

Decision 07-01-038 January 25, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338 E) for Approval of Its Forecast 2007 ERRR Proceeding Revenue Requirement, to Consolidate All Commission-Authorized Revenue Requirements, and to Set Unbundled Rate Components Beginning January 1, 2007.

Application 06-08-001
(Filed August 1, 2006)

**OPINION APPROVING SOUTHERN CALIFORNIA
EDISON COMPANY'S 2007 ENERGY RESOURCES
RECOVERY ACCOUNT FORECAST**

1. Summary

Southern California Edison Company (SCE) requests a 2007 Energy Resource Recovery Account (ERRR) proceeding revenue requirement of \$3.538 billion. For SCE, this represents a decrease of \$630 million compared to the current ERRR revenue requirement. The overall rate proposal, including changes from a number of other accounts, results in a decrease in customer rates of \$369 million relative to rates in effect as of August, 2006. SCE's request is approved.

2. Background

The purpose of this proceeding is to determine SCE's 2007 ERRR forecast revenue requirement. The ERRR records fuel and purchased power billed revenues against actual recorded costs. The process includes a forecast of annual fuel and purchased power and revenue requirements for the upcoming year and a compliance review of a utility company's energy resource contract

administration, least cost dispatch, and ERRRA balancing account. The ERRRA proceeding revenue requirement consists primarily of SCE's proposed 2007 fuel and purchased power expenses. However, the revenue requirement also includes the December 31, 2006 balances in various balancing accounts that SCE needs to recover from or return to customers, and other miscellaneous expenses, such as spent nuclear fuel expense.

SCE filed its Application on August 1, 2006. No protests to the application were filed. SCE served updated testimony on November 6, 2006. On October 3, 2006, SCE filed a motion under Rule 13.8(d) to offer into evidence its original prepared testimony dated August 1, 2006. That motion was combined with a motion seeking to protect confidential material in the original prepared testimony. SCE requests that to the extent the previous motion requested protection of confidential material in the original prepared testimony, it be treated as a motion to seal a portion of the evidentiary record under Rule 11.5. We have reviewed the redacted material and grant SCE's motion to consistent with the treatment provided for in the "IOU Matrix" attached to D.06-06-066. Under the "IOU Matrix" confidential forecast information is held confidential for three years. The material SCE's requested be sealed is forecast information. The material shall be placed under seal for three years until November 8, 2009. If SCE believes further protection is needed after that time, it may file a motion stating the justification for further withholding the material from public inspection at least 30 days before the expiration of this order. SCE filed motions on November 8, 2006 to offer prepared testimony and appendices into evidence, and to seal a portion of the evidentiary record. SCE's motions are granted. The proceeding was submitted on November 8, 2006.

3. SCE's Position

In this annual ERRA forecast application, SCE requests authority to recover its 2007 ERRA proceeding revenue requirement of \$3.538 billion and to consolidate all commission-authorized revenue requirements, including the ERRA proceeding revenue requirement, for recovery through rates beginning January 1, 2007.

Specifically, SCE requests a decrease of \$369 million in its total system 2007 consolidated revenue requirement, which is the sum of a \$630 million decrease in its total system ERRA proceeding revenue requirement, an estimated increase of \$151 million associated with SCE's general rate case base revenue requirement, an estimated \$210 million increase resulting from various other revenue requirement changes, and an estimated \$100 million decrease in the Department of Water Resources' (DWR) 2007 power charge and bond charge revenue requirements.

SCE estimates the ERRA and the generation sub-account of the Base Revenue Requirement Balancing Account (BRRBA) are over-collected by \$440 million and \$8.5 million, respectively. SCE states that the main reason for the magnitude of the over-collection is the operation of the current legislatively-mandated residential rate structure (from Assembly Bill (AB) 1X in 2001), which applies increasingly higher rates to increasingly higher consumption (also known as an increasing block rate structure). 2006 saw an extended period of extremely hot weather, leading to unexpectedly higher residential energy usage. With higher usage pushing customers to use more electricity in the higher rate tiers, SCE has seen disproportionate revenue increases, leading to the ERRA overcollection.

After adjusting for sales growth in 2007, SCE requests an ERRA proceeding revenue decrease of \$369 million. The establishment of bundled service generation rate levels are based upon a forecast Direct Access Cost Recovery Surcharge credit of \$211.9 million to the 2007 ERRA revenue requirement. SCE also requests authority to update its ERRA proceeding revenue requirement prior to implementation of new rate levels to reflect the latest gas and power price forecasts for 2007.

As mentioned above, this proceeding will consolidate all commission-authorized revenue requirements, including the ERRA proceeding revenue requirement, for recovery through rates beginning January 1, 2007. In addition, SCE was authorized in Resolution E-4023 to establish the Residential Deferred Revenue Memorandum Account (RDRMA) to track undercollections resulting from deferring a residential rate increase authorized in Decision (D.) 06-06-067, which was authorized in order to mitigate the impact on summer bills. SCE estimated the RDRMA undercollection balance as of December 31, 2006 to be \$106 million. SCE was authorized by E-4023 to recover this balance through residential customers' generation rates beginning January 1, 2007.

SCE proposes returning the portion of the generation revenue over-collection that is attributable to the higher residential sales billed at the upper tiers to residential customers through decreased upper tier rates in 2007. SCE proposes setting the 2007 residential Tier 3 through Tier 5 rate levels such that the total difference between these rate levels does not exceed 7¢ per kwh, while providing for equal increases for Tier 3 to Tier 4 and from Tier 4 to Tier 5.

SCE acknowledges that this rate proposal is contrary to SCE's 2006 GRC Phase 2 settlement agreement, which states: "SCE shall establish the Tier 3

energy charges at 1.65 times the Tier 2 energy charge, with any additional revenue increases allocated to Tier 4 and 5 in a manner that provides comparable increases from Tier 3 to Tier 4 and Tier 4 to Tier 5.”¹ However, this methodology would result in nearly identical Tier 3 through Tier 5 rates due to the allocation of the ERRA overcollection proposed here by SCE. Therefore, SCE proposes to modify the settlement agreement to instead set residential rates as described above.

For non-residential classes, SCE proposes that the remainder of the overcollection (which was caused by lower recorded fuel and purchased power costs in 2006 than the forecast of those costs reflected in SCE’s 2006 generation rates) by the system average percent change (SAPC) methodology.

For example, a revised SCE generation revenue requirement would be combined with the DWR power charge revenue requirement to calculate an SAPC factor for the sum of SCE generation and DWR revenue requirements. The SAPC factor would then be applied to the currently effective combined generation rate to produce a revised rate. The adopted DWR power charge would then be subtracted to produce a revised SCE generation rate. This methodology was approved by the Commission in adopting SCE’s 2006 general rate case Settlement Agreement in D.06-06-067.

SCE proposes to update its estimate of the 2007 direct access cost responsibility surcharge (DA CRS) components. Because the Commission had not yet issued a final decision in the 2007 DWR Revenue Requirement proceeding (Rulemaking 06-07-010) by the time of SCE’s November update, the

¹ See D.06-06-067, Attachment A, p. 21.

DWR Power Charge component of SCE's bundled service customer rates was not yet known. Therefore, SCE estimated that its bundled service customers' 2007 DWR Power Charge would decrease by 8% from the current Power Charge (based on an October 30, 2006 estimate provided by DWR to the Commission). SCE proposes to update the DA CRS calculation once the DWR Power Charge is known and to include the final 2007 DA CRS components in its advice letter to be filed in compliance with this Order. D.06-12-035 was issued in December, 2006 adopting a final DWR Power Charge.

4. Discussion

We have reviewed SCE's ERRA filing in detail. SCE's ERRA forecast and update were performed according to standard accounting and regulatory protocols. SCE's ERRA and other forecasts, as updated on November 7, 2006, are reasonable in light of the record and are adopted. SCE's proposal to estimate the 2007 DA CRS and then update it when final numbers are available is straightforward and reasonable.

SCE proposal to modify D.06-06-067 is consistent with our policy of encouraging conservation through the residential multi-tier increasing rate schedule. The proposal allows an overcollection to be returned to the residential ratepayers whose usage caused the overcollection. The proposal also maintains the integrity of the multi-tier system, which, under the structure in place from D.06-06-067, would necessarily flatten to the point of meaninglessness. SCE served its November 6, 2006 updated testimony on all parties to its last general rate case (Application (A). 05-05-023). No party objected to SCE's proposal. We find that SCE provided timely notice and opportunity to parties in A.05-05-023. SCE's proposal to modify D.06-06-067 is reasonable and we will adopt it.

5. Comments on Proposed Decision

This is an uncontested matter, in which the decision grants the relief requested. Accordingly, pursuant to § 311(g)(2) of the Pub. Util. Code and Rule 14.6 (c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is being waived.

6. Categorization and Need for Hearings

In Resolution ALJ 176-3177 dated August 24, 2006, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily that hearings were necessary. Ultimately no hearings were held in this matter.

7. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and David M. Gamson is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. SCE's 2007 Energy Resource Recovery Account (ERRA) proceeding revenue requirement is \$3.538 billion, representing a decrease of \$630 million compared to the current ERRA revenue requirement.
2. SCE's overall customer rates will decrease by \$369 million as a result of amortization of the various accounts in this proceeding, relative to rates in effect as of August, 2006.
3. SCE's proposed allocation of ERRA overcollection to residential ratepayers differs from the methodology adopted by the Commission in SCE's last general rate case decision, D.06-06-067. SCE notified parties in that proceeding of its proposal to modify the decision in this respect.
4. SCE's DA CRS calculation is based on non-final figures for the DWR Power Charge.

Conclusions of Law

1. SCE's 2007 ERRRA and other account forecasts are reasonable.
2. D.06-06-067 should be modified to allow SCE's proposed allocation of portions of its 2006 ERRRA overcollection to residential ratepayers, as described herein.
3. The relevant parties were given timely notice and opportunity to comment on SCE's proposed changes to D.06-06-067.
4. SCE's proposed allocation of its ERRRA proceeding revenue requirement balances is reasonable.
5. SCE's proposal to update the DA CRS to include final figures for the DWR Power Charge is reasonable.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (SCE) shall file an advice letter to reflect the revised tariffs resulting from this decision with rates to be effective 20 days from the date of this decision, subject to review for compliance by the Energy Division.
2. SCE's 2007 Energy Resources Recovery Account and other account forecasts are adopted.
3. SCE's proposed rate allocations are adopted.
4. SCE's proposal to modify Decision (D.) 06-06-067 in order to change the methodology for calculating residential rates in Tiers 3 through 5 is adopted.
5. SCE shall update the Direct Access Cost Responsibility Surcharge calculation in its implementation Advice Letter now that the Department of Water Resources Power Charge figure has been adopted by the Commission in D.06-12-035.

6. SCE's November 8, 2006 motions to offer prepared testimony and appendices into evidence, and to seal a portion of the evidentiary record, are granted.

7. No hearings were necessary in this proceeding.

8. Application 06-08-001 is closed.

This order is effective today.

Dated January 25, 2007, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners