MSW/jgo 6/20/2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) For Authority to, Among Other Things, Increase Its Authorized Revenues For Electric Service in 2003, And to Reflect That Increase in Rates.	Application 02-05-004 (Filed May 3, 2002)
Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Service and Facilities of Southern California Edison Company.	Investigation 02-06-002 (Filed June 6, 2002)

ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING WRITTEN COMMENTS ON ENERGY DIVISION BRIEFING PAPER

By ruling issued on June 6, 2002, parties were provided with a copy of a briefing paper prepared by the Commission's Energy Division. The briefing paper discusses the potential scope of this consolidated proceeding and other matters pertaining to Southern California Edison Company's general rate case. In the June 6 ruling, Commissioner Wood stated his intent to consider Energy Division's analysis and recommendations in preparing the Scoping Memo for this proceeding.

Parties were asked to be prepared to raise at the June 13, 2002 prehearing conference any concerns or comments regarding the matters discussed therein, including implications for the procedural schedule. However, it appears that there was inadequate time for some parties to review the briefing paper prior to the prehearing conference. Moreover, the June 6 ruling was served using the

preliminary service list for the proceeding, and some parties may not have had any opportunity to review the briefing paper prior to the prehearing conference. I will therefore provide parties an opportunity to submit written comments on the Energy Division briefing paper.

IT IS RULED that comments on the Energy Division briefing paper attached to this ruling may be filed and are due July 1, 2002.

Dated June 20, 2002, at San Francisco, California.

/s/ MARK W. WETZELL
Mark S. Wetzell
Administrative Law Judge

Attachment

Energy Division Assessment
SCE's Test Year 2003 General Rate Case (GRC)
Application 02-05-004 Filed on 5/3/02

I. Scope of Issues the Commission Should Address

- The GRC traditionally has been a proceeding to examine the utility's costs and operations as part of the overall process of determining utility rates. It should also be a forum to address major policy issues. In SCE's GRC, the Commission should adopt a policy outlook for the medium- to long-term (i.e. for the next 10 years), including whether to continue PBR-style regulation.

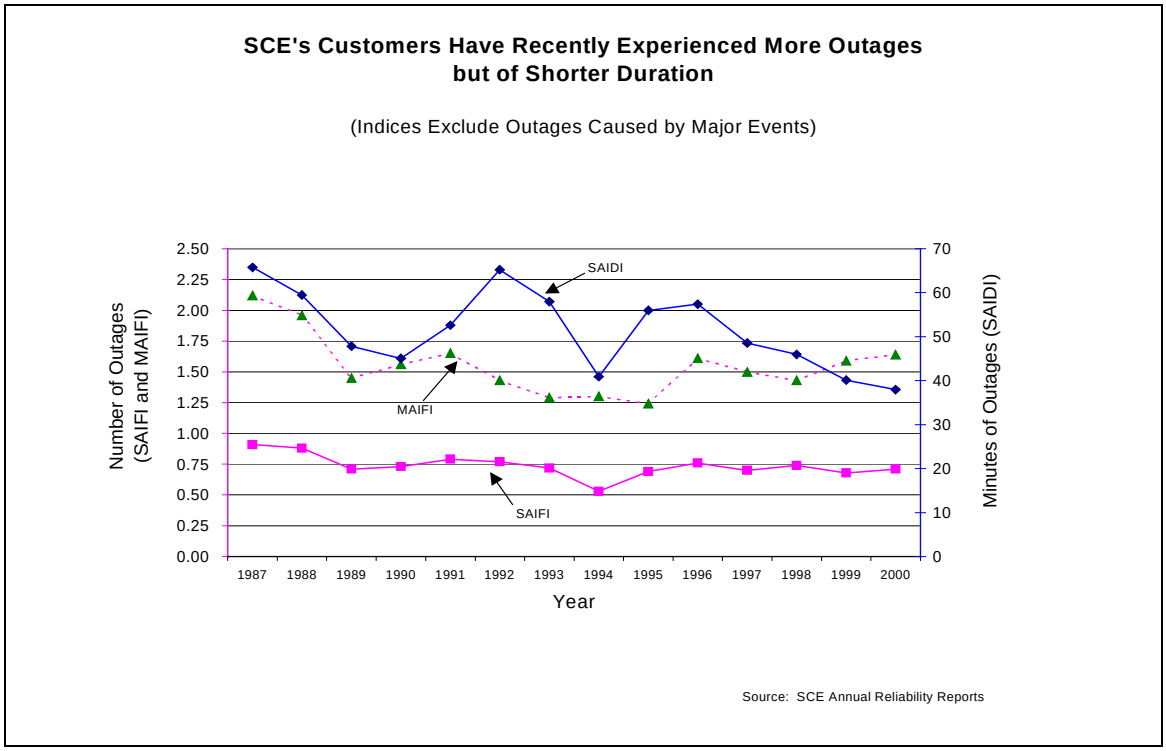
A. Safety and Reliability

- Are there safety and reliability standards? If so, are they adequate, necessary, up-to-date, and relevant? How does SCE stand compared to national averages and benchmarks? What standards should the Commission adopt to hold SCE accountable?

- **Current PBR Standards**
  - **Outage Duration**
    To encourage continued improvements in service reliability, the PBR contains an initial benchmark standard for Average Customer Minutes of Interruption (ACMI) of 59 minutes in 1997. This benchmark declines by two minutes in each subsequent year. This benchmark has a deadband of six minutes on each side of the benchmark. The Commission will impose no penalty if Edison achieves an average below 55 minutes for the period 1997 through 2001. Performance is measured by a rolling two-year average. Rewards and penalties occur at a rate of $1 million per minute over and above the deadband, with a maximum of $18 million for both duration and frequency.
  - Per AL 1619-E/1619-E-A, SCE has proposed for 2002 an outage duration benchmark of 51 minutes with a deadband of +/- 6 minutes.
  - **Outage Frequency**
    10,900 annual interruptions, with a deadband of 1,100 on each side of the benchmark. Performance is measured by a rolling two-year average. Symmetrical rewards and penalties occur at a rate of $1 million per 183 interruptions, with a maximum of $18 million for both duration and frequency. No mechanism for tightening standard over time.
  - Per AL 1619-E/1619-E-A, SCE has proposed for 2002 an outage frequency benchmark of 9482 with a deadband of +/- 1100 interruptions.

- **Employee Health and Safety**
  This component of the distribution PBR rewards or penalizes Edison for its performance in employee health and safety. The standard consists of a ratio index of the total number of accidents and illnesses per 200,000 hours worked or per 100 employees. The specific benchmark is a value of 13.0 with a deadband of 0.3. An incentive of about $555,000 for each 0.1 increase/decrease in the index is assessed, with a maximum reward or penalty of $5 million.
- Per AL 1619-E/1619-E-A, SCE has proposed for 2002 a health and safety benchmark of 9.5 with a deadband of +/- 0.3.

- **SCE's System Reliability Has Been Mixed: Year 2000 Results Better than the Late 1980s but not as Good as the mid-1990s.**



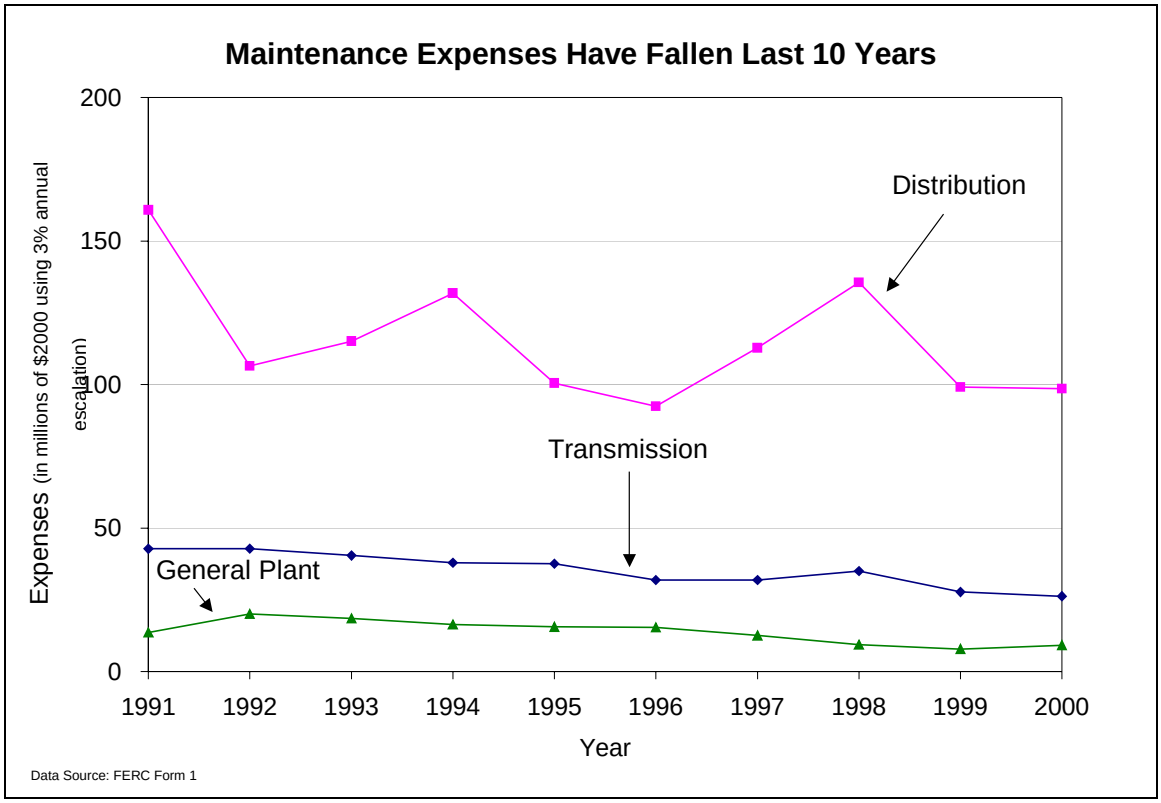
MAIFI is the Momentary Average Interruption Frequency Index, which measures the average number of momentary outages (those shorter than 5 minutes) per customer, per year.

SAIFI is the System Average Interruption Frequency Index, which measures the average number of sustained outages (those lasting 5 minutes or longer) per customer, per year.

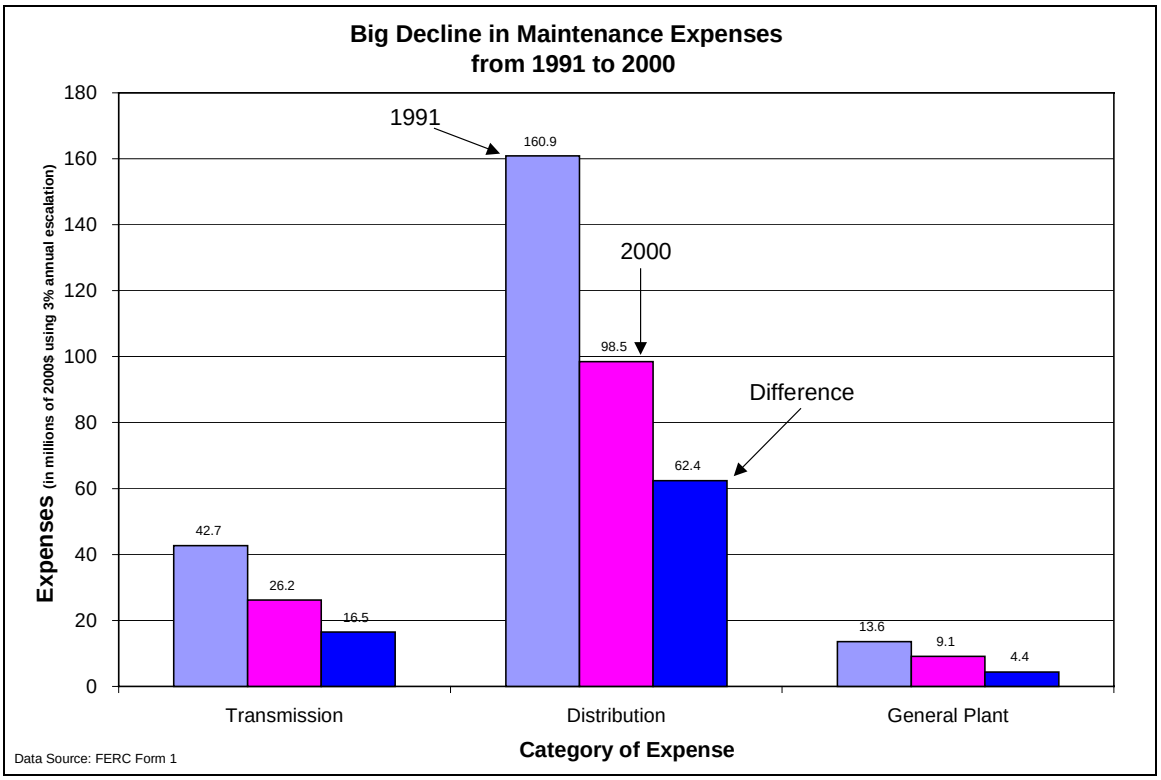
SAIDI is the System Average Interruption Duration Index, which measures the average duration (in minutes) of sustained outages per customer, per year.

A **Major Event** is defined as: (1) the event caused by earthquake, fire, or storms of sufficient intensity to give rise to a state of emergency being declared by the government; or (2) any other disaster not mentioned above that affects more than 15% of the system facilities or 10% of the utility's customers. (See D.96-09-045, Appendix A, Section C.) Major events are excluded from these outage measures to remove the affects of natural disasters, therefore being more indicative of the reliability of the utility's electric system under normal conditions.

- Are there program standards to control and plan maintenance? How does this happen?
- Are necessary maintenance programs being deferred or ignored? Should the utility perform planned scope of work versus budget?
    - The Commission Should Investigate Why Maintenance Expenditures Have Fallen While Plant Has Increased.



o Is the Current Level of Maintenance Spending Adequate?



- How much money has been set aside for undergrounding projects (Rule 20)? How much of it has been spent? Has real money been set aside and spent elsewhere? How should SCE balance safety versus scenic requirements?

Investment Planning

- Are there established evaluation criteria? What is the Commission's vision for Edison's future? (e.g. preference for build versus buy?)
- How should SCE be planning for procurement and new generation?
- Is there a central group for investment planning? What is SCE's capital and O&M budgeting process, and how does management prioritize and decide on expenditures given the resources available?
- What is, and what should be, the degree of integration of Generation, Transmission, and Energy Efficiency in SCE's resource planning?

Customer Service

- Is SCE responding in a timely and appropriate manner to customers' complaints, requests, and phone calls? Are they meeting necessary deadlines?
- What is their accessibility? Do they have local offices? Is their web site user friendly?
- SCE uses a customer survey program to measure customer satisfaction. Is it unbiased?
- In 1996, the Commission adopted SCE's 1992 historical customer satisfaction standards of 64% being "completely satisfied" or "delighted" with a 3% deadband as the PBR benchmark for customer satisfaction. Does this standard need to be updated? Is there anything that should be added and/or removed?
- **Current PBR Standards**
    - Each year, Edison, in conjunction with an outside consulting firm, conducts a survey to measure customer satisfaction in four service areas: field services and meter reading; local offices; telephone centers; and service planning. In each of the areas surveyed, the utility asks a variety of questions, including a question as to the respondent's overall satisfaction with the specific service provided. Customers choose among six satisfaction categories with the top two being "completely satisfied" and "delighted." The utility is rewarded or penalized $2 million for each percentage point above or below the historic performance standard 64%, with a deadband of three percent on each side of the benchmark.
    - The utility can be rewarded up to $10 million through this mechanism, but will not receive a reward if ten percent of customers fall in the bottom two of the six response categories surveyed.
    - In addition, Edison can be penalized up to $10 million if performance in any one of four survey areas falls below 56%.
    - Per AL 1619-E/1619-E-A, SCE has proposed for 2002 a customer satisfaction benchmark of 69% with a deadband of +/- 3%.

D. Utility Operations

- Is URG managed and dispatched to benefit ratepayer interests?
- Transition issues: How should contracts from the DWR portfolio be managed along with URG?
- How are, and how should, capital addition decisions be made?
- Land and Plant: Used and useful for utility operations?
- Service offerings: Is SCE's suite of offerings comparable to other utilities'? Is it what the Commission wants offered? How do SCE's offerings interact with related services by unregulated firms?

Proposed Scope of Testimony

In addition to the traditional review aimed at understanding how the utility spends its money now, testimony should include focused analysis and specific recommendations on these issue areas.

- **Safety and Reliability**
  - Research safety and reliability standards in other states
  - Characterize SCE's safety and reliability record in recent years, with emphasis on trends
  - Review, analyze, and summarize the results of SCE's current PBR standards
  - Develop and propose recommendations on safety and reliability standards for SCE after current PBR expires
  - Make recommendations on appropriate level of maintenance expenditures, and parts of system where maintenance should be targeted

- **Investment Planning**
  - Make recommendations for overall Commission policy on utility role in resource procurement over next ten years – for example, build vs. buy
  - Make recommendations for how Edison's utility planning and investment group(s) should be structured and overseen by the Commission
  - Make recommendations for Commission oversight of actual utility investments
  - Research history of investment planning by California utilities

- Characterize SCE's current approach to generation, distribution, transmission, and demand-side planning, including how it develops its capital and O&M budgets and evaluates potential projects
- Make recommendations on how SCE's approach should change based on Commission policy goals, including those relating to Integrated Resource Planning and procurement planning.
- Review SCE's land-use and land management practices, especially with respect to environmental impacts and use of utility lands for unregulated activities by SCE, its affiliates, or third parties

- **Customer Service**
  - Research customer satisfaction standards in other states
  - Review, analyze, and summarize the results of SCE's current PBR standards
  - Make recommendations on need for neighborhood customer service centers
  - Make recommendations on customer satisfaction standards for SCE after its current PBR expires.
    - Standards should not be survey-based alone, but should include performance metrics on response times, number of repeat calls / complaints, times for callback, percentage of complaints resolved to customer's satisfaction, and other measurable and enforceable performance
    - Recommendations should include analysis of need for local offices, effectiveness of website, and responsiveness to web-based customer contacts

- ***Utility Operations***
  - Develop and present comprehensive understanding of current utility URG operations, dispatch criteria, and mechanisms for handling DWR contracts
  - Make recommendations on dispatch / operations standards and practices to ensure ratepayer benefit – least cost, most reliable

- Develop and present comprehensive understanding of current SCE practice with respect to planning of capital additions, especially in generation and transmission.
- Using data developed in hydro divestiture CEQA review, plus additional SCE data sources, develop and present comprehensive database of SCE land and plant, and current utility use.
- Develop and present comprehensive view of current SCE service offerings, and related offerings by other utilities and unregulated firms.
- Make recommendations to ensure adequate CPUC oversight of service offerings, to ensure ratepayer benefit.

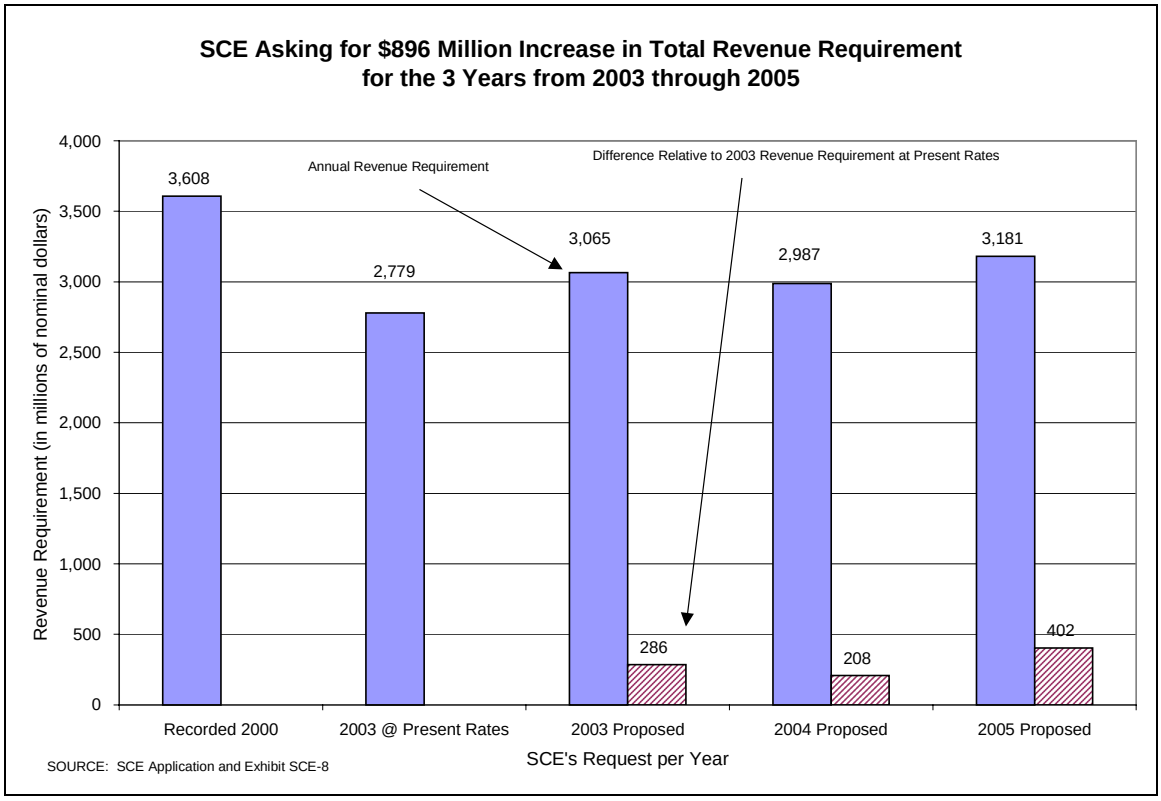
II. Other Potential Issues

Parties' testimony should provide the Commission with a detailed understanding of how the utility spends its money.

- **Sales Forecast** – SCE's forecast of decreased sales for Test Year 2003 contributes substantially to its requested revenue requirement increase; this could be mitigated by a sales adjustment balancing account mechanism.
- **Cost Escalation** – SCE has assumed escalation rates in the range of 11 to 12 percent for base-to-test year cost escalation. It may be necessary to revise or update these assumptions.
- **Customer Service and Information (CS&I)** – SCE's estimates of CS&I expenses for 2003 increase significantly compared to expenses recorded in year 2000. The effects of SCE's proposal to capitalize software on CS&I expenses needs to be examined.
- **Administrative and General Expenses** – SCE's estimates of A&G expense forecasts for test year 2003 increase significantly over recorded year 2000 levels in every category.
- **Depreciation** – SCE has proposed to modify the method for calculating depreciation resulting in revenue requirement increase of about $77 million.
- **Post Test Year Ratemaking** – SCE's proposal for Years 2004 and 2005 has elements of both traditional attrition year ratemaking and performance-based ratemaking.
- **Revenue Flows** – Other operating revenues should include revenues from non-regulated activities, and address sharing of costs and benefits between ratepayers and shareholders.

IV. What Does SCE Request in this GRC?

- **SCE Requests Substantial Increases Over the Next 3 Years - $286 million for 2003, $208 million for 2004, and $402 million for 2005, over 2003 revenues at present rates.[1]**



- **Expenses are over $160 Million Higher in 2003 Compared to 2000[2], with Administrative & General Comprising the Biggest Chunk of the Increase.**

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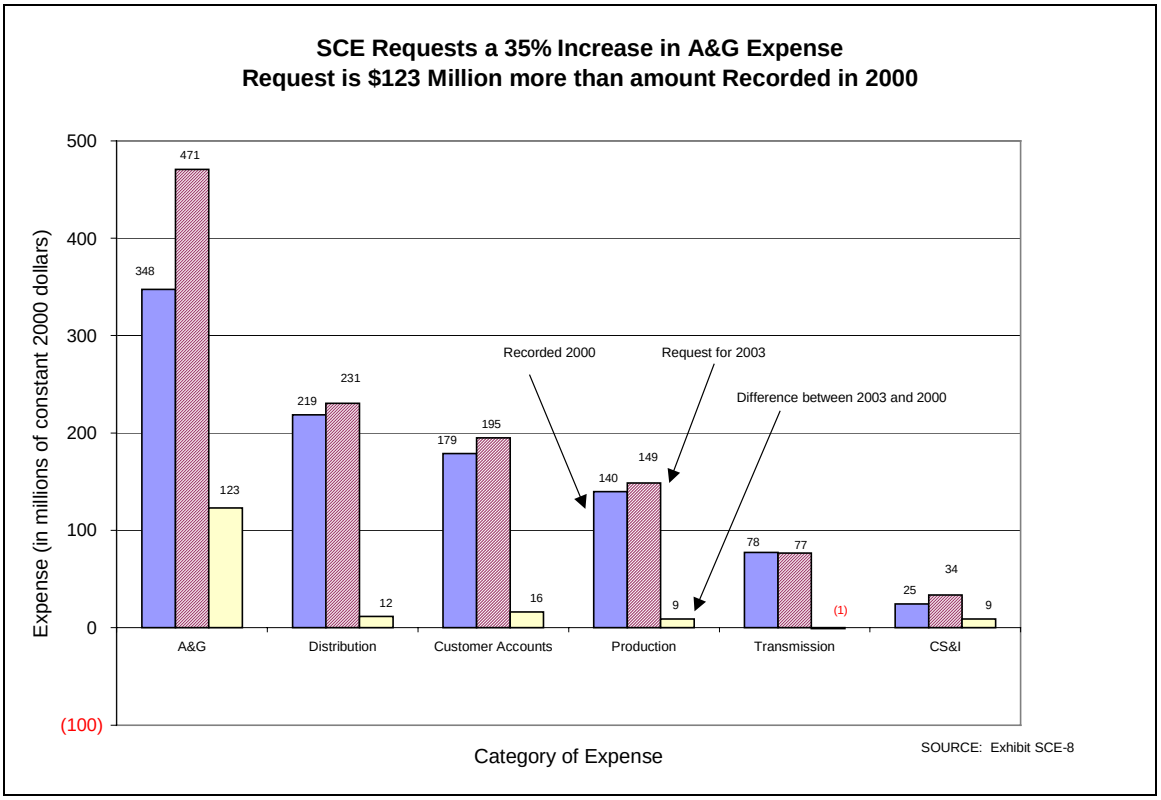
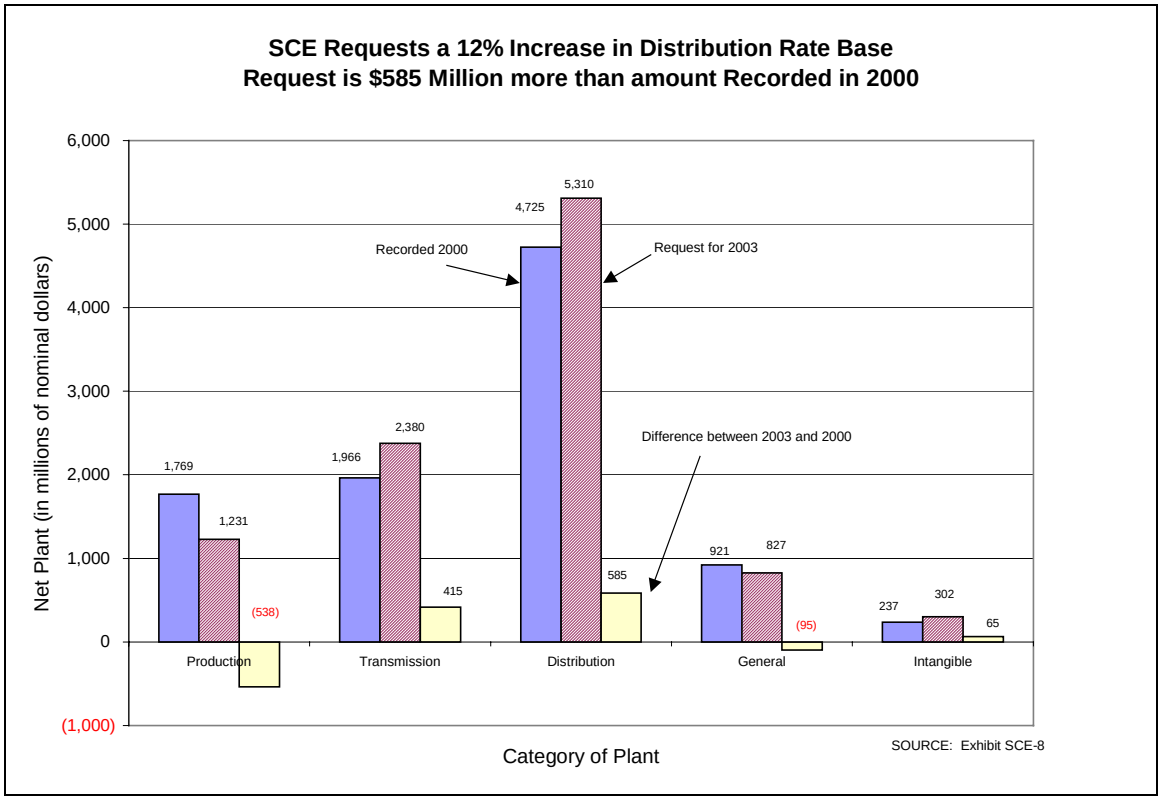
[1] Due to the terms of the settlement agreement, rates will not be raised during the PROACT rate repayment period.

[2] SCE adjusted recorded 2000 numbers for unique, abnormal, or one-time non-recurring expenditures. Thus, SCE's numbers cited in the above chart differ from recorded 2000 expense numbers, as reported on FERC Form 1, that are used in subsequent charts.



- **Plant Portion of Rate Base is about $325 Million Higher in 2003 Compared to 2000, with Distribution Comprising the Bulk of the Increase.**



Production Plant includes, but is not limited to, land, structures, generators, and reactors for Steam, Nuclear, and Hydro power plants.

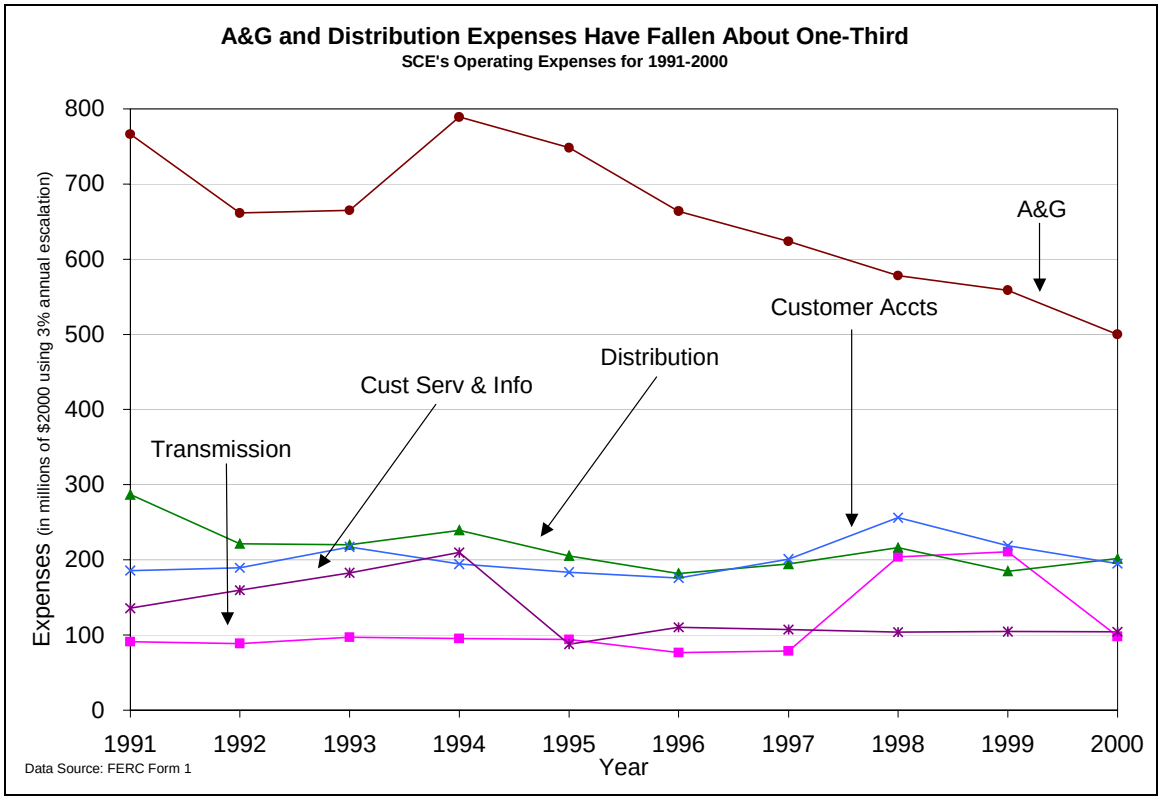
Transmission Plant includes, but is not limited to, land, structures, towers, fixtures, poles, plus overhead and/or underground conductors and devices.

Distribution Plant includes, but is not limited to, land, structures, poles, towers, fixtures, line transformers, services, and meters.

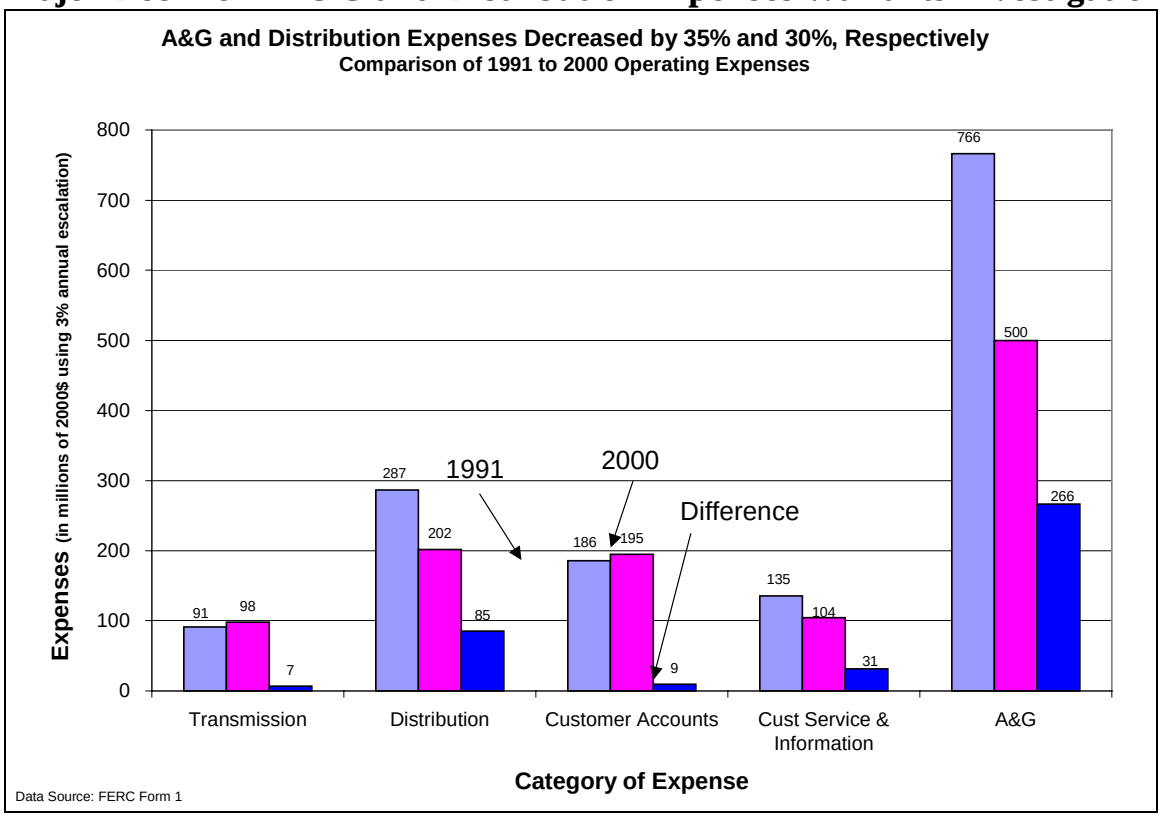
General Plant includes, but is not limited to, office furniture & equipment, transportation equipment, tools, laboratory equipment, and communication equipment.
Intangible Plant includes, but is not limited to, capitalized software and hydro relicensing.

V. Where has SCE Spent Money Over the Last 10 Years?

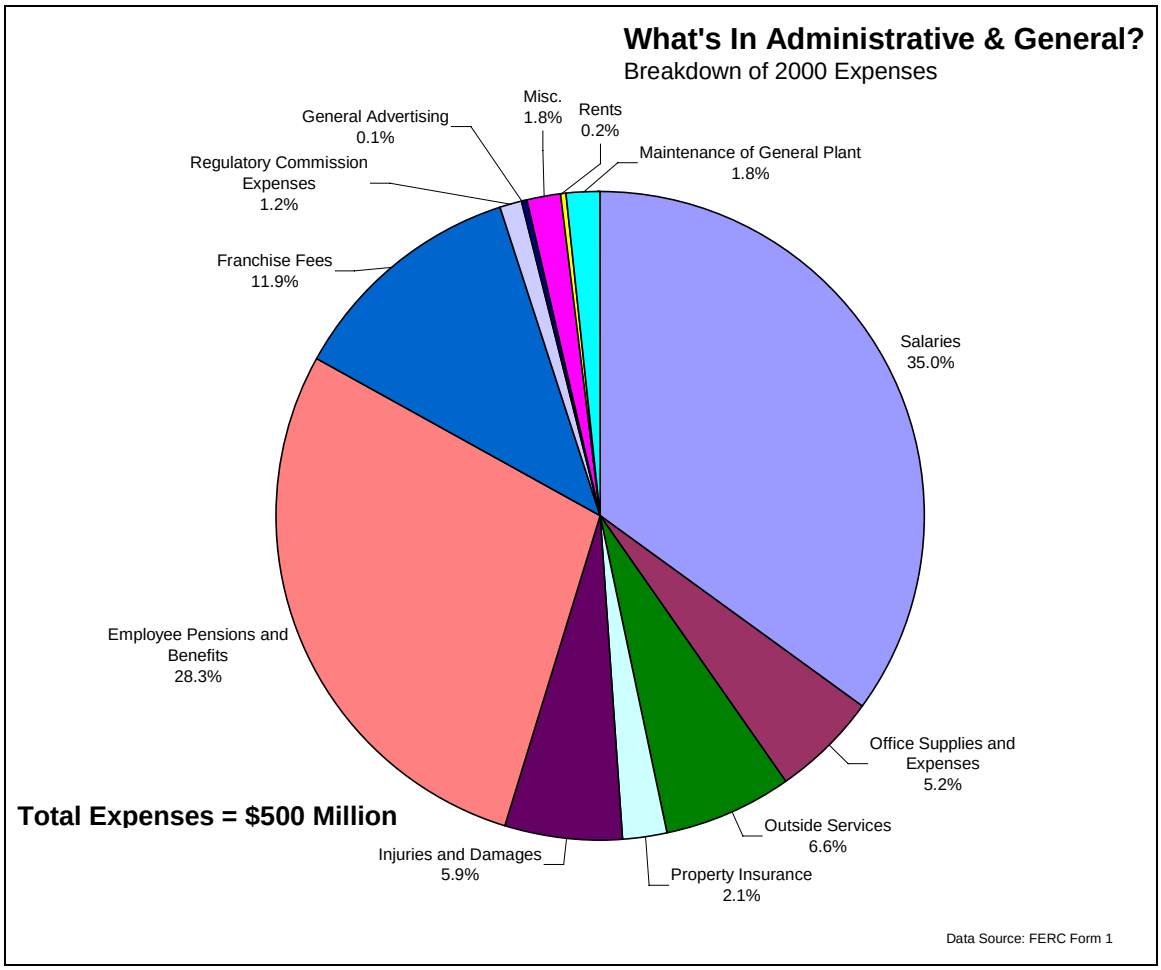
- **A&G and Distribution Expenses Show the Greatest Decrease from 1991 through 2000.**

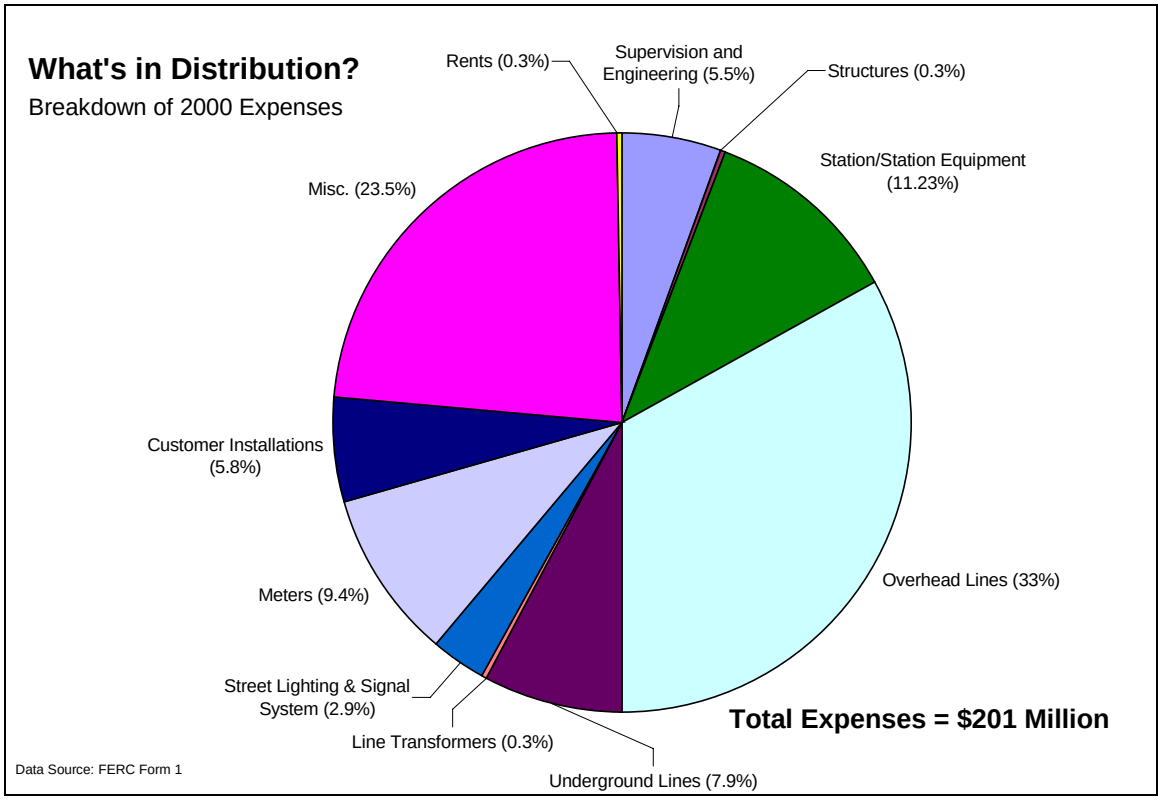


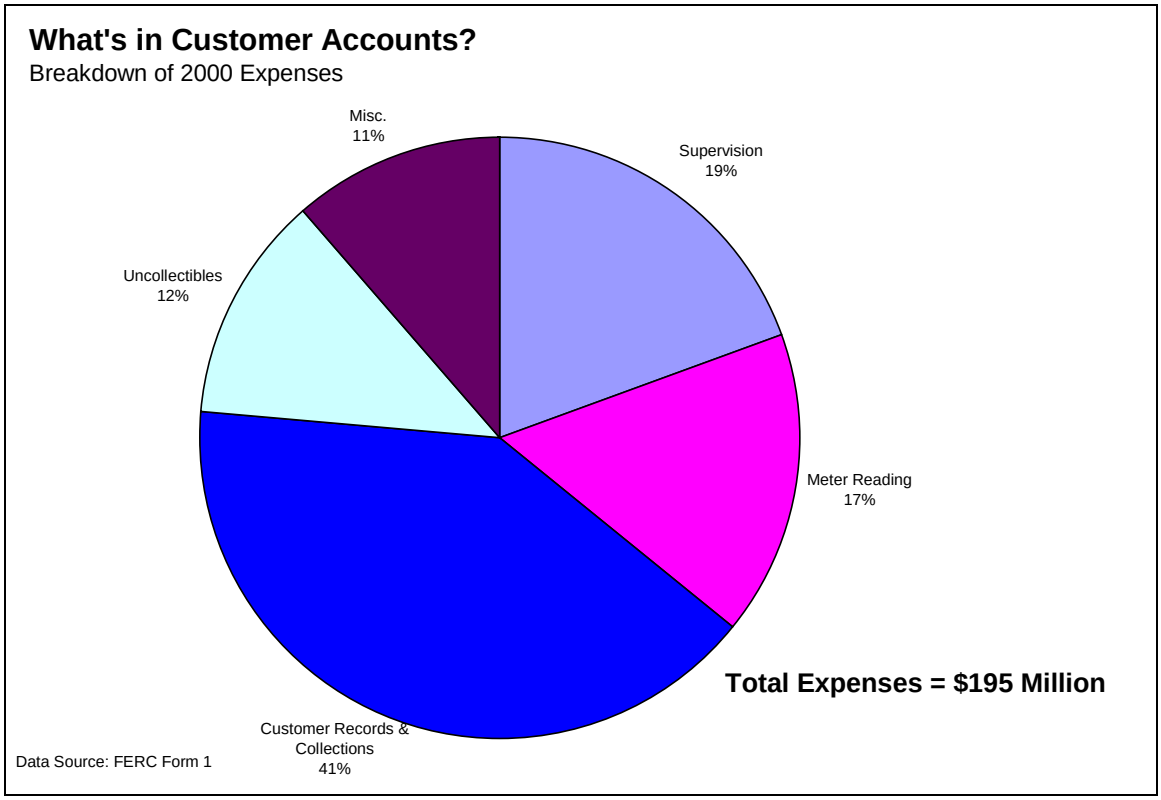
- **Major Decline in A&G and Distribution Expenses Warrants Investigation.**



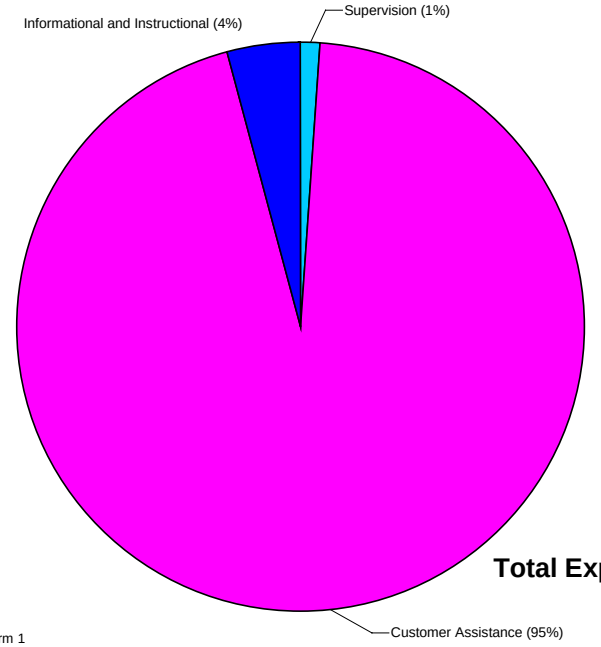
- **SCE Lumps Expenses into General Categories; Accounts Should Be Audited.**




What's in Distribution?
Breakdown of 2000 Expenses
Rents (0.3%)
Supervision and Engineering (5.5%)
Structures (0.3%)
Station/Station Equipment (11.23%)
Misc. (23.5%)
Customer Installations (5.8%)
Meters (9.4%)
Overhead Lines (33%)
Street Lighting & Signal System (2.9%)
Line Transformers (0.3%)
Underground Lines (7.9%)
Total Expenses = $201 Million
Data Source: FERC Form 1


What's in Customer Accounts?
Breakdown of 2000 Expenses
Misc. 11%
Supervision 19%
Uncollectibles 12%
Meter Reading 17%
Customer Records & Collections 41%
Total Expenses = $195 Million
Data Source: FERC Form 1

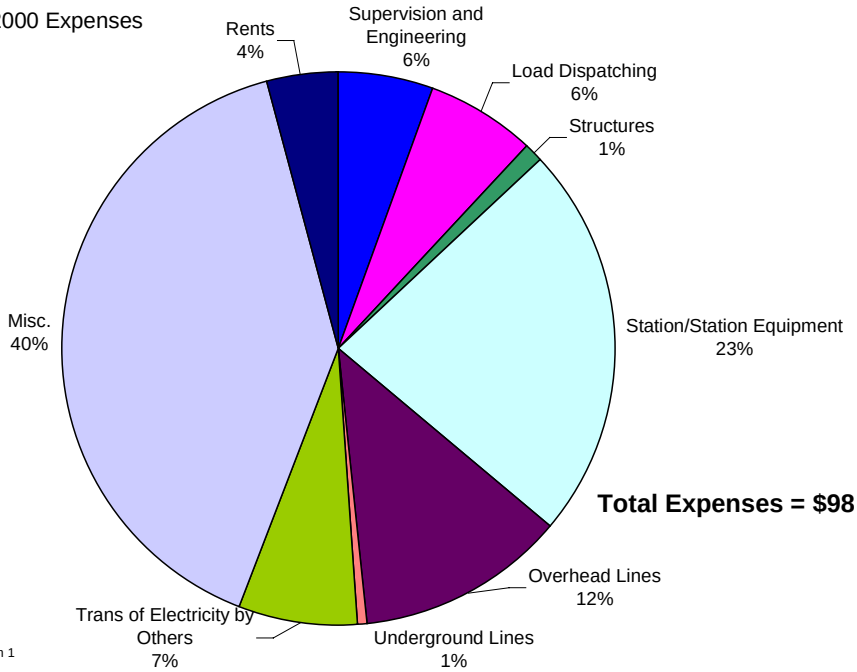
What's In Customer Service and Information?
Breakdown of 2000 Expenses



Total Expenses = $104 Million

Data Source: FERC Form 1

What's in Transmission?
Breakdown of 2000 Expenses

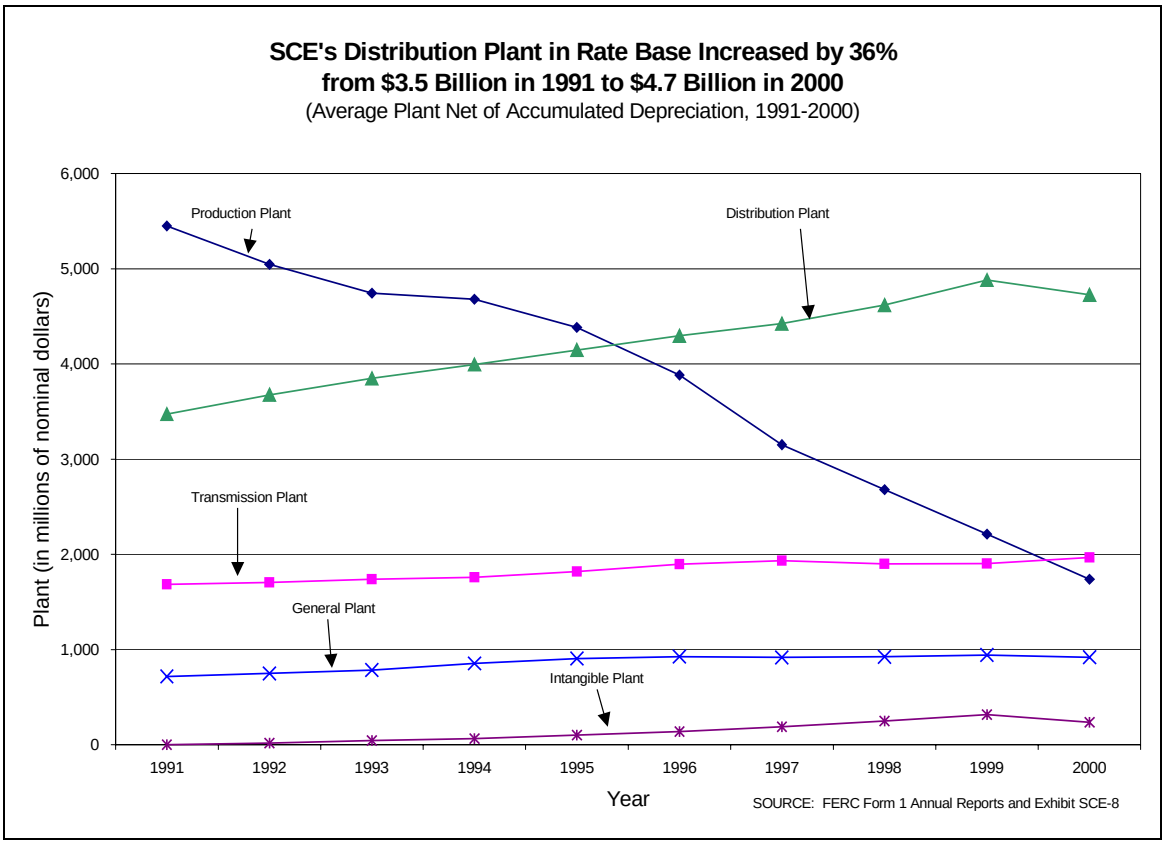


Total Expenses = $98 Million

Data Source: FERC Form 1

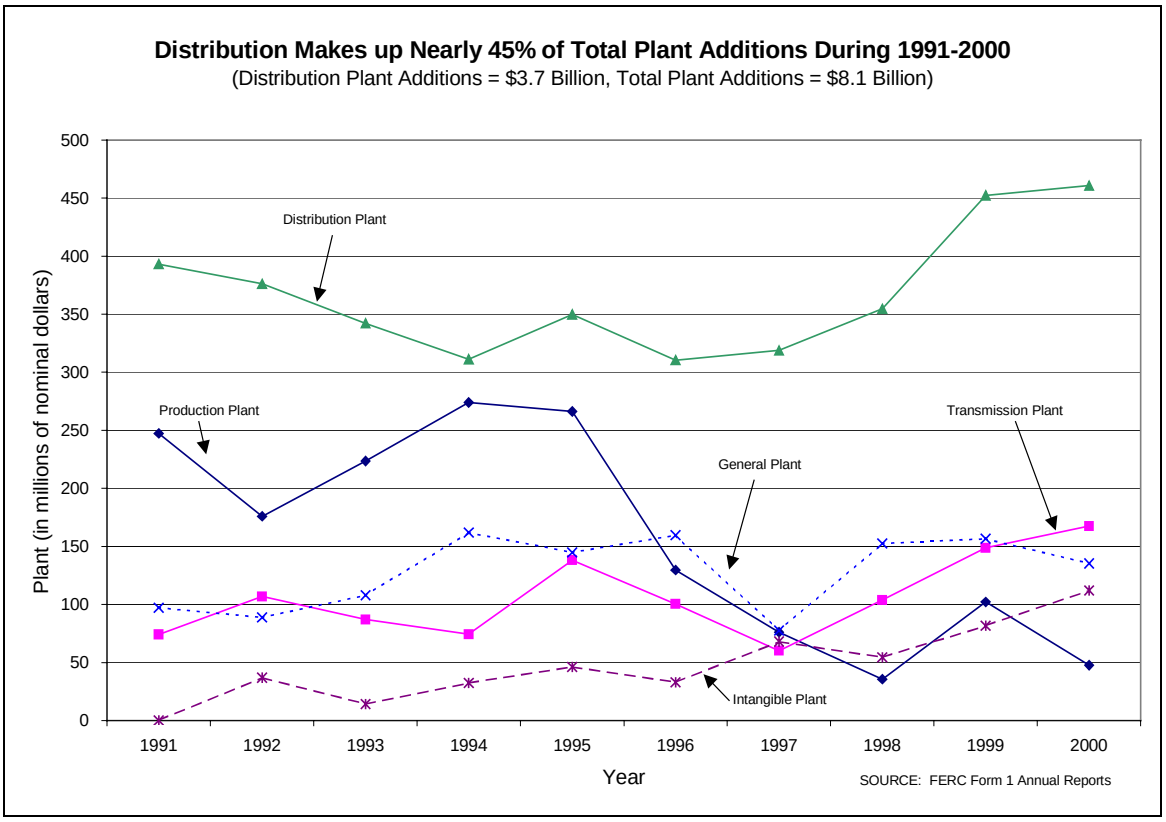
Note: Misc. comprises a big percentage of total transmission expenses. Costs include labor, materials used and expenses incurred in transmission maps and record work, transmission office expenses, RD&D, and other transmission expenses not provided elsewhere.

- **Distribution Plant Balance Shows Greatest Increase from 1991 to 2000.**



Note: Decrease in Production plant balance during these 10 years was primarily due to the SONGS Unit 1 shutdown in 1992 and generation plant divestitures in 1998.

- **SCE Added $8 Billion of Plant from 1991 to 2000, with Distribution Comprising the Biggest Chunk of the Increase.**



CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Administrative Law Judge's Ruling Requesting Written Comments on Energy Division Briefing Paper on all parties of record in this proceeding or their attorneys of record.

Dated June 20, 2002, at San Francisco, California.

/s/ JACQUELINE GORZOCH
Jacqueline Gorzoch

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

* *

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TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.