

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-4115
October 4, 2007

R E S O L U T I O N

Resolution E-4115. Southern California Edison Company requests the Commission's approval to establish a memorandum account to record the benefits and costs associated with the Long Beach Generation LLC Power Purchase Agreement pending final Commission decisions on the energy auction and nonbypassable charges associated with this new generation resource. Approved.

By Advice Letter 2132-E Filed on June 6, 2007, and Advice Letter 2132-E-A Filed on July 6, 2007.

SUMMARY

This Resolution approves SCE's request to establish a memorandum account to record the costs and benefits associated with the Long Beach Generation LLC Power Purchase Agreement.

By Advice Letter 2132-E filed on June 6, 2007, and amended Advice Letter 2132-E-A filed on July 6, 2007, Southern California Edison Company (SCE) requests the Commission's approval to establish a memorandum account to record the benefits and costs associated with the Long Beach Generation LLC¹ (LBG) Power Purchase Agreement (PPA) pending final Commission decision on the design of the energy auction and nonbypassable charges associated with this new generation resource.

This Resolution approves SCE's request. Specifically, this Resolution authorizes SCE to create the New System Generation Memorandum Account (NSGMA) and to (1) transfer costs and credits associated with the LBG PPA from August 1, 2007, to date that have been recorded in its Energy Resource Recovery Account (ERRA) into the NSGMA, (2) record ongoing costs and credits associated with the LBG

¹ A wholly owned subsidiary of NRG Energy, Inc.

PPA in the account, and (3) transfer amounts recorded in the NSGMA into a new account established after the Commission decision in Track 3 of Phase II of R.06-02-013 on nonbypassable charges associated with this new generation (D.07-09-044, which provides a design for the energy auction, was approved by the Commission on September 20, 2007).

BACKGROUND

The LBG PPA is the first resource for which a utility has exercised the cost allocation methodology established in D.06-07-029.

In D.06-07-029, the Commission adopted a cost allocation methodology (CAM) to allocate the benefits and costs² of “new generation” to all “benefiting customers”³ in an investor-owned utility’s service territory for up to 10 years.

D.06-07-029 also directed SCE to issue a Request for Offers (RFO) seeking up to 1,500 MW of new generation, previously authorized in D.04-12-048. On August 14, 2006, pursuant to D.06-07-029, SCE issued an RFO for up to 1,500 MW of PPAs for new generation facilities (New Gen RFO).

On August 15, 2006, an Assigned Commissioner’s Ruling Addressing Electric Reliability Needs in Southern California for Summer 2007 (August Ruling) was issued in R.06-02-013. The August Ruling directed SCE to incorporate an expedited track into its New Gen RFO (the “Summer 2007” track), targeting new generation that would come on-line by August 1, 2007.

Based on the bids received in response to the Summer 2007 RFO, SCE accepted an offer from LBG for 260 MW of natural gas-fired peaking capacity from Long Beach Generating Facility Units 1, 2, 3, and 4. SCE filed Application A.06-11-007 seeking approval of a 10-year PPA with LBG with a delivery period from August

² Per D.06-07-029 (p. 31), costs would be allocated on a 12-month coincident peak basis among rate groups and will be recovered from all retail customers in a nonbypassable per kilowatt-hour charge.

³ D.06-07-029 (at footnote number 21) defines “benefiting customers” as all bundled service, direct access, community choice aggregation, and other customers who are located within a utility distribution service territory, but take service from a local publicly-owned utility subsequent to the date the new generation goes into service.

1, 2007 through July 31, 2017. SCE also requested approval to allocate the benefits and costs of the LBG PPA to all benefiting customers in accordance with D.06-07-029.

In D.07-01-041, the Commission authorized SCE to: 1) enter into the 10-year PPA with LBG for delivery from August 1, 2007 through July 31, 2017, and 2) apply the CAM adopted in D.06-07-029. Pursuant to the LBG PPA, deliveries from the LBG units commenced on August 1, 2007.

D.07-09-044 was approved by the Commission on September 20, 2007. The decision, which provides a design for the energy auction and the associated CAM pursuant to D.06-07-029, was based on a Joint Settlement Agreement (JSA) that provides the framework for how the costs and benefits associated with CAM-identified resources, including the LBG PPA, will be recovered from all benefiting customers both at times when the resources are subject to an energy auction contract and at times when they are not.

SCE requests approval to establish a memorandum account to record LBG PPA costs and benefits until the nonbypassable charge mechanism for these resources are established.

SCE filed Advice Letter 2132-E on June 6, 2007. Advice Letter 2132-E sought Commission authority to establish a memorandum account as an interim regulatory mechanism to record the benefits and costs associated with the LBG PPA until Commission approval of the JSA (which, as noted above, has since been approved) and the establishment of any nonbypassable charge for CAM-identified resources in Track 3 of Phase II of the R.06-02-013 proceeding. SCE also requested that the Commission approve this advice filing prior to the anticipated commencement date of the LBG PPA on August 1, 2007.

Advice Letter 2132-E indicated that after Commission approval of the JSA and establishment of a nonbypassable charge for CAM-identified resources, SCE would file a separate advice letter to establish a new balancing account consistent with the requirements of these decisions and transfer amounts recorded in the memorandum account to the new balancing account. SCE's filing indicated that it would also set forth for Commission review all of the entries recorded in the memorandum account and the new balancing account in a future application. The Energy Division determined that the Advice Letter required a Commission resolution, and Advice Letter 2132-E was suspended on June 21, 2007.

In response to the suspension of Advice Letter 2132-E, SCE submitted its amended Advice Letter 2132-E-A. Advice Letter 2132-E-A replicated Advice Letter 2132-E in all respects, but added a clause requesting authority to record costs and revenues associated with the LBG PPA resolution in its ERRA between August 1, 2007, and the effective date of a final Commission order. SCE indicated that it will transfer the LBG PPA costs and revenues recorded in the ERRA to the requested memorandum account effective on the date that the final Commission resolution is issued. From that date forward, LBG PPA-related costs and revenues would be recorded directly in the memorandum account.

The Energy Division suspended Advice Letter 2132-E-A on June 21, 2007, for the same reasons it had suspended Advice Letter 2132-E, and communicated to SCE staff the Energy Division's conclusion that SCE already had the authority to temporarily record the costs and revenues associated with the LBG PPA in its ERRA. Energy Division staff recommended that the LBG PPA entries in the ERRA be clearly identified as such to facilitate the transparent transfer of these entries to the balancing account once it is established.

NOTICE

Notices of AL 2132-E and AL-2132-E-A and their suspensions were made by publication in the Commission's Daily Calendar. SCE states that copies of their advice letters were mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

Advice Letters 2132-E and 2132-E-A were not protested.

DISCUSSION

SCE's request to establish this memorandum account, which will be identified as the New System Generation Memorandum Account, is consistent with the requirements and direction provided in D.06-07-029 and is approved.

The requested account is consistent with the requirements and direction provided in D.06-07-029. The Energy Division recommends approval of SCE's request to record costs and benefits associated with the LBG PPA in a newly established

account that will be identified as the NSGMA, and SCE's tariff be revised to reflect the addition of this memorandum account.

The Commission's standard practice is to authorize memorandum accounts to be effective only on or after the date on which the Commission approves them. Accordingly, we will authorize this memorandum account to be effective as of the date of today's decision.

The NSGMA is approved as an interim regulatory measure to record ongoing costs and credits associated with the LBG. All charges associated with the LBG PPA that have been recorded in SCE's ERRA should be transferred immediately to the NSGMA, and SCE shall record all future costs and benefits associated with the LBG PPA in the NSGMA until the Commission approves a decision on the nonbypassable charges associated with new system generation subject to the CAM. At that time, the Commission will develop appropriate rules and procedures to determine how costs and credits shall be reviewed and recovered, and we will direct SCE to establish an appropriate account to record costs and benefits associated with the LBG PPA and all future CAM-identified resources. SCE will then transfer all costs and credits from the NSGMA into this new account, close the NSGMA, and remove references to the NSGMA from its tariff.

COMMENTS

Public Utilities Code section 311(g)(1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and placed on the Commission's agenda 30 days from the date of mailing. SCE provided the only comments received, indicating they support the resolution.

FINDINGS

1. In D.07-01-041, the Commission authorized SCE to: 1) enter into the 10-year PPA with LBG for delivery from August 1, 2007 through July 31, 2017; and 2)

apply the CAM adopted in D.06-07-029, which allocates the benefits and costs of new generation to all benefiting customers in an IOU's service territory for up to 10 years.

2. Decision D.07-09-044, which provides a design for the energy auction and the associated CAM pursuant to D.06-07-029, was approved by the Commission on September 20, 2007.
3. Track 3 of Phase II of R.06-02-013 will determine how nonbypassable charges associated with the CAM will be allocated.
4. Costs and benefits associated with the LBG PPA have been accruing in advance of a final Commission decision. In the interim period, SCE has been recording these costs and benefits in its ERRA.
5. By Advice Letter 2132-E-A filed on July 6, 2007, SCE requested the Commission's approval to establish a memorandum account to record the benefits and costs associated with the LBG PPA pending final Commission decisions on the design of the energy auction and nonbypassable charges associated with this new generation resource.
6. It is reasonable to approve the requested memorandum account to record costs and benefits associated with the LBG PPA until a final Commission decision in Track 3 of Phase II of R.06-02-013.

THEREFORE IT IS ORDERED THAT:

1. Southern California Edison's (SCE) Advice Letter 2132-E-A requesting authority to create a new memorandum account for the Long Beach Generation LLC (LBG) Power Purchase Agreement is approved, and the new account shall be titled the New System Generation Memorandum Account (NSGMA).
2. The revised tariff sheets submitted by SCE under this filing that add the NSGMA to its tariff will become effective today.
3. SCE shall record costs associated with the LBG Power Purchase Agreement in the NSGMA including capacity and energy costs, applicable proxy energy and fuel costs, Independent Evaluator costs, and other administration costs incurred in conducting an energy auction.
4. SCE shall record credits associated with the LBG Power Purchase Agreement in the NSGMA including proceeds from the energy auction (including avoidable cost payments made to SCE by the successful bidder(s) in an energy auction) or proxy energy and ancillary service revenues during periods in which the facility is not subject to an energy auction contract.

5. SCE shall transfer costs and credits associated with the LBG Power Purchase Agreement from August 1, 2007, to date that have been heretofore recorded in its Energy Resource Recovery Account into the NSGMA.
6. All costs and credits recorded in the NSGMA shall not be processed through Energy Resource Recovery Account or otherwise recovered. After a Commission decision in Phase II of R.06-02-013 on the design of nonbypassable charges associated with this new generation, the Commission will develop appropriate rules and procedures to determine how these costs and credits shall be reviewed and recovered. The Commission will at that time direct SCE to establish an appropriate account and transfer all costs and credits from the NSGMA to the new account.
7. Upon transfer of funds out of the NSGMA, SCE will close th NSGMA and remove references to the NSGMA from its tariff.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 4, 2007; the following Commissioners voting favorably thereon:

/s/ Paul Clanon
Paul Clanon
Executive Director

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