

Decision 11-04-006 April 14, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Approval of its Forecast 2011 ERRR Proceeding Revenue Requirement, to Consolidate All Commission-Authorized Revenue Requirements, and to set Unbundled Rate Components beginning January 1, 2011.

Application 10-08-001
(Filed August 2, 2010)

**DECISION APPROVING A CONSOLIDATED REVENUE
REQUIREMENT INCREASE OF \$403.8 MILLION,
BUT A RATE LEVEL INCREASE OF \$183.4 MILLION**

1. Summary

This decision authorizes a consolidated revenue requirement increase of \$403.8 million, which consolidates all prior Commission-authorized revenue requirements and sets unbundled rate components to recover those revenue requirements; because of an increased sales forecast rate levels increase by \$183.4 million.

2. Southern California Edison Company's Original Forecast

Southern California Edison Company (SCE) filed this Energy Resource Recovery Account (ERRR) forecast application on August 2, 2010 (the August Application). In its August Application, SCE requested the Commission to: (1) authorize SCE's 2011 ERRR proceeding revenue requirement in the amount of \$3.603 billion and (2) consolidate all Commission-authorized revenue requirements (including the ERRR proceeding revenue requirement) and set

unbundled rate components to recover those revenue requirements beginning January 1, 2011.

SCE's original sales and load forecast for 2011 is shown in Table III-6 on page 14 of Exhibit SCE-1. As shown in Table III-6, the retail sales forecast of 84,729 gigawatt-hours (GWh) less 10,319 GWh of direct access sales yielded a bundled service customer sales forecast of 74,410 GWh. The bundled customer sales forecast was then multiplied by the average annual distribution loss factor. This procedure produced an Independent System Operator (ISO) level bundled service customer load forecast for 2011.

SCE's original 2011 ERRA proceeding revenue requirement of \$3.603 billion represented an increase of \$431.8 million from the ERRA revenue requirement included in its 2010 rate levels. This increase was the sum of a \$349 million increase in SCE's generation service revenue requirement and an \$82.8 million increase in SCE's delivery service revenue requirement. SCE itemized all of the components of its requested ERRA revenue requirement for calendar year 2011. Fuel and purchased power expenses comprised most of the ERRA revenue requirement. However, it also included: (1) the estimated December 31, 2010 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.

As in the past, SCE is utilizing this proceeding to consolidate all Commission-adopted revenue requirements into rate levels at one time upon a final Commission decision in this proceeding. SCE's direct testimony sets forth its initial proposed 2011 consolidated revenue requirement by Commission proceeding to be reflected in 2011 rates. That testimony showed the following

estimated changes in 2011 revenue requirements: (1) an increase of \$431.8 million from this ERRA proceeding; (2) an increase of \$184.7 million from the 2009 general rate case (GRC) proceeding; (3) an estimated increase of \$97.2 million from various miscellaneous proceedings; and (4) a decrease of \$90.2 million from the Department of Water Resources (DWR) power and bond charges. After taking estimated 2011 sales changes into account, SCE requested a consolidated, total system revenue increase of \$623.5 million.

3. SCE's Updated Forecast

On November 10, 2010, SCE served its updated testimony to: (1) update SCE's 2011 sales and load forecast; (2) update SCE's 2011 ERRA proceeding revenue requirement; (3) provide an estimate of the 2011 Cost Responsibility Surcharge (CRS) components for Direct Access (DA), Departing Load (DL), and Community Choice Aggregation (CCA) customers; and (4) update SCE's estimated 2011 overall consolidated revenue requirement.

SCE's updated sales and load forecast for 2011 is shown in Table II-1 of Exhibit SCE-4. As shown in Table II-1, the retail sales forecast of 85,111 GWh less 10,787 GWh of DA sales yields a bundled service customer sales forecast of 74,324 GWh. This updated bundled service customer sales forecast is 87 GWh, or 0.1 percent, lower than SCE's bundled service customer sales forecast included in its original testimony. After multiplying this updated bundled service customer sales forecast by the average annual distribution loss factor per its forecast methodology, SCE produced an updated ISO level bundled service customer load forecast for 2011.

SCE's updated 2011 ERRA revenue requirement is \$3.448 billion, which represents an increase of \$277 million from the current ERRA revenue requirement and is \$155 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 in the estimated 2011 ERRR revenue requirement is primarily due to a reduction in the 2011 average gas price forecast and the rescheduling of a San Onofre Nuclear Generating Station (SONGS) Unit 2 refueling outage from 2011, as reported in SCE's initial testimony, to 2012. SCE's updated 2011 forecast assumes an average natural gas price of \$4.18/MMBtu¹ that is based on an October 18, 2010 New York Mercantile Exchange (NYMEX) gas price forward curve. This is a \$1.05/MMBtu reduction in the gas price used to support SCE's August Application. SCE included all documents and updated tables supporting its updated 2011 ERRR proceeding revenue requirement in its presentation.

SCE stated that it was no longer requesting the Commission to include an estimated \$0.870 million associated with availability incentive payments for the Mountainview Generating Station (Mountainview).² SCE explained that, although it believes these estimated payments are properly included in its 2011 ERRR revenue requirement, it is voluntarily removing them pursuant to an agreement with DRA. Instead, SCE will record these incentive payments as they

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

² In its August Application, SCE informed the Commission that it was including an estimated \$0.870 million availability incentive associated with Mountainview. Although SCE intended to include these estimated incentive payments as part of its application, they were inadvertently omitted from its calculation of its initial 2011 ERRR revenue requirement. SCE discovered the miscalculation on November 17, 2010, after it filed its updated testimony in this proceeding. SCE informed the Division of Ratepayer Advocates (DRA) of the discovery later that day, and indicated that it would note the omission in its opening brief.

are earned in the ERRR balancing account and present these amounts for review in its annual April ERRR review proceeding.

SCE has also addressed DRA's concerns regarding the reasonableness of SCE's updated 2011 ERRR revenue requirement. DRA questioned the accuracy of SCE's electricity production cost model used to forecast the dispatch of its energy portfolio. DRA requested SCE to provide a showing that its forecast dispatch model had been verified and/or internally vetted prior to SCE's August Application being submitted to the Commission. To address DRA's concern, SCE submitted rebuttal testimony, explaining its forecast dispatch model in detail, and also explaining the formal validation process that it uses to ensure that its dispatch model produces accurate results. SCE provided further details regarding its forecast dispatch model and internal validation process during a meeting with DRA on November 19, 2010. During this meeting, the parties also discussed SCE's November forecast update and the results of a gas price sensitivity analysis that SCE agreed to perform for DRA in this proceeding. To assist DRA, SCE agreed to include a discussion of its internal forecast validation process in its direct testimony in support of next year's ERRR forecast application, and to conduct an upfront gas price sensitivity analysis that it will provide to DRA in its supporting workpapers.

SCE believes that it has fully cooperated with DRA in its review of SCE's August Application, and that the evidence it has provided in this proceeding supports a Commission finding that its 2011 ERRR revenue requirement is reasonable and should be adopted. DRA has informed SCE that it appreciates SCE's efforts to address its concerns in this proceeding, and is no longer opposing SCE's 2011 ERRR revenue requirement. SCE therefore requests the

Commission to find that its updated 2011 ERRRA revenue requirement is reasonable and should be adopted.

4. SCE's Updated 2011 CRS

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 2010 DWR revenue requirement proceeding, SCE's updated information utilized SCE's 2011 DWR power charge included in the Proposed Decision (PD) of Administrative Law Judge (ALJ) Wong, issued November 2, 2010 in the 2011 DWR revenue requirement proceeding (Rulemaking 09-06-018). SCE used the DWR power charge included in the PD to determine the total portfolio indifference rate. SCE will update its CRS calculation again with the power charge adopted in a final Commission decision in the 2011 DWR revenue requirement proceeding in its advice letter to be filed in compliance with the final Commission decision in this proceeding.

The Commission has required that SCE and the other investor-owned utilities use the market price benchmark provided by the Commission's Energy Division in their calculation of the ongoing Competition Transition Charge (CTC) and the Power Charge Indifference Adjustment (PCIA). In years past, SCE has received the market price benchmark in early November. However, this year SCE did not receive the market price benchmark from the Energy Division prior to serving its updated testimony in November. Therefore, SCE estimated a market price benchmark value for 2011 of \$44.51/MWh based on the same Commission methodology presented in Appendix B to Decision 06-07-030. SCE further explained that if the market price benchmark calculated by the Energy Division is different than \$44.51/MWh, SCE will revise the CTC and PCIA

components of the CRS in the advice letter filed in compliance with a final Commission decision in this proceeding.

5. SCE's Updated 2011 Consolidated Revenue Requirement

SCE's total system 2011 consolidated revenue requirement is estimated to increase by \$403.8 million. This is the sum of: (1) SCE's requested total system 2011 ERRA proceeding revenue requirement increase of \$276.9 million; (2) an estimated \$133.0 million increase associated with SCE's 2009 GRC base revenue requirement; (3) an estimated \$237.6 million increase resulting from various other revenue requirement changes; and (4) an estimated \$243.7 million decrease in DWR's 2011 power charge and bond charge revenue requirements. Although the overall consolidated revenue requirement is expected to increase by approximately \$403.8 million, after taking into account the estimated increase in kilowatt-hour (kWh) sales in 2011, total estimated 2011 rate levels will increase by \$183.4 million. The estimates SCE has included in this proceeding will be replaced by actual authorized amounts in the compliance advice letter to be submitted upon a final Commission decision in this proceeding.

During SCE's November 19 meeting with DRA, DRA indicated that it did not oppose SCE's request to implement its consolidated revenue requirement in this year's ERRA forecast proceeding. Going forward, however, DRA requested SCE to implement its consolidated revenue requirement via an advice letter filing, instead of its ERRA forecast application. SCE agreed to DRA's request, and will therefore no longer be requesting the Commission to implement its consolidated revenue requirement in future ERRA forecast applications.

6. The Division of Ratepayer Advocates' Position

DRA made an extensive analysis of SCE's submission. Based on that analysis and discussion with SCE, DRA does not oppose SCE's 2011 ERRA

forecast of \$3.448 billion. DRA and SCE held a meet and confer subsequent to the service of SCE's rebuttal testimony and discussed SCE's forecast model, forecasting assumptions, and their impact on SCE's forecast and associated revenue requirement. SCE staff responded to DRA questions and addressed various issues about the forecast model and the resulting cost estimates. SCE also provided responses to data requests as a part of the meet and confer process. SCE has agreed with DRA's recommendation that SCE will exclude Mountainview incentive payments from its forecast 2011 ERRA revenue requirement, and instead record those payments after-the-fact and address them in the ERRA review application. As a result of this exchange of information, DRA recommends approval of SCE's 2011 ERRA forecast application.

DRA and SCE have agreed that future ERRA forecast applications will:

- Include a discussion of the internal forecast validation process in direct testimony; and
- SCE will conduct a sensitivity analysis on the forecast prior to filing the application and will include the results of that test in the workpapers that accompany the application and direct testimony.

As a result of that agreement, SCE and DRA propose that the following should be part of the final decision in this proceeding:

SCE will conduct a sensitivity analysis on the forecast prior to filing its next five (5) annual ERRA Forecast Applications and will include the results of that analysis in the workpapers that accompany those applications and direct testimony. Unless SCE and DRA later agree to a revised methodology, the sensitivity analysis shall be based on a gas price change equal to two (2) times the standard deviation of the projected 12-month gas price strip of the forecast year. The 12-month projected gas prices shall also be based on the most recent 20 days historical gas price data. Finally, SCE shall assume a proportional change in power prices to keep the Implied Market Heat Rate (IMHR) constant. SCE and DRA should meet after SCE

files its August 2016 ERRA Forecast Application to discuss whether an upfront sensitivity analysis is warranted for future ERRA Forecast Applications.

We will adopt this proposal.

7. Categorization and Need for Hearings

In Resolution ALJ 176-3259 dated August 12, 2010, the Commission preliminarily categorized this application as Ratesetting and preliminarily determined that hearings were necessary. As the parties have stipulated to all issues, a public hearing is not necessary.

8. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on March 21, 2011 by SCE.

9. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Robert Barnett is the assigned ALJ in this proceeding.

Findings of Fact

1. SCE's updated ERRA proceeding revenue requirement is \$3.448 billion, which represents an increase of \$277 million from the current ERRA proceeding revenue requirement, and is \$155 million less than the estimated 2011 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 2011 average gas price forecast and the rescheduling of a SONGS Unit 2 refueling outage from 2011.

3. The updated ERRA revenue requirement for 2011 is based on a gas price forward curve of \$4.18/MMBtu. This is a \$1.05/MMBtu reduction in the gas price used to support SCE's original request.

4. SCE is no longer requesting an estimated \$0.870 million associated with availability incentive payments for the Mountainview. SCE has agreed to record these incentive payments as they are earned in the ERRA balancing account and present these amounts for review in its annual April ERRA review proceeding.

5. DRA does not oppose SCE's updated 2011 ERRA revenue requirement request.

6. In the compliance advice letter that SCE will file to implement this decision, SCE will utilize the most recent available data needed to calculate the CRS components applicable to DA, DL, and CCA customers.

7. SCE's updated total system 2011 consolidated revenue requirement is estimated to increase by \$403.8 million. This is the sum of: (1) SCE's requested total system 2011 ERRA proceeding revenue requirement increase of \$276.9 million; (2) an estimated \$133 million increase associated with SCE's GRC base revenue requirement; (3) an estimated \$237.6 million increase resulting from various other revenue requirement changes; and (4) an estimated \$243.8 million decrease in DWR's 2010 power charge and bond charge revenue requirements.

8. Although the overall consolidated revenue requirement is expected to increase by approximately \$403.8 million, after taking into account the estimated increase in kWh sales in 2011, total estimated 2011 rate levels will increase by \$183.4 million.

9. SCE will implement its consolidated revenue requirement via an advice letter instead of future ERRA forecast applications.

Conclusions of Law

1. It is reasonable to adopt SCE's updated forecast 2011 ERRA proceeding revenue requirement changes and revenues as set forth herein.
2. SCE's updated 2011 ERRA proceeding revenue requirement of \$3.448 billion is adopted.
3. SCE's total system 2011 consolidated revenue requirement increase of \$403.8 million is adopted. Although the overall consolidated revenue requirement is expected to increase by approximately \$403.8 million, after taking into account the estimated increase in kWh sales in 2011, total estimated 2011 rate levels will increase by \$183.4 million.
4. SCE's forecast estimates for its 2011 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.
5. SCE's request to consolidate its ERRA proceeding revenue requirement with other rate changes adopted in other proceedings on or before March 1, 2011 is adopted, or as soon thereafter as possible.
6. SCE's proposal to update the DA CRS to include final figures for the DWR power charge is adopted.

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 and other decisions, to be effective beginning March 1, 2011, or as soon thereafter as possible.

2. Southern California Edison Company shall include a final consolidated revenue requirement table in its advice filing that includes all Commission-adopted amounts as of that date.

3. Southern California Edison Company shall conduct a sensitivity analysis on the forecast prior to filing its next five (5) annual Energy Resource Recovery Account Forecast Applications and shall include the results of that analysis in the workpapers that accompany those applications and direct testimony. Unless Southern California Edison Company and the Commission's Division of Ratepayer Advocates later agree to a revised methodology, the sensitivity analysis shall be based on a gas price change equal to two (2) times the standard deviation of the projected 12-month gas price strip of the forecast year. The 12-month projected gas prices shall also be based on the most recent 20 days historical gas price data. Finally, Southern California Edison Company shall assume a proportional change in power prices to keep the Implied Market Heat Rate constant. Southern California Edison Company and the Commission's Division of Ratepayer Advocates shall meet after Southern California Edison Company files its August 2016 Energy Resource Recovery Account Forecast Application to discuss whether an upfront sensitivity analysis is warranted for future Energy Resource Recovery Account Forecast Applications.

4. Southern California Edison Company's public (redacted) Exhibits SCE-1 through SCE-4 and confidential (unredacted) Exhibits SCE-1-A and SCE-4-A shall be entered into the record of this proceeding, plus Exhibit DRA-1.

5. Southern California Edison Company's confidential Exhibits SCE-1-A and SCE-4-A are filed under seal pursuant to Decision 06-06-066 and shall remain sealed for a period of three years from the effective date of this decision.

6. Hearings are no longer necessary.

7. Application 10-08-001 is closed.

This order is effective today.

Dated April 14, 2011, at San Francisco, California.

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK FERRON

Commissioners