and 2) to California ratepayers. Neither is cost causation factored into determining the allocation of these costs for purposes of cost allocation or rate design.

Although the ISO has been given operating authority over the IOUs' transmission facilities, it is not responsible for reviewing reasonableness of MRTU implementation costs incurred by the IOUs. To the extent the IOUs seek recovery of MRTU costs; the Commission has the responsibility to ensure MRTU costs are reasonable. As the ratepayer advocate, DRA is responsible for reviewing these costs and recommending to the Commission whether they should be recovered in rates.

Since the IOUs' MRTU implementation costs are all driven by common CAISO directives, tariff structure, and technical requirements, DRA believes the best approach

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<sup>7</sup> SCE Rebuttal Testimony, October 8, 2009, p. 57.

would be to review MRTU implementation costs in a consistent manner. This will best be achieved by a consolidated Commission proceeding that looks at MRTU expenditures of all three IOUs. This approach is not new; it is used by the Commission in Resource Adequacy, Demand Response, Energy Efficiency, and Low Income proceedings. Such an approach ensures that the Commission will treat similar issues in a similar fashion. It also ensures that the MRTU costs incurred by the IOUs are subject to regulatory review before being subject to recovery in rates, since these implementation costs are not reviewed by FERC for reasonableness.

**2. Project Development Division Memorandum Account (PDDMA) New System Generation Memorandum Account (NSGMA) and Department of Energy Litigation Memo Account (DOELMA)**

DRA has nothing to add to its discussion in its opening brief on these accounts.

**3. All Non-ERRA Accounts Should be Addressed Outside of the ERRA Process in a Separate Proceeding**

As discussed above and in DRA's testimony, DRA seeks clarification from the Commission regarding the appropriateness of including non-ERRA accounts in future ERRA proceeding and urges that a consistent mechanism or approach be adopted.

SCE's assertion that all IOUs cannot be ordered into a consolidated proceeding in this case because the other IOUs are not a party to this proceeding is meritless.<sup>8</sup> Such an order would be procedural and not substantive. The three IOUs will eventually seek return of the funds they spent on these non-ERRA accounts. An order in this proceeding detailing the procedures for seeking that relief would not prejudice any of their substantive rights and is appropriate.

DRA acknowledges that many non-ERRA balancing and memorandum accounts were included in ERRA applications pursuant to Commission approval. Although the SCE usually obtained Commission approval to submit these additional accounts in the

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<sup>8</sup> SCE Rebuttal Testimony, October 8, 2009, p. 52.

ERRA Compliance proceedings,<sup>9</sup> these approvals have occurred over a period of several years. As a result, the total number of these non-ERRA accounts included in the ERRA proceedings has grown and continues to grow. DRA believes that the Commission should rethink using the ERRA Compliance proceedings as the vehicle for reviewing reasonableness of the non-ERRA accounts.

Thus, SCE, PG&E, and SDG&E should not submit non-ERRA balancing and memorandum accounts in any ERRA proceeding, despite prior Commission approval. Instead, the Commission should instruct the IOUs to consolidate their non-ERRA accounts and submit them in a separate reasonableness review proceeding. DRA recommends that all three IOUs be ordered to file these non-ERRA account review applications simultaneously and that they then be consolidated. This new consolidated proceeding would 1) allow similar accounts to be compared across IOUs, 2) permit the Commission to address these same accounts faster than if they were added to the individual IOU's General Rate Case, and 3) would take them out of the ERRA process.

### **III. CONCLUSION**

For the reasons discussed in this brief in the opening brief, in the testimony and evidence, DRA requests adoption of its recommendations.

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<sup>9</sup> The DOELMA is an illustrative example here, where SCE was ordered to seek recovery in an application, but not specifically in an ERRA application.

Respectfully submitted,

/s/ MITCHELL SHAPSON

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December 22, 2009

**CERTIFICATE OF SERVICE**

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true copy of **SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY TO PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES** on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

Transmitting the copies via e-mail to all parties who have provided an e-mail address.  
First class mail will be used if electronic service cannot be effectuated.

Executed this **20th day of May, 2010**, at Rosemead, California.

\_\_\_\_\_  
/s/  
Melissa A. Schary  
Project Analyst  
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 FOR: SOUTHERN CALIFORNIA EDISON COMPANY

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