

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION
I.D. #6608
RESOLUTION E-4068
May 24, 2007

R E S O L U T I O N

Resolution E-4068. Southern California Edison Company (SCE) requests approval of an agreement between the Mono Power Company and UOS Energy, LLC, and authority to make credit entries to its Energy Resource Recovery Account (ERRA), to account for royalties resulting from the agreement.

By Advice Letter 2089-E filed on January 12, 2007.

SUMMARY

SCE's request for authority to sell certain residual interests in federal oil and gas leases from its non-operating wholly-owned subsidiary, Mono Power Company (Mono), to UOS Energy, LLC (UOS), and revise SCE's ERRA to account for monthly royalties resulting from this agreement, directly benefiting all ratepayers, is approved with modification.

- If royalties do not result from the agreement, or if royalties resulting from the agreement permanently discontinue in the future, SCE must (1) provide appropriate documentation confirming this fact and notify the Commission through the advice letter (AL) process, and (2) submit appropriate revisions to Preliminary Statement ZZ: Energy Resource Recovery Account, through the AL process.
- The terms of this resolution apply only to this specific agreement between Mono and UOS. Any future associated or similar agreements will be subject to a separate AL process.
- If the agreement between Mono and UOS is not finalized by December 31, 2007, SCE shall file a new advice letter to revise its tariffs to reflect that the agreement was not finalized.

BACKGROUND

The Commission issued Decision (D.) 81919 in SCE's 1973 test year General Rate Case (GRC)¹, while also authorizing a program "directed towards the acquisition of additional energy resources for electric generation."

The Commission issued D.81919 on September 25, 1973, authorizing SCE to increase its rates, based on estimated 1973 test year results of operations, by \$89,138,000. In approving the increased revenue requirement, the Commission authorized SCE to fund an exploration and development (E&D) program to develop alternatives to compete with the traditional sources of SCE's existing fuel supply, in the aftermath of an early-1970s fuel embargo which caused steep increases in oil and natural gas prices.

The Commission anticipated that review of the program development approved in D.81919 would require extensive hearings and extra time and preparation for all participants beyond the scope of that decision.

The Commission stated in D.81919 that additional hearings would be held and another decision issued to address proposals for funding the exploration program. The Commission anticipated that several days of supplemental hearings would be needed to further discuss the treatment and determination of program costs, exclusive of those costs included in SCE's Administrative and General expenses determined in the GRC. The Commission thus deferred until later a decision on the "exploration and development phase" of SCE's 1973 GRC.

Additional hearings in SCE's 1973 GRC A.53488 were held in January 1974, to discuss the implementation of the E&D program.

SCE and the California Manufacturer's Association (CMA) were the parties actively involved in the hearings on the E&D program conducted in SCE's 1973 GRC. CMA did not oppose the principle of an allowance for E&D expense, although it asserted that "there are a number of principles which should be applied in determining what should be allowed", including principles associated with the topics discussed in testimony as listed below.

¹ A.53488, Filed August 1, 1972.

Although not an active party the California Farm Bureau (CFB) filed a statement of position, stating its support of SCE's efforts to acquire fuel supplies to meet its obligation of providing reliable electric service at reasonable rates to its consumers. The CFB also stated that filed testimony by CMA and questions posed by the Commission Examiner in hearings illustrate concerns about the program.

Topics discussed in testimony included the following: (1) the fuel service agreement between SCE and its Mono subsidiary, (2) estimates of the cost of administering the E&D program, (3) the calculation of proposed E&D costs, and (4) a comparison of the accounting and ratemaking treatment of the SCE-Mono agreement with Southern California Gas Company's Gas Exploration and Development Adjustment (GEDA) program.²

Pursuant to additional hearings in A.53488, the Commission issued D.83170, confirming the need for an E&D program, and ordering ratepayer funds to be used in an effort to develop alternate energy resources.

On July 23, 1974, the Commission approved SCE's E&D agreement with Mono in D.83170, ordering that "Reasonable exploration and development costs...may be included in SCE's operating expenses, pending a final decision in the proceeding."³ This decision further ordered SCE to follow accounting treatment for E&D based on Commission staff recommendation as provided in the decision, and kept the proceeding open for further hearings "upon which to base a final order establishing appropriate exploration and development program procedures."⁴ Hence, SCE's Energy Exploration Development Adjustment (EEDA) mechanism – through which the costs and benefits of the E&D program would flow through to ratepayers – was implemented to track the expense of developing alternatives to compete with the traditional sources of SCE's existing fuel supply.

² Approved by, D.81898 issued September 25, 1973 in A.53625.

³ D.83170, Ordering Paragraph (O.P.) 2.

⁴ D.83170, O.P. 5.

SCE formed Mono to implement the EEDA mechanism.

SCE formed Mono to implement the EEDA. Its purpose was to (1) Provide SCE with long-term, reliable, and cost-effective energy resource alternatives to the traditional sources of fuel for electric power generation; (2) Secure an energy resource reserve position to hedge against uncertainties in future fuel availability and fuel cost; and (3) Expand understanding of the prevailing market conditions via active market participation.⁵

An Order Instituting Investigation (OII) was issued in 1982, to consider E&D programs and the related EEDA mechanism for continuance, modification, or termination.

After several years the Commission – through OII 82-07-011 – began to consider whether the ratepayer-supported E&D programs should be continued, modified, or discontinued. In the OII, the Commission stated that it would examine whether EEDA programs “have met the criteria specified in D.88121,⁶ and also consider whether there is any justification for ratepayer-supported exploration and development programs in the current energy market.” The OII also directed SCE and San Diego Gas & Electric Company (SDG&E) to submit proposals for “winding down” existing EEDA investments.⁷

D.84-09-078 issued in OII 82-08-011 found that EEDA programs were unsuccessful, and that this program should be discontinued.

The Commission found in D. 84-09-078 that (1) EEDA programs were unsuccessful, (2) new EEDA programs should not undertaken, and (3) in order to maximize ratepayer benefits, existing programs should be “wound down”. The decision limited SCE’s and SDG&E’s respective EEDAs to “essential expenditures until a final determination is made regarding the disposition of

⁵ SCE AL 2089-E, p. 2.

⁶ SDG&E’s EEDA program was approved in D.88121, November 22, 1987.

⁷ Only SCE and SDG&E had EEDA programs.

approved EEDA projects”.⁸ The decision also required SCE and SDG&E to forward a proposal to the Commission regarding the termination of existing EEDA projects.⁹

Termination of the EEDA was facilitated by a proposed stipulation agreement between SCE, SDG&E, and the Commission’s Public Staff Division (PSD), adopted by D.87-07-015.

In December 1986 the Commission held a prehearing conference to determine progress toward termination of the EEDA. SCE, SDG&E, and Commission staff reported on their progress and stated that they would submit a joint final report subject to Commission approval in early 1987.

The parties submitted the report in the form of a proposed stipulation agreement in February 1987. The Commission approved the agreement in D.87-07-015 on July 8, 1987,¹⁰ which authorized SCE and SDG&E to transfer unamortized investment costs from previously approved E&D projects to SCE’s and SDG&E’s respective Energy Cost Adjustment Clause (ECAC) balancing accounts. The decision also authorized SCE and SDG&E to transfer from their respective EEDA mechanisms to their respective ECAC balancing accounts “the remaining unamortized investment costs in all previously approved projects net of any proceeds that have been received from any sale to the date of transfer.”¹¹

Pursuant to D.87-07-015 SCE transferred \$62.874 million in EEDA balances to its ECAC balancing account.

EEDA balances that SCE transferred to its ECAC balancing account included twelve (12) abandoned projects or properties at \$28.336 million, five (5) projects sold for a total loss on sale of assets for \$10.555 million, and eight (8) unsold

⁸ D84-09-078, O.P. 1.

⁹ D.84-09-078, O.P. 2.

¹⁰ D.87-07-015, O.P. 8.

¹¹ D.87-07-015, O.P. 1.

properties with remaining unamortized investments totaling \$23.983 million, for a total of \$62.874 million.

D.87-07-015 ordered that "Edison shall file necessary tariff revisions, to reflect the termination of EEDA programs, in its 1987 annual ECAC filing. All amounts transferred to the ECAC balancing account shall be amortized over 12 months."¹²

SCE recorded and recovered fuel and purchased power-related costs in its ECAC in the 1980's and 1990's. The ECAC was terminated with electric restructuring in the late 1990's. SCE currently uses the ERRA mechanism to track and recover electric fuel and purchased power costs.

SCE requests Commission approval of an agreement between Mono and UOS, and to record in SCE's ERRA, credits for royalties received through development of leases by UOS.

SCE filed AL 2089-E on January 12, 2007 to make two requests. First, SCE requests Commission approval of an agreement that Mono has entered into to assign certain residual interests in federal oil and gas leases to UOS. SCE also requests Commission authority to revise its ERRA to record credit entries for royalties received from oil and gas produced through leases developed by UOS, consistent with D.87-07-015.

NOTICE

Notice of AL 2089-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the AL was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

No protests were received regarding SCE AL 2089-E.

¹² D.87-07-015, O.P. 4.

DISCUSSION

The EEDA program was implemented through SCE's wholly owned subsidiary, Mono; SCE recovered program costs through its EEDA and ECAC accounts.

The ratepayer-supported E&D program was funded through the EEDA and then through the ECAC. Costs and benefits of the program were first flowed through to ratepayers through the EEDA. When EEDA was terminated its balance was transferred to SCE's ECAC. As a subsidiary to SCE and through its agreement with SCE, Mono was obligated to "seek, find, develop, process, and deliver such kinds of energy as may be needed by Edison, while Edison is obligated to compensate Mono for such fuel supply service at the cost to Mono of conducting such activities."¹³ This fuel supply and associated service charge was ultimately authorized as a reimbursable charge under the ECAC balancing account, representing the revenue requirement included in the ECAC.

UOS contacted Mono and proposed an arrangement that would assign Mono's closed leases to UOS in exchange for a future royalty interest.

In 1981, the Combined Hydrocarbon Leasing Act prompted the Government to designate "certain areas" subject to oil and gas leases in Utah as Special Tar Sands Areas. AL 2089-E states "In the early 1980s, the United States Bureau of Land Management (BLM) designated certain areas in Utah as Special Tar Sands Areas (STSAs) in response to the Combined Hydrocarbon Leasing Act of 1981. The BLM determined that if holders of active oil and gas leases in these STSAs chose, they could apply for a combined hydrocarbon lease status for their leases, thereby retaining rights to the tar sands. In order to do that, each leaseholder had to file or participate in a plan of operations regarding mining the tar sands on their STSA leases."¹⁴

A Utah Corporation, Enercor, was designated as Manager for Mono and other participating lease holders regarding tar sand development. Enercor filed a plan

¹³ D.84-09-078, pp. 3, 4.

¹⁴ AL 2089-E, p. 2.

of operation on behalf of Mono and a number of other participating leaseholders in the STSAs. UOS recently purchased all of Enercor's assets, which include "Enercor's leases and contractual rights and relationships as manager under agreement that Enercor had with other leaseholders."¹⁵

AL 2089-E states "The BLM indicates that Mono is the holder of all or partial interest in closed leases in three STSAs. Although the BLM has labeled many of these leases as closed, the status of such leases could still be pending. UOS is attempting, at its own expense, to resurrect the combined hydrocarbon lease conversions, to make them active again for tar sands development. UOS wishes to include Mono's closed leases in the three STSAs in its efforts. UOS contacted Mono and proposed an arrangement that would assign Mono's closed leases to UOS in exchange for a future royalty interest in the three STSAs."¹⁶

SCE's request to assign residual interests in federal oil and gas leases to UOS should be approved with modifications.

Mono entered into an "Assignment, Bill of Sale, and Conveyance" with UOS on December 1, 2006, subject to Commission approval. In AL 2089-E, SCE requests authority from the Commission to execute an agreement between its wholly-owned subsidiary Mono, and UOS. AL 2089-E states that "Mono agreed to assign all of Mono's right, title, and interest in fractional undivided interests in the oil and gas leases that have the potential to be converted to combined hydrocarbon leases." The agreement specifies that in exchange for royalties, Mono is removed from lease title, and any future liability or financial responsibility.

In assigning the leases to UOS, Mono is removed from title to the leases. Additionally, Mono will have no future liability or financial responsibility. In exchange for title, Mono will "hold an undivided 6.25 percent royalty position in the assigned leases." Additionally, a nominal purchase payment of ten dollars (\$10.00) was made by UOS to Mono. AL 2089-E states that "SCE requests

¹⁵ AL 2089-E, p. 3.

¹⁶ AL 2089-E, p. 3: "The three STSAs in Utah applicable to Mono are "Sunnyside", P R Spring", and "Tar Sands Triangle".

Commission approval of the Assignment, since it provides an opportunity for SCE's customers to receive the benefit of potential future royalties, with no cost exposure."

The Commission authorizes SCE's request to assign the specific leases and associated title as agreed with UOS in exchange for royalties resulting from the assigned leases. In executing this agreement, SCE and its subsidiary Mono are released from any future liability and therefore assume no risk to SCE's ratepayers, while receiving revenue that would decrease the annual cost of purchasing fuel for electric generation through SCE's ERRA balancing account.

SCE's request to record credits from royalties associated with the Mono-UOS agreement is granted.

SCE requests that the Commission authorize a change to its ERRA balancing account, to allow for a monthly credit entry recognizing all proceeds resulting from the Mono-UOS agreement. The ERRA balancing account only needs to add a monthly credit entry, as – per the agreement – Mono has no future liability or financial responsibility, thereby eliminating the need to add a possible debit entry category. All proceeds will be credited directly to ERRA, thereby reducing the ERRA balance, and directly benefiting all SCE ratepayers.

The ERRA is the current balancing account mechanism through which fuel costs for electric generation are tracked and collected. Prior to electric industry restructuring in the late 1990's, the ECAC was the mechanism through which fuel costs were tracked, and upon termination of SCE's EEDA program, unamortized costs were transferred to the ECAC. Therefore, it is appropriate that royalties received through the Mono-UOS agreement should be credited to the ERRA account to decrease SCE's annual fuel costs for electric generation. The ERRA should be modified to accommodate future royalties received from UOS.

If royalties from the sale of residual interests in these gas and oil leases do not materialize, or discontinue in the future, SCE must notify the Commission.

If royalties do not result from the Mono-UOS agreement, or if royalties resulting from this agreement permanently discontinue in the future, SCE must (1) provide appropriate documentation confirming this fact and notify the Commission through the AL process, and (2) submit appropriate revisions to

Preliminary Statement ZZ: Energy Resource Recovery Account, through the AL process.

The terms of this resolution approve and apply only to this specific agreement between Mono and UOS.

This resolution addresses and approves only this agreement between SCE's subsidiary Mono and UOS. Any future associated or similar agreements should be submitted for approval to the Commission separately through the advice letter process.

SCE must notify the Commission through the AL process if the agreement between Mono and UOS is not finalized by December 31, 2007.

The final lease assignment remains subject to UOS determining that all assigned leases meet requirements and conditions, and the agreement is finalized on or before December 1, 2007. If the agreement between Mono and UOS is not finalized by December 31, 2007, SCE should file a new advice letter to revise its tariffs to reflect that the agreement was not finalized.

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. Accordingly, this draft resolution was mailed for comments at least 30 days prior to being considered by the Commission.

FINDINGS

1. In SCE's 1973 test year GRC application A.53488, D.81919 authorized SCE to fund and establish an E&D program to develop alternatives to compete with traditional sources of SCE's fuel supplies.
2. SCE established Mono as a wholly-owned subsidiary to provide SCE with alternatives to its traditional fuel sources for electric generation; secure energy resources to hedge against uncertainties in future fuel availability; and better understand market conditions via active participation.
3. D.81919 also established the need for additional hearings to be held within the scope of A.53488, with a further order issued regarding determination of

- E&D program costs and implementation of a mechanism through which SCE would recover program costs.
4. In I. 82-07-011, D.84-09-078 found the E&D program unsuccessful, and that the program and the EEDA mechanism through which the program was funded should be discontinued.
 5. D.84-09-078 ordered SCE and SDG&E to forward a proposal to the Commission regarding termination of existing E&D projects and associated EEDA balances.
 6. D.87-07-015 also approved SCE's transfer of \$62.874 million in EEDA balances to its ECAC balancing account.
 7. EEDA expenses were recovered through the ECAC balancing account after the EEDA account was eliminated.
 8. The Combined Hydrocarbon Leasing Act of 1981 prompted the BLM to designate certain areas as STSAs, causing leaseholders of those areas to retain exploration rights, upon filing a plan of operations specific to mining the leases subject to those areas.
 9. A plan of operations was filed by Enercor, who was designated as Manager for Mono of its designated leases.
 10. UOS recently purchased all of Enercor's assets, which include the designated areas and associated leases.
 11. Mono entered into an "Assignment, Bill of Sale, and Conveyance" with UOS on December 1, 2006, assigning all residual interest in oil and gas leases to UOS, in exchange for a nominal purchase payment and an undivided 6.25 percent royalty position in the assigned leases, subject to Commission approval.
 12. The agreement also removes Mono from lease title, and from any future liability or financial responsibility.
 13. On January 12, 2007, SCE issued AL 2089-E, requesting Commission authority to execute the agreement between Mono and UOS, and use all proceeds to be credited monthly to SCE's ERRA balancing account.
 14. The ERRA succeeded the ECAC balancing account in tracking and recovering electric fuel costs.
 15. SCE's request to execute the agreement between Mono and UOS should be granted, and SCE should be allowed to record in its ERRA credits associated with proceeds from the assigned leases.
 16. If royalties do not result from the Mono-UOS agreement, or if royalties resulting from the agreement permanently discontinue in the future, SCE should file an AL to provide appropriate documentation confirming this fact

and to submit appropriate revisions to Preliminary Statement ZZ: Energy Resource Recovery Account.

17. The terms of this resolution should apply only to this specific agreement between Mono and UOS.
18. If the agreement is not finalized by December 31, 2007, SCE should file a new advice letter to revise its tariffs to reflect that the agreement was not finalized.

THEREFORE IT IS ORDERED THAT:

1. SCE's AL 2089-E is approved subject to the conditions stated in this Order.
2. If royalties do not result from the Mono-UOS agreement, or if royalties resulting from the agreement permanently discontinue in the future, SCE shall file an advice letter to provide appropriate documentation confirming this fact and to submit appropriate revisions to Preliminary Statement ZZ: Energy Resource Recovery Account.
3. The terms of this resolution shall apply only to this specific agreement between Mono and UOS. Any future associated or similar agreements will be subject to a separate AL process.
4. SCE is authorized to make appropriate changes to its ERRRA to reflect monthly credit entries resulting from all royalties and other proceeds received from UOS through Mono. SCE's proposed changes to its ERRRA tariff as filed in AL 2089-E are effective today. If the agreement between Mono and UOS is not finalized by December 31, 2007, SCE shall file a new advice letter to revise its tariffs to reflect that the agreement was not finalized.

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 May 24, 2007; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director