

**DRAFT ALTERNATE OF ENERGY DIVISION**

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

**ENERGY DIVISION**

Item 40a ID#3908

**RESOLUTION E-3880**

**September 23, 2004**

**R E S O L U T I O N**

Resolution E-3880. Southern California Edison Company (SCE) submits an Advice Letter containing its first annual filing requesting recovery of costs recorded in the bark beetle Catastrophic Event Memorandum Account (CEMA) for the period April 3, 2003 through December 31, 2003. SCE's request is approved.

By SCE Advice Letter 1801-E filed on June 4, 2004.

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**SUMMARY**

**Southern California Edison Company's (SCE) request to recover the costs of tree removal and incremental support costs recorded in its Catastrophic Event Memorandum Account (CEMA) associated with the bark beetle infestation for the period April 3, 2003 through December 31, 2003 is approved.**

- **SCE's request for recovery of \$18.080 million is approved.**
- **SCE is authorized to implement future bark beetle CEMA-related rate changes by filing an annual advice letter.**

In approving SCE Advice Letter 1801-E, filed on June 4, 2004, the California Public Utilities Commission (CPUC): (1) finds that the \$18.080 million of Operation and Maintenance (O&M) expenses recorded in SCE's bark beetle CEMA for the period April 3, 2003 through December 31, 2003 is reasonable; (2) authorizes transfer of the December 31, 2003 balance in the bark beetle CEMA of \$18.102 million (including interest) to the Electric Distribution Revenue Adjustment Balancing Account (EDRABA) or the distribution subaccount of the Base Revenue Requirement Balancing Account (BRRBA) for recovery in rates; and (3) authorizes SCE to implement future bark beetle CEMA-related rate changes coincident with the effective date of CPUC approval of subsequent annual advice letter filings by SCE.

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SCE Advice Letter 1801-E was timely protested by the Office of Ratepayer Advocates (ORA).

**BACKGROUND**

**On March 7, 2003 Governor Davis issued a State of Emergency Proclamation for the Counties of Riverside, San Bernardino, and San Diego because of widespread bark beetle infestation.**

Over 12 million trees, weakened by years of drought in mountainous regions of San Bernardino, Riverside, and San Diego Counties are dead or dying because of a widespread bark beetle infestation. This situation poses a significant hazard to distribution and transmission lines, and electrical facilities that serve these areas. Among other directives, the Governor's Emergency Proclamation requested that the CPUC, *"direct utility companies with transmission lines in Riverside, San Bernardino, and San Diego counties to ensure that all dead, dying and diseased trees and vegetation are completely cleared from their utility right-of-ways to mitigate the potential of fire danger."*

**In response to the Emergency Proclamation, the CPUC issued Resolution E-3824 on April 3, 2003.**

Resolution E-3824 ordered SCE, Bear Valley Electric District, and San Diego Gas & Electric Company to work with the California Department of Forestry and Fire Protection (CDF) and other appropriate agencies to *"Take all reasonable and necessary actions to implement the provisions of the Governor's State of Emergency Proclamation to mitigate the increased fire hazard by removing dead, dying or diseased trees that may fall or contact distribution and transmission lines within their rights of way ..."*

In addition, the CPUC directed the utilities to invoke their CEMA for funding accounting and comply with their CEMA tariff requirements. The resolution authorized the utilities to make annual advice letter filings requesting recovery of the costs of tree removal and incremental support costs recorded during a specified period in their CEMA to allow rate recovery of the amounts determined to have been reasonably incurred. On April 4, 2003, SCE notified the CPUC that it had activated its bark beetle CEMA effective April 3, 2003.

**Along with federal, state, and local agencies, SCE is part of a large-scale effort to remove the more than 12 million dead or dying trees in the bark beetle infested areas.**

SCE estimates that there are at least 350,000 trees that could impact the utility's electrical lines and facilities. This estimate is expected to grow as the bark beetle infestation continues to spread. While SCE is expected to remove all currently dying trees by this fall, the bark beetle will continue to infest new trees until environmental conditions change.

**SCE formalized management of its efforts by establishing a Bark Beetle Project Team.**

The SCE Bark Beetle Project Team manages the utility's removal of the dead and dying trees in the bark beetle infested areas. The Project Team comprises approximately 60 employees from departments throughout the company whose purpose is to develop a comprehensive program to remove dead and dying trees in the affected areas within the utility's service territory with the commitment to perform the work as safely and quickly as possible. The Project Team is also committed to keeping customers and major stakeholders in the affected areas informed of project activities and progress. As of December 31, 2003, SCE has inventoried approximately 53,000 dead or dying trees that could impact its lines.

**In an effort to expedite the tree removal process, on August 8, 2003, SCE submitted Advice Letter (AL) 1730-E requesting approval to reimburse property owners for their tree removal costs. On August 29, 2003, the CPUC Energy Division approved AL 1730-E authorizing SCE to reimburse eligible property owners in accordance with SCE's proposed criteria for trees necessarily removed under this program after April 3, 2003.**

As an additional process enhancement, CPUC staff authorized SCE to make eligible reimbursement payments directly to contractors if requested by property owners.

Starting in April 2003, SCE hired contractors to start removing trees on a time and material basis. Between April and December 2003, SCE removed approximately 9,000 trees under time and material contracts with three

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contractors. In October, SCE awarded a contract to a single contractor to remove trees on a fixed price basis. Since November, the contractor removed about 300 trees per day, and by December 31, 2003, they had removed approximately 16,900 trees. Overall during 2003, SCE removed approximately 25,900 trees that could have impacted its electrical lines. Since 2004, the contractor has ramped up its operation and is currently removing approximately 700 trees per day.

**The reimbursement amount paid to the customer is the lower of their actual tree removal costs or SCE's average removal costs.**

Once a reimbursement request is received by SCE, it is reviewed by SCE to ensure it meets the eligibility requirements and the required documentation is included. After the initial review, a trained forest technician visits the property to estimate the height of the tree, verify that the tree could have impacted SCE's electrical lines or facilities, determine the diameter at breast height, and identify the method SCE would have used to remove the trees. Based upon this information, SCE's average tree removal unit costs for each eligible tree are compared with the customer's actual removal cost. SCE's average removal unit costs are grouped into three size classes (less than 20 inches, 20 – 34 inches, and greater than 34 inches diameter at breast height), and four methods of felling (freefall, crane, climb no access, and high hazard.)

**NOTICE**

Notice of SCE AL 1801-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the advice letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

**PROTESTS**

SCE's Advice Letter AL 1801-E was timely protested by the Office of Ratepayer Advocates (ORA) on June 23, 2004. SCE responded to the protest of ORA on June 29, 2004.

The following is a more detailed summary of the three major issues raised in the protest.

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- **ORA's first issue is that there is no discussion of the funding already available for tree maintenance that was provided in SCE's last General Rate Case (GRC).**

ORA claims that while the Governor's State of Emergency Proclamation did not address the source of funds to be used for bark beetle-infested tree removal in designated counties, the CPUC has provided O&M funding for this purpose in all past GRCs for utilities with transmission and distribution lines.

**SCE asserts that the costs recorded in its bark beetle CEMA are significantly different and higher than SCE's normal tree trimming and vegetation management activities.**

In its response, SCE explains that it has set up a separate organization to manage its efforts to remove approximately 350,000 trees that could potentially impact its electric lines and facilities.

SCE's tree trimming and vegetation management program, funded through its GRC, involves inspection and trimming of trees throughout its service territory to maintain the specific electric line clearances (e.g., 18 inches) as specified in General Order (G. O.) 95. These trees, typically within 10 feet or less of SCE's lines, only have to be trimmed to maintain the required clearance to ensure the branches do not come in contact with electrical lines. Tree removal is typically not required. Normal line clearing costs are recorded in two separate accounts: transmission-related work in Account 571.300 and distribution-related work in Account 593.200. In its 2003 GRC for these two accounts, SCE requested a total of \$26.7 million escalated to 2003 dollars in transmission rights-of-way and distribution line clearing expenses. SCE notes that recorded 2003 expenditures in these accounts were actually \$4.3 million more than requested in the GRC forecast.

**SCE states that the CPUC has ordered it to remove entire trees.**

SCE explained that in the bark beetle infested areas in which the Governor declared a state of emergency, it has been ordered by the CPUC to remove entire trees. SCE is removing these trees, many over 100 feet tall, to ground level leaving only a several inch stump. To prevent these dead or dying trees from falling or impacting its lines, SCE is removing affected trees up to 100 feet on

either side of its electrical lines. SCE characterizes its bark beetle tree removal activities as a major logging operation that is different than its GRC-funded line-clearing program. The bark beetle tree removal costs, which are incremental to what is reflected in rates for normal line-clearing activities, are tracked and recorded separately in the CEMA in accordance with CPUC authorization. SCE concludes, *“Thus, ORA’s concern that there is no discussion of the funding already available for tree maintenance in SCE’s last GRC is unwarranted.”*

- **ORA’s second issue is that SCE’s request for reimbursement of recorded expenses has not been audited to determine reasonableness.**

ORA claims that without an audit, neither ORA nor the CPUC can determine if the requested costs represent the incremental costs that meet the standard criteria for recovery through the CEMA mechanism. ORA states that activities related to tree trimming, tree removal, and vegetation management are expenses that occur regularly and are a part of the expenses included in SCE’s GRC rates. ORA claims the CPUC cannot make a reasoned judgment in response to this advice letter filing without knowing how the expenses for the work required for the bark beetle CEMA program differ from the expenses already provided in the last SCE GRC.

SCE replied it is not opposed to an audit of its recorded bark beetle costs and would fully cooperate.

- **ORA’s last issue concerns SCE’s request for future bark beetle CEMA-related rate changes to coincide with the effective date of CPUC approval of annual advice letter filings.**

ORA protests allowing bark beetle CEMA-related rate changes to coincide with the effective date of CPUC approval of annual advice letter filings because the amounts requested are too small to justify implementing a separate annual rate change. Instead, rate changes should only be implemented in conjunction with other scheduled rate changes such as the Electric Distribution Revenue Adjustment Balancing Account (EDRABA) or the Base Revenue Requirement Balancing Account (BRRBA).

In its response, SCE states that it agrees with ORA’s proposed rate recovery approach as long as bark beetle-related expenses recorded in the CEMA remain

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small, which, *“is why we (SCE) proposed this very same rate recovery approach for the \$18.1 million bark beetle-related expenses incurred during 2003 and requested in Advice Letter 1801-E.”*

SCE continues to explain that it anticipates incurring substantially greater costs beginning in 2004, exceeding \$100 million over each of the next few years. SCE states, *“If SCE incurs expenses of this magnitude, the time lag inherent in ORA’s proposed rate recovery approach between when costs are actually incurred and when they are recovered in rates can be substantial... Under ORA’s recovery approach, we would not begin rate recovery of our 2004 expenses until on or around January 1, 2007- more than two years after the costs were actually incurred. Under SCE’s recovery approach, we would begin rate recovery of our 2004 expenses as soon as the rate change could be implemented in SCE’s billing system after receiving Commission approval... We would begin rate recovery in March 2006 or at least 10 months earlier than under ORA’s proposal.”*

Additionally, SCE states that it will not incur any added costs if it implements a separate bark beetle-related rate change.

**DISCUSSION**

Energy Division has reviewed SCE AL 1801-E. Discussion of the relevant facts that lead to our approval of this advice letter follows.

**SCE’s expenses recorded in the bark beetle CEMA are incremental costs that have not been recovered through existing rates.**

CPUC Resolution E-3824 authorized SCE to record its costs of tree removal and incremental support costs related to the bark beetle infestation in its CEMA. These incremental costs include both capital and operating expenses. Only those costs incurred on or after April 3, 2003, determined by SCE to be incremental and appropriately documented are recorded by SCE in their bark beetle CEMA.

Because of the differences in ratemaking between O&M and capital expenditures, SCE separated its bark beetle CEMA into two subaccounts: 1) O&M Cost Subaccount, which includes reimbursements, and 2) Capital Cost Subaccount. In its advice letter, SCE seeks to recover a total of \$18.102 million in

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eligible O&M related bark beetle CEMA costs. This amount includes interest expense through December 31, 2003 calculated on a monthly basis using the three-month commercial paper rate.

These incremental costs were incurred by SCE only as a result of the bark beetle infestation in accordance with Resolution E-3824 as mandated by the Governor's State of Emergency Proclamation in certain designated counties. These incremental costs are not part of SCE's normal business practice, e.g., G. O. 95 tree trimming and vegetation management, and are therefore not funded through existing rates. In 2003, SCE incurred expenses related to a special mitigation inspection that was performed on all circuits in the bark beetle infested areas. This mitigation inspection is incremental because it is in addition to the regularly scheduled inspections required by G. O. 165.

**Incremental operating and support costs are recorded for the period April 3 – December 31, 2003.**

The incremental operating expenses recorded in the bark beetle CEMA include: contractor costs to identify and remove trees, tree disposal costs, project management O&M expenses, stakeholder communication expenses, mitigation inspection expenses, other operational expenses associated with de-energizing and re-energizing lines for tree removal and additional inspections, and reimbursement to property owners.

The total tree removal and support costs for the period April 3 – December 31, 2003 recorded by SCE are \$18,080,246. Of this total, \$15, 515,025 is directly related to removal of approximately 20,100 trees, which includes the costs for tree inventory, obtaining appropriate permissions, environmental compliance, tree side trimming, tree removal, and tree disposal. Reimbursements to property owners during this period were \$1,285,159.

While SCE removed approximately 25,900 trees during 2003, approximately 5,800 of the trees were not invoiced by December 31, 2003; thus their removal costs will be reflected in 2004.

**In 2004 through 2006, SCE expects to incur incremental capital costs related to the installation of new poles and associated hardware resulting from the**

**removal of trees that had electrical equipment (e.g., service drops, conductors, guy wires, etc.) attached to them.**

SCE has identified approximately 3,000 trees that need to be replaced with new poles. Since these are new poles, the incremental capital costs include all costs associated with the installation of a pole, including costs for labor, materials, and overhead.

Although SCE has incurred capital expenditures of \$0.363 million during the period April 3 – December 31, 2003, SCE did not close to plant-in-service as of December 31, 2003 the work orders where these expenditures are recorded. Therefore, no capital-related revenue requirement was recorded in the CEMA as of December 31, 2003. Once the work orders are closed to plant-in-service, SCE will calculate the appropriate revenue requirement that will include depreciation, return, and taxes to be recorded in the CEMA. SCE expects to incur these capital costs during 2004, 2005, and 2006.

**In AL 1801-E, SCE provided a detailed discussion of each of the incremental cost categories recorded in its CEMA for the period April 3 – Dec. 31, 2003.**

Energy Division staff reviewed the cost information provided by SCE in the advice letter package and supplemental data requests and determined SCE's O&M expenses of \$18.080 million, which include reimbursements, as recorded in their bark beetle CEMA for the period April 3 – December 31, 2003 are appropriate and reasonable.

**SCE's advice letter addressed the nature of the activities that led to these costs, the necessity of those activities, and the process of evaluating contractor bidders for tree removal and disposal, and its selection process.**

SCE included some work papers, supplemented with data requests by Energy Division staff, explaining and summarizing their expenses for the various activities for this program. The advice letter package information demonstrates that SCE has taken a comprehensive and responsible approach to the overall management of this project to meet the desired objectives, and has worked in conjunction with the many local, state, and Federal agencies that are involved with the bark beetle infestation problem. Since inception of its bark beetle tree removal program and project team in April 2003, SCE continually informed

Energy Division staff of its activities and communications with the public, local, state, and other agencies involved. In the advice letter, SCE provided a listing of the key milestones during 2003 related to its activities associated with the bark beetle project.

**SCE's proposal for rate recovery for the bark beetle CEMA costs should be adopted.**

In accordance with Resolution E-3824, SCE was authorized to make annual advice letter filings requesting recovery of the costs of removal and incremental support costs recorded during a specified period in its CEMA to allow for rate recovery of the amounts determined to have been reasonably incurred.

SCE's request to transfer the balance in the O&M cost sub-account of the bark beetle CEMA to either the Electric Distribution Revenue Adjustment Balancing Account (EDRABA) or the distribution sub-account of the Base Revenue Requirement Balancing Account (BRRBA) is approved. The purpose of the EDRABA is to record the difference between actual base-related distribution revenues and SCE's authorized base-related distribution revenue requirement until the implementation of SCE's 2003 GRC Phase 1 revenue requirement and ratemaking. When SCE's 2003 GRC Phase 1 is implemented, the EDRABA will be eliminated and the difference between actual distribution revenues and SCE's authorized distribution revenue requirements will be recorded in the distribution sub-account of the BRRBA. SCE's GRC Phase 1 decision D.04-07-022 recently authorized SCE to establish the BRRBA.

**SCE's distribution rates will increase slightly as a result of this resolution.**

The transfer of the bark beetle CEMA costs to either the EDRABA or distribution sub-account of the BRRBA will result in a slight increase to SCE's distribution rates that are paid for by all customers (i.e., both bundled service and direct access customer.) Since all bark beetle CEMA costs are distribution and transmission-related costs that fall under the jurisdiction of the CPUC, it is reasonable to include them for recovery in distribution rates.

As adopted by the CPUC in D.04-01-048 (SCE's April 2003 Energy Resource Recovery Account (ERRA) Forecast proceeding), ERRA applications will be used by SCE to consolidate all CPUC-authorized revenue requirements and

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unbundled rate levels to recover those revenue requirements. Therefore, the CPUC-approved bark beetle CEMA costs should be included in rate levels when the EDRABA or BRRBA balance is consolidated with other revenue requirement changes in rate levels in order to fully amortize its balance over a 12-month period.

The December 31, 2003 bark beetle CEMA balance of \$18.102 million will continue to accrue interest expense through the effective date of its transfer. Thus, the actual final amount transferred from the CEMA to the EDRABA or BRRBA will reflect recorded interest expense, as appropriate. Average distribution rates will increase by about 0.6% as a result of this resolution; total bundled service rates will increase about 0.2%.

This rate recovery approach results in some time lag between the time when costs are actually incurred by SCE and when they are recovered in rates. SCE expects to incur substantially greater costs during 2004. Thus, beginning with SCE's request for cost recovery in 2005, the CPUC will allow SCE to implement future bark beetle-related rate changes coincident with the CPUC's approval of SCE's annual advice letter filing.

### **COMMENTS**

Public Utilities Code section 311(g)(1) provides that this resolution 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.

### **FINDINGS**

1. Resolution E-3824, effective April 3, 2003, directed SCE to invoke its CEMA for bark beetle expense accounting.

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2. On April 4, 2003, SCE notified the CPUC that it activated its bark beetle CEMA effective April 3, 2003.
3. Resolution E-3824 authorized SCE to make annual advice letter filings requesting recovery of the costs of tree removal and incremental support costs recorded during a specified period in its CEMA to allow rate recovery.
4. By Advice Letter 1801-E, SCE requests to recover the costs of tree removal and incremental support costs recorded in its CEMA associated with the bark beetle infestation for the period April 3, 2003 through December 31, 2003.
5. The \$18.080 million in O&M expenses recorded in SCE's bark beetle CEMA for the period April 3, 2003 through December 31, 2003 is found to be reasonable.
6. SCE's expenses recorded in the bark beetle CEMA are incremental costs that have not been recovered through existing rates.
7. SCE requests transfer of the December 31, 2003 balance in the bark beetle CEMA of \$18.102 million (including interest) to the EDRABA or the BRRBA for recovery in rates. The request to transfer the balance is approved.
8. SCE's request to implement future bark beetle CEMA-related rate changes coincident with the effective date of CPUC approval of subsequent annual advice letter filings is approved.
9. SCE Advice Letter 1801-E was timely protested by ORA.

**THEREFORE IT IS ORDERED THAT:**

1. The request of SCE to recover the costs of tree removal and incremental support costs recorded in its CEMA associated with the bark beetle infestation for the period April 3, 2003 through December 31, 2003, as requested in AL 1801-E is approved.
2. The request to transfer the balance as of December 31, 2003 in the bark beetle CEMA to the EDRABA or the BRRBA for recovery in rates is approved.
3. The request of SCE to implement future bark beetle CEMA-related rate changes by advice letter, as requested in AL 1801-E, is approved.

This Resolution is effective today.

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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 September 23, 2004; the following Commissioners voted favorably thereon:

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STEVE LARSON  
Executive Director

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SCE AL 1801-E/Energy Division

Sept. 23, 2004

September 9, 2004

Draft

Alternate Resolution E-3880

Commission Meeting September

23, 2004

TO: PARTIES TO SOUTHERN CALIFORNIA EDISON COMPANY'S  
ADVICE

LETTER 1801-E

Enclosed is draft Alternate Resolution Number E-3880. It will be on the agenda at the September 23<sup>rd</sup> Commission meeting. The Commission may then vote on this draft Alternate Resolution or it may postpone a vote until later. Energy Division continues to support and sponsor draft Resolution E-3880 previously mailed for comment on August 3<sup>rd</sup>. This draft Alternate Resolution is being issued to provide the Commissioners with another option.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

The draft Alternate Resolution approves SCE's Advice Letter 1801-E and (1) finds that the \$18.080 million of Operation and Maintenance (O&M) expenses recorded in SCE's bark beetle Catastrophic Event Memorandum Account (CEMA) for the period April 3, 2003 through December 31, 2003 is reasonable; (2) authorizes transfer of the December 31, 2003 balance in the bark beetle CEMA of \$18.102 million (including interest) to the Electric Distribution Revenue Adjustment Balancing Account (EDRABA) or the distribution subaccount of the Base Revenue Requirement Balancing Account (BRRBA) for recovery in rates; and (3) authorizes SCE to implement future bark beetle CEMA-related rate changes coincident with the effective date of CPUC approval of subsequent annual advice letter filings by SCE.

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An original and two copies of the comments, with a certificate of service, should be submitted to:

Jerry Royer  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

A copy of the comments should be submitted to:

Laura Martin  
Energy Division  
505 Van Ness Avenue  
San Francisco, CA 94102  
e-mail: LRA@CPUC.CA.GOV

Any comments on the draft Alternate Resolution must be received by the Energy Division by September 15, 2004. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to the draft Alternate Resolution, 2) all Commissioners, and 3) the Director of the Energy Division, on the same date that the comments are submitted to the Energy Division.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Alternate Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the proposed draft Alternate Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

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Replies to comments on the draft Alternate Resolution may be filed (i.e. received by the Energy Division) on September 20, 2004, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length, and shall be filed and served as set forth above for comments.

Kevin Coughlan, Program Manager  
Energy Division

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