Decision **PROPOSED DECISION OF ALJ ROSCOW** (Mailed 6/12/2012)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) For Approval of its Forecast 2012 ERRA Proceeding Revenue Requirement.	Application 11-08-002 (Filed August 1, 2011)

DECISION APPROVING SOUTHERN CALIFORNIA EDISON COMPANY'S 2012 ENERGY RESOURCE RECOVERY ACCOUNT FORECAST

1. Summary

This decision authorizes a $604.0 million increase in the revenue requirement for fuel and purchased power for Southern California Edison (SCE) and sets unbundled rate components to recover those revenue requirements. The increase adopted today is more than offset by a decrease in spending for SCE's other significant source of energy to meet its bundled customer load, the Department of Water Resources (DWR) power contracts that were allocated to SCE as a result of the 2001 energy crisis in California. In 2012, for the first time since the energy crisis, SCE will be procuring supplies to meet 100% of bundled customer load requirements, as compared to the approximately 79% of bundled service load that SCE supplied in 2011. SCE's increased procurement costs are more than offset by the removal of the DWR contract costs. As a result, the average cost of SCE's Energy Resource Recovery Account Generation Service in 2012 will be 5.1 cents per kilowatt-hour, a 5.5 percent decrease from the 2011 average cost of 5.4 cents per kilowatt-hour.

2. Procedural Background

On August 1, 2011, Southern California Edison (SCE) filed Application 11-08-002, its *Application of Southern California Edison Company for Approval of its Forecast 2012 ERRA Proceeding Revenue Requirement* (Application), in which SCE requests that the Commission adopt a forecasted electric revenue requirement of $4.081 billion to become effective in rates on January 1, 2012. SCE's Energy Resource Recovery Account (ERRA) records fuel and purchased power costs associated with serving bundled electric customers and tracks billed revenues against actual recorded costs.

On August 18, 2011, Resolution ALJ-176-3279 preliminarily determined that this proceeding was ratesetting and that hearings would be necessary. On September 2, 2011, the Division of Ratepayer Advocates (DRA) filed a protest to the application.

On October 5, 2011, a prehearing conference (PHC) took place in San Francisco to establish the service list for the proceeding, discuss the scope of the proceeding, and develop a procedural timetable for the management of the proceeding. The assigned Administrative Law Judge (ALJ) granted party status at the PHC to the Alliance for Retail Energy Markets (AReM), the Direct Access Customer Coalition (DACC), Energy Producers & Users Coalition (EPUC), and California Large Energy Consumers Association.

On November 10, 2011, SCE served an update to its Application (Update) requesting adoption of a total 2012 electric procurement revenue requirement forecast of $3.878 billion. This total is approximately $604 million higher than the 2011 revenue requirement currently reflected in SCE's rates.

Pursuant to the Scoping Memo, intervenor testimony was due November 17, 2011, followed by SCE rebuttal on December 8, 2011, and

evidentiary hearings and a workshop on January 4, 2012. As discussed below, no intervenors filed testimony, and the hearings and workshop were subsequently cancelled.

On January 25, 2012, SCE filed a motion under Rule 13.8 to offer prepared testimony and appendices into evidence in this proceeding. On the same date, SCE also filed a Motion to Seal a Portion of the Evidentiary Record.

3. Southern California Edison Company's Original Forecast

The purpose of this proceeding is to determine SCE's 2012 ERRA forecast revenue requirement. The ERRA records fuel and purchased power costs associated with serving bundled electric customers and tracks billed revenues against actual recorded costs. The ERRA regulatory process includes: (1) an annual forecast proceeding to adopt a forecast of the utility's electric procurement cost revenue requirement and electricity sales for the upcoming year, and (2) an annual compliance proceeding to review the utility's compliance in the preceding year regarding energy resource contract administration, least cost dispatch, fuel procurement, and entries made to the ERRA balancing account.

Thus, in this ERRA forecast proceeding SCE primarily seeks approval of its proposed 2012 fuel and purchased power revenue requirement. However, the revenue requirement also includes the December 31, 2011 balances in certain balancing accounts that SCE seeks to recover from or return to customers, and other miscellaneous expenses, such as spent nuclear fuel expense and Department of Energy decontamination and decommissioning fees.

In its August Application, SCE requested the Commission to: (1) authorize SCE's 2012 ERRA proceeding revenue requirement in the amount of

$4.081 billion beginning January 1, 2012. This request was based on a number of underlying forecast components:

- SCE's Load Forecast
- Forecast Energy Production and Costs from SCE's Portfolio of Resources
- Financing Costs
- Carrying Costs
- Cost Responsibility Surcharges (Direct Access, Departing Load, and Community Choice Aggregation)

SCE's original 2012 ERRA proceeding revenue requirement of $4.081 billion represented an increase of $806.8 million from the ERRA revenue requirement included in its 2011 rate levels. This increase was the sum of a $791 million increase in SCE's generation service revenue requirement and a $16 million increase in SCE's delivery service revenue requirement. SCE itemized all of the components of its requested ERRA revenue requirement for calendar year 2012. Fuel and purchased power expenses comprised most of the ERRA revenue requirement. However, it also included: (1) the estimated December 31, 2011 balances in various balancing accounts that SCE needs to recover from or return to customers and (2) other miscellaneous expenses, such as spent nuclear fuel expense and Department of Energy decontamination and decommissioning fees.

4. SCE's Updated Forecast

On November 10, 2011, SCE served its updated testimony, in order to: (1) update SCE's 2012 ERRA proceeding revenue requirement, (2) provide an estimate of the 2012 Cost Responsibility Surcharge (CRS) components for Direct Access (DA), Departing Load (DL), and Community Choice Aggregation (CCA) customers, (3) provide a discussion of its natural gas price forecast and gas price

sensitivity analysis, and (4) an update of its projected fuel inventories and collateral carrying costs.

SCE's updated 2012 ERRA revenue requirement is $3.878 billion, which represents an increase of $604 million from the current ERRA revenue requirement but is $202.8 million less than the estimated 2011 ERRA revenue requirement set forth in SCE's August Application. As SCE explained in its updated testimony, the reduction from the original to the updated estimated 2012 ERRA revenue requirement is primarily due to a reduction in the 2012 average gas price forecast and associated decrease in the power price forecast, and inclusion of bundled renewable energy sales to San Diego Gas and Electric Company. SCE's updated 2012 forecast assumes an average natural gas price of $4.11/MMBtu[1] that is based on an October 17, 2011 New York Mercantile Exchange gas price forward curve. This is a $0.56/MMBtu reduction in the gas price used to support SCE's August Application. SCE included all documents and updated tables supporting its updated 2012 ERRA proceeding revenue requirement in its presentation.

5. SCE's Updated 2012 Cost Responsibility Surcharge

In its updated testimony, SCE provided an estimate of the CRS components applicable to DA, DL, and CCA customers. Because the Commission had not yet issued a final decision in the 2012 DWR revenue requirement proceeding, SCE's updated information utilized SCE's 2012 Department of Water Resources (DWR) power charge included in the Proposed Decision (PD) of ALJ Wilson, issued October 31, 2011 in the 2012 DWR revenue

[1] "MMBtu" stands for one million British thermal units.

requirement proceeding (Rulemaking (R.) 11-03-006). SCE used the negative DWR power charge included in the PD to determine the total portfolio indifference rate. SCE states that it will update its CRS calculation again with the power charge adopted in a final Commission decision in the 2012 DWR revenue requirement proceeding in its advice letter to be filed in compliance with the final Commission decision in this proceeding.

In addition, as SCE indicated in its updated testimony, at that point the Commission had not yet adopted changes in the methodology for calculating the Indifference Amount and resulting Power Charge Indifference Amount (PCIA) pending in R.07-05-025. On December 1, 2011, the Commission approved Decision (D.) 11-12-018, which adopted modifications to the methodology used to calculate the market price benchmark and Indifference Amount. The new methodology requires that SCE and the other investor-owned Utilities provide data to the Commission's Energy Division, which then performs calculations and returns the results to SCE. SCE proposed that, if SCE has the information required from the Energy Division prior to filing its advice letter filed in compliance with a final decision in this proceeding, SCE will include in such compliance advice letter the revised 2012 CRS, including all supporting workpapers showing the underlying calculations.

As explained below, since SCE made these proposals in its November 2011 updated testimony, the Commission did complete the process of implementing the revised methodology for calculating the Indifference Amount and resulting PCIA by adopting Resolution E-4475 on May 10, 2012. As a result, SCE may now finalize its calculation of the 2012 CRS.

6. Issues to Be Resolved

As indicated in the assigned Commissioner's Scoping Memo and Ruling, this proceeding examined whether SCE's proposed revenue requirement and rates associated with its 2012 ERRA and CTC forecast should be adopted, including examination of the cost inputs, methods, and assumptions used to determine the components of the ERRA, CTC, and PCIA. In addition to these items, parties identified a number of specific issues that were subsequently included within the scope of issues to be resolved in this proceeding. First, DRA identified two potential issues: SCE's projection of fuel costs, and the impact of the expiration of the SCE-allocated DWR contracts. At the PHC, EPUC expressed its concern regarding the potential inclusion of greenhouse gas costs in the ERRA revenue requirement. Also at the PHC, AReM/DACC expressed their interest in reviewing any revisions that SCE makes to its 2012 PCIA calculation should that become necessary based on Commission actions in other proceedings.

7. Discussion

Part of determining whether SCE's forecasts should be adopted involves verification that the methods and inputs used by SCE in calculating its forecasts, such as its forecast of 2012 electric sales and rates, were in compliance with applicable Commission decisions. No party provided alternatives to SCE's forecasted figures. This is reflected in the discussion below.

With respect to the issues identified in the Scoping Memo as within the scope of this proceeding, no party provided alternatives to SCE's proposed revenue requirement and rates associated with its 2012 ERRA and CTC forecasts, including the cost inputs, methods, and assumptions used to determine the components of the ERRA, CTC, and PCIA. DRA did not ultimately submit

testimony on the issues identified in its protest (those issues were SCE's projection of fuel costs, and the impact of the expiration of the SCE-allocated DWR contracts). In addition, EPUC did not submit testimony on the issue it identified at the PHC, SCE's potential inclusion of greenhouse gas costs in the ERRA revenue requirement. Finally, AReM/DACC did not submit testimony the subject of SCE's revisions to its 2012 PCIA. However, in their opening brief, AReM/DACC described the approach taken by the Commission on this same issue in Pacific Gas and Electric's 2012 ERRA forecast decision, and recommended that the same approach be adopted for SCE's calculation of the PCIA.

At the PHC, the ALJ posed questions to SCE and DRA regarding previous ERRA proceedings and how they reviewed the sensitivity of SCE's natural gas price forecast. SCE agreed to provide additional information on its sensitivity methodology and its gas price forecast methodology at the time that it submitted its November update to its Application. SCE did provide this information in its November 10, 2011, update.

As noted above, no party contested any aspect of the ERRA revenue requirement requested by SCE. SCE's ERRA forecast and related estimates were performed according to standard regulatory protocols. SCE's forecast estimates for its 2012 load and sales, energy production and costs, power procurement and ERRA balancing account financing costs, and fuel inventory and collateral carrying costs, are reasonable and are adopted.

8. SCE's Proposal regarding updating the 2012 CRS

As noted above, SCE proposes to update its CRS calculation with the power charge adopted in a final Commission decision in the 2012 DWR revenue requirement proceeding. This would occur in its advice letter to be filed in

compliance with the final Commission decision in this proceeding. SCE's proposal is reasonable and is adopted. In its comments on the proposed decision, AReM/DACC noted that the 2012 Department of Water Resources revenue requirement took effect in January 2012, and included a refund of $789 million to SCE customers. The DWR revenue requirement is part of the PCIA calculation, so Direct Access (DA) customers will begin to benefit from this refund once this ERRA decision takes effect. Thus, in the event that SCE's 2013 ERRA forecast is approved and implemented in new rates less than 12 months from now, DA customers will not receive their full share of this refund. To address this, AReM/DACC request that SCE be directed to track any shortfall in DA customers' share of the DWR operating reserves refund in the event that the 2012 PCIA is not in place for a full 12 months. SCE shall include any shortfall in the 2013 Total Portfolio Cost used to calculate the 2013 Indifference Amount and PCIA. The AReM/DACC proposal is reasonable and we have changed the proposed decision accordingly.

With respect to calculating the Indifference Amount and resulting PCIA, after SCE filed its updated Application, the Commission adopted Resolution E-4475 on May 10, 2012. That Resolution finalized the data necessary to apply the methodology adopted in D.11-12-018, and also adopted an approach to implementing the departing load charges using the revised method that allowed SCE to proceed with customer refunds without further delay. Pursuant to Resolution E-4475, this was to be accomplished using Commission-adopted 2011 ERRA forecast values. In its advice letter to be filed in compliance with a final decision in this proceeding, SCE should include the revised 2012 CRS, including all supporting workpapers showing the underlying calculations.

9. Request to File Under Seal

On January 25, 2012, SCE filed a motion under Rule 13.8 to offer prepared testimony and appendices into evidence in this proceeding, and a concurrent motion to seal a portion of the evidentiary record. SCE requested that Exhibits SCE-1 through SCE-3 be given confidential treatment under D.06-06-066. These exhibits contain confidential, market sensitive information, which, pursuant to D.06-06-066, may be provided confidential treatment. We therefore grant both motions and order the confidential treatment of SCE's Exhibits SCE-1 through SCE-3 as set forth below.

10. Categorization and Need for Hearings

In Resolution ALJ-176-3279 dated August 18, 2011, the Commission preliminarily categorized this application as Ratesetting and preliminarily determined that hearings were necessary. The Scoping Memo and Ruling reserved a date for a workshop and evidentiary hearings. As noted above, no parties filed testimony on any contested issues. On January 3, 2012, the assigned ALJ issued an e-mail to all parties cancelling the previously scheduled workshop and evidentiary hearings. Given these developments, we make a final determination here that the category is ratesetting, and a public hearing is not necessary. As the parties did not ultimately contest any of the issues identified in the Scoping Memo and Ruling, a public hearing is not necessary.

11. Comments on Proposed Decision

As provided by Rule 14.3 of Rules of Practice and procedure and Pub. Util. Code § 311 (g)(1), the proposed decision of the ALJ in this matter was mailed to the parties on June 12, 2012. Opening Comments were filed on July 2, 2012, by SCE and AReM/DACC. No reply comments were filed.

12. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Stephen C. Roscow is the assigned ALJ in this proceeding.

Findings of Fact

1. SCE's updated 2012 ERRA proceeding revenue requirement is $3.878 billion, which represents an increase of $604 million from the 2011 ERRA proceeding revenue requirement, and is $202.8 million less than the estimated 2012 ERRA proceeding revenue requirement originally forecast in SCE's August Application.

2. The decrease in SCE's updated ERRA proceeding request is primarily due to a reduction in the 2012 average gas price forecast and the inclusion of revenue from bundled renewable energy sales to San Diego Gas & Electric Company.

3. The updated ERRA revenue requirement for 2012 is based on a gas price forward curve of $4.11/MMBtu. This is a $0.56/MMBtu reduction in the gas price used to support SCE's original request.

4. DRA does not oppose SCE's updated 2012 ERRA revenue requirement request.

5. In the compliance advice letter that SCE will file to implement this decision, SCE will incorporate the modifications required by D.11-12-018 needed to calculate the CRS components applicable to DA, DL, and CCA customers.

6. SCE will track any shortfall in DA customers' share of the 2012 DWR operating reserves refund and include that amount in the 2013 calculation of the Indifference Amount and PCIA.

7. SCE requested that Exhibits SCE-1 through SCE-3 be given confidential treatment under D.06-06-066.

Conclusions of Law

1. It is reasonable to adopt SCE's updated forecast 2012 ERRA proceeding revenue requirement changes and revenues as set forth herein.

2. SCE's updated 2012 ERRA proceeding revenue requirement of $3.878 billion is adopted.

3. SCE's forecast estimates for its 2012 load and sales, energy production and costs, power procurement and ERRA balancing account financing costs, and fuel inventory and collateral carrying costs are reasonable and are adopted.

4. SCE's proposal regarding updating the 2012 CRS with the DWR power charge adopted in the final Commission decision in the 2012 DWR revenue requirement proceeding is reasonable and is adopted.

5. SCE should include any shortfall in DA customers' share of the 2012 DWR operating reserves refund in the 2013 calculation of the Indifference Amount and PCIA.

6. SCE's request that Exhibits SCE-1 through SCE-3 be given confidential treatment should be granted. Pursuant to D.06-06-066, this information should remain under seal for a period of three years after the date of this order unless otherwise modified by the Commission, the assigned Commissioner, or the assigned ALJ.

7. This decision should be effective immediately so that it may be reflected in rates effective on January 1, 2012 or as soon as possible thereafter.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company shall make an advice filing within ten days of the effective date of this decision to implement new rates as

authorized in this decision, to be effective beginning January 1, 2012 or as soon as possible thereafter.

2. In its 2013 Energy Resources Recovery Account forecast proceeding, Southern California Edison Company shall include any shortfall in Direct Access customers' share of the 2012 Department of Water Resources operating reserves refund in the 2013 calculation of the Indifference Amount and Power Charge Indifference Amount.

3. Southern California Edison Company's public (redacted) Exhibits SCE-1 through SCE-3 and confidential (unredacted) Exhibits SCE-1 through SCE-3 shall be entered into the record of this proceeding.

4. Southern California Edison Company's confidential Exhibits SCE-1 through SCE-3 are granted confidential treatment. Pursuant to Decision 06-06-066, this information should remain under seal for a period of three years after the date of this order unless otherwise modified by the Commission, the assigned Commissioner, or the assigned Administrative Law Judge.

5. Hearings are no longer necessary.

6. Application 11-08-002 is closed.

This order is effective today.

Dated _____, at San Francisco, California.