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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-4282**
November 20, 2009

R E S O L U T I O N

Resolution E-4282. Southern California Edison (Edison) submits its reports of 2001, 2002, and 2003 performance under its Performance Based Ratemaking (PBR) mechanism for approval.

Proposed Outcome: Edison's reports are approved. Edison's reports are in compliance with Decision (D.) 96-09-092, D.02-04-055, D.08-09-038, and D.09-05-027.

Estimated Cost: None.

By Advice Letter (AL) 1608-E-C, AL 1697-E-B, and AL 2376-E, all filed on August 21, 2009.

SUMMARY

This resolution approves the 2001, 2002, and 2003 Performance Based Ratemaking (PBR) reports submitted by Edison with AL 1608-E-C, AL 1697-E-B, and AL 2376, respectively. In compliance with D.96-09-092, D.02-04-055, D.08-09-038 and D.09-05-027, these reports indicate that:

1) Edison is not seeking any potential "Z-factor" recovery[1] for costs incurred in 2001, 2002, or 2003,
2) No revenue sharing related to Edison's financial performance was triggered in any of these years,
3) Edison must forego any rewards for customer satisfaction performance or employee health and safety performance,
4) Edison must forego any net rewards for electric system reliability, and

[1] Under Edison's PBR mechanism, the utility could seek recovery of costs related to certain unexpected events, or Z-factors, when a set a specified criteria had been met.

5) Edison's Cost of Capital Trigger Mechanism was not activated in any of these years.

Edison also reported certain other performance data in compliance with Commission decisions.

BACKGROUND

Components of Edison's PBR Mechanism

In D.96-09-092, the Commission adopted a PBR mechanism for Edison. The Edison PBR mechanism, still in effect during the years 2001 through 2003, included:

1) a revenue sharing component;
2) incentives for Edison in several service quality areas, including customer satisfaction with Edison service, employee health and safety, and electric service reliability;
3) a cost of capital trigger mechanism which adjusts Edison's authorized return on equity (ROE) for changes in interest rates, and;
4) a Z-factor component which would allow Edison to seek recovery of unexpected costs which meet certain conditions.

Under the revenue sharing component, Edison would share revenues with ratepayers if its actual ROE exceeded the authorized ROE above a deadband threshold level, and would receive additional revenues from ratepayers if the actual ROE was below the authorized amount below a dead band level.

Under the service quality component, Edison would achieve a financial reward, paid by its ratepayers, if its performance exceeded benchmarks and associated deadbands adopted by the Commission, and would incur a penalty if performance did not meet the benchmark deadband threshold.

The customer satisfaction rating was intended to measure overall customer satisfaction with four areas of Edison customer service: field service and meter reading activities, in-person services, telephone center operations, and service planning activities. Edison's performance was based on survey results obtained by an outside consultant, using customer information provided by Edison.

Rewards and penalties for employee health and safety were based on Edison's reported performance related to the frequency of all industrial accidents and illnesses.

Edison had the following two types of electric reliability incentives included under its PBR mechanism: Average Customer Minutes of Interruption (ACMI) and Outage Frequency. The ACMI measures customer service interruptions in terms of the average minutes of service interruptions per customer excluding events which produce an impact on system-wide average customer minutes of interruption of more than 5 minutes. The Outage Frequency measures the number of Edison-reported circuit interruptions excluding all interruptions which have a duration of more than 5 minutes.

The Cost of Capital Trigger Mechanism was established to adjust Edison's authorized ROE for changes in interest rates and to adjust PBR distribution rates to account for changes in the authorized ROE. Changes in the authorized ROE would be activated if the average 12-month Aa Utility Bond rate (as of September of each year) changed by more than 100 basis points from a Trigger Value.

The Z-Factor component was included in Edison's PBR to allow Edison to seek recovery of costs due to unexpected events. Z-factor recovery would only be allowed if the events met a set of criteria.

CPUC D.02-04-055 adopted a methodology for setting the revenue requirement under the Edison PBR, as opposed to a rate revision methodology adopted under the initial PBR mechanism. This decision also updated the performance benchmark for customer satisfaction, worker safety, and outage frequency components.

Edison was required to make annual reports of its performance under the mechanism. With ALs 1608-E and 1697-E, Edison first reported its 2001 and 2002 PBR performance results, in the spring of 2002 and 2003, respectively. In 2003, Edison later supplemented those advice letters, with ALs 1608-E-A, 1608-E-B, and 1697-E-A, to reflect updates to its financial performance.

The Commission found that Edison fraudulently reported PBR results.

In 2003, Edison management received allegations that internal fraudulent results reporting related to the customer satisfaction component of the PBR mechanism had been occurring. Edison began to investigate these allegations in 2003, and ultimately issued reports in 2004 concerning its findings related to the customer satisfaction component and the employee health and safety component. (Consequently, the Commission's Energy Division has been holding these advice letters pending the outcome of Commission action with regard to the allegations of fraudulent activity.) In addition, Edison requested that it be allowed to delay the submittal of its PBR report for the year 2003.

In 2006, the Commission then initiated its own investigation (Order Instituting Investigation (I.) 06-06-014) into the Edison PBR results that had been reported to the Commission, from its inception through 2003. In D.08-09-038, the Commission ordered Edison to forego any reported rewards in 2001 through 2003 that Edison had calculated for the customer satisfaction and worker safety components. In D.09-05-027, the Commission ordered that Edison forego its claim for a $2 million net reward for electric system reliability for the years 2001 through 2003.

With ALs 1608-E-C, 1697-E-B, and 2376-E, Edison now updates its PBR reports, in compliance with Commission Decisions, and to report new financial information.

In compliance with D.08-09-038 and D.09-05-027, on August 21, 2009 Edison supplemented its 2001 and 2002 PBR reports with AL 1608-E-C and 1697-E-B. Also on August 21, 2009, Edison submitted its PBR report for 2003 with AL 2376. With these advice letters, Edison foregoes $20 million in reported rewards for customer satisfaction and $15 million in reported rewards for worker health and safety for the years 2001 through 2003, consistent with D.08-09-038. As reported in each of these ALs, Edison also foregoes a $2 million net reward for the years 2001 to 2003 for system reliability performance, consistent with D.09-05-027.[2]

[2] The net $2 million reward is comprised of a $5 million reward previously reported for 2001 related to outage frequency, and a $3 million penalty in 2003 related to ACMI.

The advice letters also provide reports about Edison's 2001-2003 financial performance. The supplemental ALs include updates of reported 2001 and 2002 results due to such factors as the impact of a tax settlement with the Internal Revenue Service in May 2009, which reduced the tax basis of certain distribution assets. For 2001 through 2003, Edison reports that no revenue sharing is triggered, since Edison's actual ROE for those years was within the revenue sharing deadband of the PBR mechanism.

Edison reports that the Cost of Capital Trigger was not activated in any of the years 2001 through 2003 because the bond rate used as an index under the Trigger Mechanism did not vary by more than 100 basis points above the Trigger Values established for the years in question..

Edison reports that no Z-factor treatment was requested for costs incurred from 2001 through 2003.

Finally, Edison reports:

- distribution failure rate data as required by D.98-08-015, and
- data related to busy conditions on inbound customer telephone trunk lines, streetlight repairs, service guarantee commitments, and customer erroneous disconnects, in compliance with D.99-12-035.

NOTICE

Notice of AL 1608-E-C, AL 1697-E-B, and AL 2376-E was made by publication in the Commission's Daily Calendar. Edison states that a copy of each Advice Letter was mailed and distributed in accordance with applicable sections of General Orders 96-A or 96-B.

PROTESTS

No protests were submitted on ALs 1608-E-C, 1697-E-B, or 2376-E.

DISCUSSION

The Commission has reviewed Edison ALs 1608-E-C, 1697-E-B, and 2376-E, and finds that each of these ALs are in compliance with D.96-09-092, D.02-04-055, D.08-09-038, and D.09-05-027.

In 2001 through 2003, revenue sharing was not activated. Edison's actual distribution ROEs during these years have been 11.52%, 11.59%, and 11.63%. These actual ROEs have all been within the PBR deadband around Edison's authorized ROE.

In compliance with D.08-09-038, Edison correctly is foregoing any rewards it had originally calculated for customer satisfaction and employee health and safety. In its previous advice letters and in I.06-06-014 Edison had calculated rewards of $20 million and $15 million for customer satisfaction for the years 2001 through 2003.

In compliance with D.09-05-027, Edison is also foregoing the net rewards for electric system reliability Edison had calculated for the years 2001 through 2003.

Edison reports that its Cost of Capital Trigger Mechanism was not activated. The Aa Utility Bond rate for the 12-month period ending in September of 2001, 2002, and 2003 was 7.69%, 7.31%, and 6.59%. Each of those values was less than 100 basis points above or below the then current Trigger Value of 7.50%.

Edison reports that it is not seeking Z-factor recovery of any costs incurred in 2001, 2002, or 2003.

Finally, Edison reports certain data, in compliance with D.98-08-015 and D.99-12-035.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. On August 21, 2009, Edison submitted AL 1608-E-C, AL 1697-E-B, and AL 2376 to report its PBR performance and results for the years 2001, 2002, and 2003, respectively.

2. In D.08-09-038, the Commission ordered Edison to forego any customer satisfaction and worker safety rewards for 2001 through 2003.
3. In D.09-05-027, the Commission ordered Edison to forego any net rewards for electric system reliability for the years 2001 through 2003.
4. Edison reports no revenue sharing under its PBR mechanism for the years 2001 through 2003.
5. Edison reports that the Cost of Capital Trigger was not activated during 2001 through 2003.
6. Edison is not seeking any Z-factor recovery for costs incurred during 2001 through 2003.
7. With ALs 1608-E-C, 1697-E-B, and 2376-E, Edison is foregoing any rewards for customer satisfaction and employee health and safety for the years 2001 through 2003, consistent with D.08-09-038.
8. With ALs 1608-E-C, 1697-E-B, and 2376-E, Edison is foregoing a net reward for electric system reliability for the years 2001 through 2003, consistent with .09-05-027.Edison's PBR reports for the years 2001 through 2003 are in compliance with D.96-09-092, D.02-04-055, D.08-09-038, and D.09-05-027.
9. Edison's ALs 1608-E-C, 1697-E-C, and 2376 should be approved.

THEREFORE IT IS ORDERED THAT:

1. Southern California Edison Company's Performance-Based Ratemaking Reports in Advice Letter (AL) 1608-E-C, AL 1697-E-B, and AL 2376-E are approved

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 November 20, 2009; the following Commissioners voting favorably thereon:

/s/ Paul Clanon

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners