

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) For Approval of its 2004 Revenue Requirement and Related Estimates Under the Energy Resource Recovery Account (ERRA); And For a Commission Finding that its Procurement-Related and Other Operations were Reasonable for the Record Period September 1, 2001 Through June 30, 2003.

Application 03-10-022
(Filed October 3, 2003)

ASSIGNED COMMISSIONER'S SCOPING MEMO AND RULING

Summary

This ruling sets forth the scope, schedule, category, assignment of the principal hearing officer and ex parte communications rules for this proceeding, pursuant to Rule 6.3 of the Commission's Rules of Practice and Procedure (Rules). The scope of the proceeding has been broadened to include the opportunity for parties to audit the Procurement Related Obligations Account (PROACT).

Background

On October 3, 2003, Southern California Edison Company (SCE) filed this application seeking Commission approval of its 2004 revenue requirement and related estimates under the Energy Resource Recovery Account (ERRA) and a Commission finding that its procurement related operations were reasonable for the September 1, 2001 through June 30, 2003 record period.

On November 6, 2003, the Office of Ratepayer Advocates (ORA) filed a protest to the application. SCE, ORA, the Energy Producers and Users Coalition (EPUC) and San Diego Gas & Electric Company (SDG&E) filed Prehearing Conference (PHC) statements. The PHC was held on November 12, 2003. Among other things, the scope of the proceeding, the procedural schedule and confidentiality concerns, were discussed. Parties were given the opportunity to brief the scope of the reasonableness review and confidentiality issues. Briefs were filed by SCE and ORA. Confidentiality matters are addressed in a separate administrative law judge ruling.

Phasing of the Proceeding

In its application, SCE proposed that this proceeding be separated into two distinct phases: a Forecast Phase and a Reasonableness Phase. There was general agreement among the other parties on this proposal, and it will be implemented by the adopted procedural schedule.

Scope of the Proceeding

For the Forecast Phase, SCE's testimony presents its estimated ERRA revenue requirement, load forecasts and financing costs for calendar year 2004. Other parties did not object to the scope of SCE's testimony or identify other potential issues.

For the Reasonableness Phase, SCE's testimony addressed utility retained generation fuel expenses, contract administration (including administration of Department of Water Resources contracts allocated to SCE in D.02-09-053, existing Qualifying Facility contracts, bilateral contracts, inter-utility purchased power contracts and renewable resources contracts), and least cost dispatch. Only ORA disagreed with the scope of this phase, as defined by SCE's testimony.

ORA asserts that, in addition to SCE's proposed scope, the entirety of the PROACT should be subject to reasonableness review in this proceeding. As discussed below, the opportunity for an audit of the PROACT will be included in this proceeding.

In opposing ORA's proposal, SCE states that D.02-12-062 made it clear that PROACT would not be reviewed in the ERRA and that SCE was free to choose an appropriate vehicle for Commission review of the PROACT entries. SCE indicates that it chose to have the PROACT reviewed as part of its Advice Letter (AL) 1721-E filing, which was reviewed and approved by the Energy Division. SCE concludes that ORA had the opportunity to review the PROACT at that time, chose not to do so and its request for a second opportunity in this proceeding should be denied.

D.02-12-062 stated that an adjustment to settlement rates and the operation of the Settlement Rate Balancing Account (SRBA) and PROACT would not be considered in that particular proceeding (Rulemaking 01-10-024). However, there is no indication that it specifically precludes the review of PROACT in a future ERRA proceeding. In denying, without prejudice, SCE's request that the Commission rule where and when the entries in its SRBA and PROACT should be reviewed, that decision did state that SCE was free to choose an appropriate vehicle, after the recovery of its PROACT, for the Commission to review the entries. SCE states it chose AL 1721-E as that vehicle.

AL 1721-E was filed in compliance with D.03-07-039, which approved a settlement agreement that lowered SCE's rates following recovery of its past procurement costs. The principal purpose of the AL was to eliminate various ratemaking accounts that were no longer needed due to the full recovery forecast of the PROACT balance. The information in the AL justifies the closing date for

the PROACT, and while SCE indicates that the information would assist the Energy Division's final review of each account, SCE did not specifically indicate or request that a final audit or review should be undertaken in conjunction with the AL processing. It is also questionable as to whether a compliance AL that is anticipated to be processed within 30 days of filing is an appropriate vehicle for a complete and final review of the PROACT entries.

In any case, there is no indication that the Energy Division or any other party has completely reviewed or audited SCE's PROACT, the mechanism by which close to \$4 billion in procurement costs and associated interest were recovered. It is important that the Commission is able, at some point, to conclude that the accounts have been audited and verified. Since the July 31, 2003 PROACT balance was transferred to the ERRA and is included as part of the 2004 ERRA revenue requirement, this proceeding is an appropriate vehicle for reviewing the PROACT related entries. The opportunity for an audit of PROACT, as described below, will therefore be included in the scope.

According to AL 1721-E, the monthly entries for the PROACT are the transfer of surpluses from the SRBA, use of the Catch-Up Surcharge, a FERC rate case related refund and interest. The net of those entries is then applied to the PROACT balance on a monthly basis.

The most complex entry is the SRBA surplus, which is the net of SCE's total retail electric revenues and recoverable costs. While it would not be appropriate to open this proceeding to a reasonableness review of all retail revenues and costs, it is reasonable to allow an audit of the SRBA entries for accuracy and compliance with Commission decisions and authorizations. Interest expense associated with the PROACT balance is a calculation based upon interest paid on the actual amount of outstanding Procurement Related

Liabilities, net of interest earned on SCE’s cash position. The accuracy and reasonableness of those interest elements, as well as the accuracy of the catch-up surcharge and FERC refund amounts, can also be addressed in an audit.

Any audit of the PROACT, which is performed in conjunction with this proceeding, should be planned and conducted in order to meet the reasonableness phase mailing date.

Schedule

The schedule for this proceeding is as follows:

DATE	ACTIVITY
<u>Forecast Phase</u>	
December 16, 2003	ORA and other interested parties issue testimony.
December 23, 2003	Parties issue rebuttal to the December 16 testimony.
January 7, 2004	Evidentiary hearing held, if needed.
To be determined	Briefing Schedule
<u>Reasonableness Phase</u>	
March 19, 2004	ORA and other interested parties issue testimony.
April 2, 2004	Parties issue rebuttal to the March 19 testimony.
April 12 – 16, 2004	Evidentiary hearing held, as needed.
April 30, 2004	Parties file opening briefs.
May 10, 2004	Parties file reply briefs and the proceeding stands submitted for decision.

The goal is to resolve this matter as soon as possible after it is submitted. However, in no event will resolution exceed 18 months from the date of filing this application, pursuant to Senate Bill 960, Section 12 and Rule 6(e).

Category of Proceeding

This ruling confirms the Commission's preliminary finding in Resolution ALJ 176-3121, dated October 16, 2003, that this proceeding is a ratesetting proceeding as described in Rule 5 (c).

Assignment of Principal Hearing Officer

ALJ Fukutome will act as the principal hearing officer in this proceeding pursuant to Rule 5(l).

Ex Parte Communications

Parties shall observe and comply with the Commission's ex parte communications rules set forth in Rules 7 and 7.1.

IT IS RULED that:

1. The scope and schedule for this proceeding are set forth in the body of this ruling.
2. Evidentiary hearing in the forecast phase will begin at 9:00 a.m. on January 7, 2004. Evidentiary hearing in the reasonableness phase will begin at 10:00 a.m. on April 12, 2004. Hearings will be held in the Commission Courtroom, State Office Building, 505 Van Ness Avenue, San Francisco, California.
3. This ruling confirms that this proceeding is a ratesetting proceeding for the purpose of Article 2.5.

4. Administrative Law Judge Fukutome is the principal hearing officer in this proceeding.

5. Parties shall observe and comply with the ex parte communications rules set forth in Rules 7 and 7.1.

Dated December 9, 2003, at San Francisco, California.

/s MICHAEL R. PEEVEY

Michael R. Peevey
Assigned Commissioner

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Assigned Commissioner’s Scoping Memo and Ruling on all parties of record in this proceeding or their attorneys of record.

Dated December 9, 2003, at San Francisco, California.

 /s/ FANNIE SID
Fannie Sid

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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