

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-4023

October 19, 2006

R E S O L U T I O N

Resolution E-4023. Southern California Edison Company (SCE) submits an Advice Letter to implement the Test Year 2006 General Rate Case (GRC) revenue requirement authorized in D.06-05-016, the revenue requirement allocation authorized in D.06-06-067, and the Direct Access Cost Responsibility Surcharge (DA CRS) authorized in D.06-07-030, while establishing a memorandum account to track deferred residential revenues.

By Advice Letter 2019-E Filed on July 27, 2006.

SUMMARY

SCE's request in Advice Letter (AL) 2019-E to implement GRC-authorized revenue requirement changes and modify its tariffs and rate schedules effective August 1, 2006 in compliance with D.06-06-067, to defer changes to its residential rate schedules, and to establish a memorandum account to recover the undercollection of deferred residential revenue, is approved with modifications.

- The Commission approves the rates SCE filed in AL 2019-E.
- The Commission approves the implementation of the Residential Deferred Revenue Memorandum Account (RDRMA) as proposed by SCE. The RDRMA tracks the undercollection resulting from deferring the residential rate increase authorized by D.06-06-067.
- SCE requested in AL 2019-E that it be allowed to defer the residential rate increase authorized by D.06-06-067 from August 1, 2006 until November 4, 2006. In light of subsequent information filed by SCE in A.06-09-001, we will allow SCE to defer the residential rate change authorized in D.06-06-067 until January 1, 2007, subject to modification by a Commission decision in A.06-09-001.

BACKGROUND

SCE submitted AL 2019-E on July 27, 2006 to implement the Test Year 2006 General Rate Case (GRC) revenue requirement authorized in D.06-05-016, the revenue requirement allocation authorized in D.06-06-067, and the Direct Access Cost Responsibility Surcharge (DA CRS) authorized in D.06-07-030.

SCE filed AL 2019-E on July 27. Pursuant to D.06-06-067, the advice letter implements revenue requirements authorized by D.06-05-016, the decision in phase 1 of SCE's 2006 GRC. SCE also submitted in the advice letter updated tariff sheets implementing FERC-authorized settlement rates, and the revised Direct Access Cost Responsibility Surcharge (DA CRS) authorized in D.06-07-030.

On June 29, 2006, the Commission issued D.06-06-067, in Phase 2 of SCE's 2006 GRC (A.05-05-023).

D.06-06-067 approved an all-party settlement allocating SCE's authorized revenue requirement among rate classes and approved revised rates effective August 1, 2006. The revenue allocation resulting from this decision would increase residential rates in tiers 3, 4 and 5 effective August 1, 2006.

Statutory requirements resulting from passage of Assembly Bill (AB)1X in 2001 require rate caps for usage up to 130% of baseline quantities.

AB1X legislation required rate caps on residential usage up to 130% of the baseline quantities in effect on February 1, 2001. These rates may not increase above the levels in effect on February 1, 2001. Tier 1 rates apply to the baseline quantity, and tier 2 rates apply to additional quantities up to 130% of the baseline quantity. Tiers 1 and 2 combined account for 75% of SCE's residential sales. Residential customers who use electricity in Tiers 3 and above must bear the burden for all residential rate increases.

SCE reinstated a fifth billing tier to residential billing effective August 1.

In complying with D.06-06-067, SCE reinstated a five-tier rate structure to mitigate customers' bill impact from usage above the first two tiers. Tier 5 applies to usage higher than 300% of baseline use. Due to AB1X restrictions, the addition of tier 5 serves primarily to lower the rate increase for tier 3 usage,

which includes use from 131% to 200% of baseline, but is unprotected under AB1X.

On July 25, SCE requested authorization to defer implementation of higher residential rates pursuant to D. 06-06-067 from August 1, 2006 to November 4, 2006 due to record heat conditions.

In a letter to the Commission's Executive Director, SCE requested an extension of time to implement residential rate increases because of record heat conditions during July 2006. SCE stated its intention to file an advice letter requesting to defer rate increases, citing "extraordinary bill impacts that would otherwise result beginning August 1, 2006 for residential customers whose usage is more than 30% above baseline levels."

SCE stated that "these bill impacts will occur due to a combination of record heat conditions in Southern California and because statutory restrictions require that these residential customers absorb the increase in revenue responsibility for the entire residential class." As such, SCE emphasized that "approximately one million of SCE's four million residential customers participate in the CARE program and are exempt from paying Tier 4 or Tier 5 rates.

On July 26, the Commission's Executive Director granted SCE's request for an extension of time to implement residential rate increases, allowing the Commission time to act on SCE's advice letter.

In AL 2019-E, SCE also requests deferral of the residential rate increase until November 4, 2006.

In this advice letter, SCE requests that the residential rate increase be deferred until November 4, 2006 (consistent with the beginning of SCE's winter billing period) and that SCE be allowed to establish a Residential Deferred Revenue Memorandum Account (RDRMA) to track the undercollection resulting from deferring residential rate increases.

Additionally, SCE requested in AL 2019-E that the undercollection recorded in the RDRMA be transferred to the generation subaccount of the Base Revenue Requirement Balancing Account (BRRBA) on December 31, 2006. SCE proposes that this amount be consolidated with other rate changes on or after January 1, 2007, and be collected from residential customers at that time.

On September 1, 2006, SCE submitted A.06-09-001, requesting authority to maintain its current Energy Resources Recovery Account (ERRA) rates under the ERRA “Trigger” Mechanism until January 1, 2007.

SCE submitted A.06-09-001 in compliance with D.04-12-048. That decision implemented Public Utilities Code Section 454.5(d)(3) requiring that the Commission adjust rates or order refunds, as necessary, to promptly amortize any ERRA over- or undercollection exceeding five percent of a utility’s recorded non-DWR generation revenues for the prior calendar year.

According to SCE, its ERRA overcollection at the end of July 2006 was 5.79% (\$231 million) in excess of recorded 2005 generation revenue requirement, due largely to the increase in residential usage at rate levels above 130% of baseline. SCE further forecasted its December 31, 2006 ERRA overcollection in excess of 2005 generation revenue requirement at 7.46% (\$298 million). In the application, SCE requests that “no rate action be taken at this time” in adjusting the ERRA rate. PU Code Section 454.5(d)(3) gives the Commission discretion after January 1, 2006 on the timing of rate adjustments resulting from ERRA over- or undercollections exceeding five percent.

SCE requests that no action be taken in adjusting the ERRA rate for the remainder of 2006 to counter the effect of increased residential rates, all of which would be consolidated on January 1, 2007.

In A.06-09-001, SCE requests that all approved rate changes be consolidated on or after January 1, 2007 by maintaining (1) the ERRA collection rate and resulting overcollection and (2) deferring GRC-authorized residential increases while extending operation of the RDRMA through the end of 2006. SCE states that consolidated implementation of these and any other approved rate changes on January 1, 2007 would serve to mitigate the impact on residential customer bills resulting from (1) a decrease in the ERRA billing component combined with (2) comparatively larger increases resulting from GRC-authorized rate increases. According to SCE, this is especially true for those residential customers billed at rates for use in excess of 130% of baseline allowances. SCE states that a one-time, consolidated rate change on January 1, 2007 would serve to avoid a “roller-coaster” effect on residential bills for the remainder of 2006.

NOTICE

Notice of AL 2019-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, and to parties in A.05-05-023 and R.02-01-011.

PROTESTS

No protests were received regarding SCE Advice Letter 2019-E.

DISCUSSION

Energy Division has reviewed AL 2019-E. We follow with discussion of the relevant facts that lead to our approval with modifications of this advice letter.

Statewide electric use reached an all-time high during California's July 2006 "heat wave".

The State experienced unprecedented peak electric demand during the July 2006 heat wave. Residential customers in the SCE service territory were severely affected by these conditions pushing usage into higher rate tiers. SCE stated that "Implementation of these revised rates on August 1 will only exacerbate the current bill increases." SCE stated in AL 2019-E that it hopes to mitigate the impact of the increase in residential demand resulting from the heat wave by deferring residential rate increases otherwise due to be effective on August 1, 2006 until the winter period, in an effort to stabilize bill impacts, as further explained in the next section.

On July 20, 2006 the Commission's Executive Director granted SCE an extension to implement new rates on August 1, 2006.

In response to a letter from SCE dated July 12, 2006, and pursuant to the authority granted him by Rule 48(b) of the Commission's Rules of Practice and Procedure, the Executive Director granted SCE's request to defer the effective date for implementation of revised rates from July 23 to August 1, 2006. The request was made in light of O.P.2 of D.06-06-067, which states "If the Commission approves a decision in R.02-01-011 no later than September 21, 2006, then within three days of the effective date...SCE shall file an Advice Letter with revised tariff sheets...The revised tariff sheets shall become effective three days

after the decision in R.02-01-011.” D.06-07-030 was issued on July 20, 2006, prompting SCE’s request to defer rate implementation, due to its need to recode its billing system and coordinate rate changes.

The Executive Director found SCE’s request reasonable, and granted its request to defer rate implementation to August 1.

SCE’s request to defer implementation of residential rate increases is reasonable in light of the severe heat conditions this summer which pushed residential usage into higher rate tiers.

In this advice letter, SCE seeks authorization consistent with its July 25 request to the Executive Director that it be allowed to further defer residential rate increases until November 2006. We are also aware that SCE has requested in A.06-09-001 that the Commission allow it to defer residential rate increases through December 31 2006, and to consolidate recovery of this amount with other rate changes effective January 1, 2007.

We authorize SCE to defer residential rate changes through the end of 2006, subject to modification by a Commission decision in SCE’s ERRA trigger application, A.06-09-001.

The Commission approves all rates and tariff sheets filed in AL 2019-E effective August 1, 2006.

Energy Division has reviewed the rates filed by SCE in AL 2019-E. Energy Division has confirmed that all non-residential rates and tariff sheets are in compliance with the revenue requirements approved in D.06-05-016, the allocation of those revenue requirements and the rate design approved in D.06-06-067, the FERC-authorized settlement rates, and the revised DA CRS authorized in D.06-07-030.

SCE’s proposal to recover any shortfall of revenues due to the deferral of residential rate increases from the residential class is approved.

SCE has proposed in this advice letter that it will track the revenue undercollection due to the deferral of residential rate increases in the RDRMA from August 1 through December 31, and will recover such shortfall from the residential class beginning January 1, 2007, and consolidate this undercollection

with the forecasted overcollection in the ERRA account along with any other approved rate changes for rates effective on that date. The Commission understands that this consolidation of account balances may result in SCE collecting more than its revenue requirement, as the residential class share of the ERRA overcollection may be sufficient to cover the RDRMA undercollection. If that is the case, SCE may not have to increase residential rates to recover this shortfall. SCE's proposal is approved.

The Commission approves further deferral of residential rates beyond November 2006 subject to the outcome of ERRA A.06-09-001. The resulting undercollection will be tracked in the RDRMA and will be recovered from residential customers only, effective January 1, 2007.

In consideration of residential rates changes that have occurred since December 2005, combined with increased electric use resulting from the July 2006 heat wave and the resulting ERRA overcollections, we modify SCE's proposal in AL 2019-E to increase residential rates on November 4, 2006. Residential rate changes should be deferred until January 1, 2007 subject to a Commission decision in A.06-09-001. Revenues recorded in the RDRMA shall be recovered from residential customers only. Future residential rate changes should reflect recovery of amounts recorded in the RDRMA, and overcollections that SCE has accrued in its ERRA account.

The Commission's decision in this resolution to further extend the residential rate change from November 4, 2006 until January 1, 2007 is subject to modification by a Commission order in SCE's ERRA A.06-09-001.

COMMENTS

Public Utilities Code section 311(g)(1) provides that resolutions must generally be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, a draft resolution was issued for public comments and mailed on September 19, 2006. No parties submitted comments.

FINDINGS

1. D.06-06-067 approved an all-party settlement in SCE's Phase 2 2006 GRC, authorizing the revenue requirement and approving revised rates.

2. The settlement agreement was based on rate class-associated cost allocation principles, resulting in an average residential rate increase in excess of 20% between December 2005 and August 2006.
3. AB1X (2001) statutory requirements resulted in the Commission ordering rate caps for residential rates, for usage up to 130% of the baseline quantities in effect on February 2001. These rates may not increase above the levels in effect on February 1, 2001.
4. D.06-06-067 approved a five-tier residential rate structure to help mitigate the increase in rates for customers billed at tier 3 rates.
5. Due to the July 2006 heat wave, statewide electric use recorded an all-time peak demand, causing a marked increase in residential customer usage at higher tiered rates.
6. SCE states in A.06-09-001 that the July increase in upper-tier residential use accounted for SCE's ERRA overcollection of 5.79% (\$231 million).
7. In A.06-09-001 SCE forecasts an ERRA overcollection on December 31, 2006, of 7.46% (\$298 million).
8. On July 20, the Commission's Executive Director granted SCE's July 12 request to defer all rate increases until August 1, 2006.
9. On July 26, the Commission's Executive Director granted SCE's July 25 request to defer residential rate increases from August 1 until November 2006.
10. On July 27, SCE submitted AL 2019-E in compliance with D.06-06-067, which requested (1) deferral of residential rate increases from August 1 until November 4, 2006 to be consistent with the beginning of the winter billing period, and (2) implementation of the RDRMA to track the undercollection resulting from deferring the residential rate increase. SCE requested in AL 2019-E to begin amortizing the amounts recorded in the RDRMA on January 1, 2007.
11. On September 1, 2006, SCE submitted A.06-09-001 in compliance with D.04-12-048, requesting authority to maintain the current ERRA rate until January 1, 2007.
12. In A.06-09-001 SCE requested that the deferral of residential rate increases be extended from November 4 until December 31, 2006 thereby extending the tracking of the residential undercollection through December 31, with collection of the resulting deferral – from residential customers only – commencing on January 1, 2007, consolidated with the forecasted ERRA rate component reduction and any other approved rate changes.
13. Deferral of the ERRA overcollection rate and associated rate reduction combined with further deferral of residential rates from November 4 through

December 31 by extending tracking of the residential undercollection through the RDRMA effective January 1, 2007 should be approved, subject to the outcome of A.06-09-001.

14. The outcome of A.06-09-001 may modify the specific dates upon which RDRMA undercollection tracking ends and new residential rates become effective.

THEREFORE IT IS ORDERED THAT:

1. Advice Letter 2019-E is approved with the modification that SCE shall not change residential rates until January 1, 2007, subject to the outcome of a decision in A.06-09-001.
2. SCE's request to establish the RDRMA to track residential class undercollections is approved.
3. Subject to modification by a Commission decision in A.06-09-001, SCE shall record in the RDRMA through December 31, 2006 the shortfall in revenues collected from residential customers resulting from not changing residential rates on August 1, 2006.
4. Unless otherwise ordered by the Commission, SCE is authorized to combine the amortization of the RDRMA undercollection with other rates changes effective January 1, 2007.

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 October 19, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners

Commissioner Dian M. Grueneich, being necessarily absent, did not participate.