

Decision 20-11-028 November 19, 2020

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Expedited Application Of Southern  
California Edison Company (U338E)  
Regarding Energy Resource Recovery  
Account Trigger Mechanism.

Application 20-08-024

**DECISION GRANTING THE ENERGY RESOURCE RECOVERY ACCOUNT  
TRIGGER APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY**

**Summary**

This decision finds Southern California Edison Company (SCE) complied with the Energy Resource Recovery Account trigger mechanism requirements and grants SCE's request to maintain its current rates. This proceeding is closed.

**1. Factual Background**

Pursuant to Assembly Bill (AB) 57 (Stats. 2002, Ch. 835), the California Public Utilities Commission (Commission) established the Energy Resource Recovery Account (ERRA) balancing account (BA) in 2002 to record the investor-owned utilities' fuel and purchased power revenues against actual recorded costs, excluding revenues collected for the California Department of Water Resources (CDWR).<sup>1</sup> AB 57 also mandated a rate adjustment to promptly amortize any overcollection or undercollection to ensure that an electric utility's power

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<sup>1</sup> Pub. Util. Code § 454.5(d)(3), enacted by AB 57.

procurement balancing accounts do not exceed the AB 57 threshold amount of five percent of the electrical utility's actual recorded generation revenues for the prior calendar year, effective until January 1, 2006 and as deemed appropriate by the Commission consistent with the objectives of Public Utilities (Pub. Util.) Code § 454.5(d)(3) thereafter.<sup>2</sup>

Decision (D.) 02-10-062, which implemented AB 57, requires an electrical utility to file an expedited application when its balance exceeds four percent of the prior year's recorded revenue requirement (trigger point) and is expected to exceed five percent of the prior year's recorded revenue requirement (AB 57 threshold amount) in order to promote the timely recovery of an investor-owned utility's procurement costs for undercollections or facilitate reimbursement to ratepayers for overcollections (ERRA trigger mechanism).<sup>3</sup>

In D.06-06-051, the Commission modified Southern California Edison Company's (SCE or Applicant) ERRA trigger mechanism to allow SCE to file an advice letter when its ERRA BA balance exceeded the four percent trigger point, if SCE did not propose to change rates and if it expected the ERRA BA balance exceedance to go below the trigger point within 120 days.<sup>4</sup> SCE was still required to file an expedited application when its ERRA BA balance exceeded the trigger point and rate changes were necessary to amortize the balance.<sup>5</sup> SCE was required to monitor its ERRA BA balance on a frequent basis and timely file expedited ERRA trigger applications.<sup>6</sup> In D.19-12-001, the Commission clarified

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<sup>2</sup> *Ibid.*

<sup>3</sup> D.02-10-062 at 64-66.

<sup>4</sup> D.06-06-051 at 10 (Ordering Paragraph (OP) # 3).

<sup>5</sup> *Ibid.* (OP #5).

<sup>6</sup> *Id.* at 9 (OP #2).

that SCE should file an expedited trigger application if SCE could not reasonably determine that the ERRA BA balance would self-correct within 120 days.

Prior to the Commission's modification of its Power Charge Indifference Adjustment (PCIA) methodology in D.18-10-019, SCE recorded the majority of its procurement revenue requirement in the ERRA BA and calculated the PCIA as an estimated value using market price benchmarks.<sup>7</sup> In D.18-10-019, the Commission adopted a methodology to true-up above-market power procurement costs and established the Portfolio Allocation Balancing Account (PABA) to record above market procurement costs for bundled and departed load customers by vintage.<sup>8</sup> Effective January 1, 2020, SCE started recording the costs of short-term market purchases for bundled service customers in the ERRA BA, while recording long-term fixed-price contract costs and utility-owned generation costs for bundled and departed load customers in the PABA.<sup>9</sup> As a result, SCE evaluates its trigger point and AB 57 threshold amount using both the ERRA BA balance and the bundled customer portion of its procurement-related revenue balance recorded in the PABA. This expedited application is the first time the Commission considers SCE's ERRA trigger application subsequent to SCE's implementation of the modified PCIA methodology adopted in D.18-10-019, as modified by D.19-10-001, D.20-03-019 and D.20-08-004.

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<sup>7</sup> Procurement costs of Green Tariff Shared Renewables (GTSR) were recorded in GTSR BA for bundled customers. Procurement costs for New System Generation (NSG) resources were recorded in the NSG BA.

<sup>8</sup> D.18-10-019 OP 7.

<sup>9</sup> See SCE AL 3914-E; Exhibit SCE-01 at 15.

## **2. Procedural Background**

On August 31, 2020, SCE filed an expedited application notifying the Commission that it exceeded its ERRA trigger point and AB 57 threshold amount in July 2020 (Application) because its ERRA account was overcollected.

A prehearing conference was set by Chief Administrative Law Judge (ALJ) ruling on September 15, 2020. Public Advocates Office of the California Public Utilities Commission (Cal Advocates) filed a protest to the Application on September 23, 2020. SCE filed a response to the protest on September 25, 2020. A prehearing conference was held on September 29, 2020. The assigned Commissioner issued a scoping memo on October 2, 2020.

The Commission has jurisdiction to review an investor owned utility's ERRA trigger application pursuant to Pub. Util. Code § 454.5(d)(3).

## **3. Issues Before the Commission**

The issues before the Commission are:

- Whether SCE complied with the law and Commission orders, including D.02-10-062, D.06-06-051 and D.19-12-001, in addressing the overcollection;
- Whether the ERRA trigger point-related balance exceeded the trigger point, and whether it was likely that the balance would self-correct within 120 days of the trigger point balance exceedance;
- The causes of the overcollection (excluding reasonableness review or compliance with SCE's bundled procurement plan);
- The appropriate amortization period of the ERRA balance, if any;
- The impact on rates of the overcollection recovery; and
- Whether the proposed allocation of the overcollection among customers for the rate adjustment is reasonable.

No safety concerns are identified or proposed by parties.

#### **4. SCE Complied with ERRR Trigger Mechanism Reporting Requirements**

SCE's ERRR trigger for 2020 is \$201.886 million and its AB 57 threshold amount is \$252.358 million.<sup>10</sup> SCE exceeded its trigger point and AB 57 threshold amount as of July 31, 2020, as shown in Table 1 below. At the time, SCE forecast its balance for the remainder of the year, which showed that its ERRR trigger-related balance would not self-correct within 120 days, as shown in Table 2 below.

SCE subsequently recalculated its ERRR trigger-related balances following the heat wave that took place from August 14-20, 2020, and, on August 24, 2020, calculated the ERRR trigger-related balance would self-correct (as shown in Table 3 below). SCE filed this ERRR trigger mechanism application on August 31, 2020.

Since SCE filed an expedited trigger mechanism application within a month of exceeding the ERRR trigger point when its balance was not forecasted to self-correct within 120 days, the Commission finds SCE complied with all applicable laws and the Commission's rules and orders regarding the ERRR trigger mechanism.

#### **5. Components of SCE's Trigger Application**

The Commission's latitude and range of review of ERRR trigger applications is proscribed by Pub. Util. Code § 454.5(d)(3). This is reflected in the review process the Commission established in D.02-10-062, which details the components of an ERRR trigger application, requiring:

a projected account balance in 60 days or more from the date of filing depending on when the balance will reach the five percent threshold. The application will also propose an amortization period

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<sup>10</sup> SCE AL 4161-E.

for the five percent of not less than 90 days to ensure timely recovery of the projected ERRA balance. It should also include allocation of the over-and-undercollection among customers for rate adjustment based on existing allocation methodology recognized by the Commission.<sup>11</sup>

When reviewing a trigger application, the Commission must confirm the accuracy of SCE's estimates and confirm that those estimates meet the AB 57 threshold amount within the timeframes established by law in order to approve the application.<sup>12</sup> Where a rate decrease is required to correct an overcollected revenue requirement, the Commission conducts a step-by-step review of the request in order to benefit SCE, its ratepayers and the protestants. The step-by-step review of SCE's trigger application includes the following: 1) the accuracy of the ERRA trigger-related balance request and requirement to meet the AB 57 threshold amount, 2) causes of the overcollection, 3) the rate impact of including the overcollection in SCE's rates, 4) allocation of the overcollection amongst SCE's customers; and 5) the amortization period of the overcollection.

#### **5.1. Accuracy of the ERRA Trigger Application and Requirement to Meet the Trigger Point and AB 57 Threshold Amount**

SCE provided a table that itemized the components of the projected \$322.024 million overcollection, which SCE forecast in July 2020 (prior to the mid-August 2020 heatwave), and its projected year-end \$137.411 million undercollection in August 2020 (after the mid-August 2020 heatwave), as shown in the tables below.

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<sup>11</sup> D.02-10-062 at 65-66.

<sup>12</sup> This is a similar review to the Commission's review for accuracy of SCE's ERRA BA in SCE's 2021 ERRA forecast proceeding.

**Table 1. SCE's Recorded Values for ERRA Trigger Balance Calculation.**

| <b>2020 Month</b> | <b>Adjusted<br/>ERRA<br/>Balance<br/>(million)</b> | <b>Adjusted<br/>PABA<br/>Balance<sup>13</sup><br/>(million)</b> | <b>Trigger<br/>Balance<br/>(million)</b> | <b>Trigger as % of<br/>Generation<br/>Revenue</b> |
|-------------------|--|---|--|---|
| January           | -\$307.809   | \$472.193   | \$164.383                                | 3.26%   |
| February          | -\$216.863   | \$480.095   | \$263.232                                | 5.22%   |
| March             | -\$186.247   | \$500.250   | \$314.003                                | 6.22%   |
| April             | -\$226.097   | \$100.779   | \$125.320                                | -2.48%  |
| May               | -\$281.945   | \$135.770   | -\$146.174                               | -2.90%  |
| June              | -\$413.584   | \$222.837   | -\$190.746                               | -3.78%  |
| July              | -\$645.645   | \$275.422   | -\$370.223                               | -7.34%  |

**Table 2. SCE's Forecast Values for ERRA Trigger Balance,  
Calculated Before August Heat Wave.**

| <b>2020 Month</b> | <b>Adjusted<br/>ERRA<br/>Balance<br/>(million)</b> | <b>Adjusted<br/>PABA<br/>Balance<sup>14</sup><br/>(million)</b> | <b>Trigger<br/>Balance<br/>(million)</b> | <b>Trigger as % of<br/>Generation<br/>Revenue</b> |
|-------------------|--|---|--|---|
| August            | -\$747.481   | \$291.356   | -\$456.125                               | -9.04%  |
| September         | -\$886.950   | \$297.995   | -\$588.956                               | -11.67%   |
| October           | -\$846.372   | \$365.018   | -\$481.355                               | -9.54%  |
| November          | -\$811.934   | \$419.647   | -\$392.287                               | -7.77%  |
| December          | -\$794.592   | \$472.568   | -\$322.024                               | -6.38%  |

**Table 3. SCE's Forecast Values for ERRA Trigger Point Balance,  
Calculated After August Heat Wave.**

| <b>2020 Month</b> | <b>Adjusted<br/>ERRA<br/>Balance<br/>(million)</b> | <b>Adjusted<br/>PABA<br/>Balance<sup>15</sup><br/>(million)</b> | <b>Trigger<br/>Balance<br/>(million)</b> | <b>Trigger as % of<br/>Generation<br/>Revenue</b> |
|-------------------|--|---|--|---|
| August            | \$221.558  | \$82.023  | -\$139.535                               | -2.76%  |
| September         | -\$146.203   | \$79.504  | -\$75.700                                | -1.50%  |

<sup>13</sup> Bundled Customer share of adjusted PABA balance.<sup>14</sup> Bundled Customer share of adjusted PABA balance.<sup>15</sup> Bundled Customer share of adjusted PABA balance.

|          |           |          |           |       |
|----------|-----------|----------|-----------|-------|
| October  | -\$49.048 | \$71.003 | \$21.955  | 0.43% |
| November | \$19.292  | \$56.369 | \$75.660  | 1.50% |
| December | \$125.010 | \$12.402 | \$137.411 | 2.72% |

The Commission is satisfied that parties were provided sufficient time to review the ERRA Balancing Account and PABA balances for inaccuracies. While the shortened timeframes imposed by statutes (combined with the uncertainties generally inherent in energy forecasting) create challenges for all parties in the ERRA process, parties have had the opportunity to review the ERRA BA and PABA balances. Therefore, the Commission finds that SCE first exceeded the four percent trigger point and the AB 57 threshold amount as of July 2020, as detailed in the table above.

## **5.2. Causes of the ERRA Trigger-Related Overcollection**

SCE states that there are two primary drivers of the overcollection that led to this Application. The first driver is a structural overcollection resulting from SCE's revenue recovery using its annual fuel and purchased power (F&PP) revenue requirement as a component of generation and delivery rates.<sup>16</sup> The \$223 million difference between SCE's F&PP PABA-related revenue requirement of \$1,399.933 million (\$1,415.868 million including franchise fees and uncollectibles (FF&U)) and SCE's PCIA revenue requirement (which was only \$1,176.794 million due to capped PCIA rates) was collected through an increase in 2020 bundled customer rates. SCE recorded the revenues associated with this bundled customer rate increase in the ERRA BA during 2020 as an ever-increasing overcollection. The costs associated with this same PCIA-capped

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<sup>16</sup> Exhibit SCE-01 at 11-12.

F&PP requirement were recorded as a smaller, but incrementally increasing, undercollection in the PABA for SCE's bundled service customers.

Therefore, the disconnect between total F&PP revenue recovered from bundled service customers in rates and F&PP revenue attributable to bundled service customers is a primary driver of the ERRA-related overcollection in 2020. This disconnect in rates is unrelated to SCE's undercollection of PCIA revenue recovery from departed load customers in 2020, as that amount is recorded separately in the PABA Undercollection BA (PUBA).<sup>17</sup>

The second driver of the overcollection identified by SCE is the lower than expected market power prices during 2020 as a result of the COVID-19 pandemic.<sup>18</sup> SCE set its PCIA rates using the Commission's designated 2020 forecast energy index benchmark of \$34.54/MWh, while actual revenues in 2020 averaged \$21.67/MWh prior to the August heat wave.<sup>19</sup> Therefore, the revenue collected from bundled customer service rates for short-term market costs exceeded the actual costs of energy procured, contributing to an overcollection in the ERRA BA. However, the subsequent spike in the market price of energy due to the August heat wave, at times exceeding \$600/MWh, caused a temporary but significant undercollection of revenue which counteracted the overcollection recorded in prior months.<sup>20</sup>

### **5.3. Rate Impact and Allocation of Overcollection**

In its supplemental testimony, SCE proposes no change in its rates as a result of this trigger application. While SCE's July 2020 forecast rate impact

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<sup>17</sup> *Id.* at 13.

<sup>18</sup> *Ibid.*

<sup>19</sup> *Id.* at 15.

<sup>20</sup> *Id.* at 9.

would provide an average decrease of 3.8% in bundled customer rates,<sup>21</sup> SCE's recalculated forecast in August 2020 subsequent to the August heat wave indicates a rate increase to amortize a forecast undercollection of \$137.411 million or 2.72% of the prior year's procurement-related revenue requirement. The projected undercollection of \$137.411 million is below both the trigger point and AB 57 threshold amount. SCE also points out that a rate change could not be implemented in time for SCE's next scheduled rate change on October 1, 2020.<sup>22</sup>

Upon consideration, we find the self-correction of SCE's revenue requirement overcollection justifies maintaining SCE's current rates. Accordingly, we grant SCE's request for no rate change as a result of its trigger point and AB 57 threshold amount exceedance in July 2020. As no rate change is required as a result of this trigger application, the issues regarding the proper amortization period for the overcollection and the appropriate allocation of the overcollection among SCE's ratepayers are moot.

## **6. Admission of Testimony and Exhibits into the Record**

Since evidentiary hearings were not held in A.20-08-024, there was no opportunity to enter prepared testimony and exhibits into the record. In order to fairly assess the record, it is necessary to include all testimony and exhibits served by SCE. In its motion, dated October 12, 2020, SCE requested that the Commission receive its Exhibits into the record of A.20-08-024 pursuant to Rule 11.1 and 13.8(c) of the Commission's Rules of Practice and Procedure. Therefore, we identify SCE's supporting testimony as Exhibits SCE-01 and

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<sup>21</sup> *Id.* at 16.

<sup>22</sup> *Id.* at 17.

SCE-01C.<sup>23</sup> Given the necessity of SCE's testimony to our assessment of the trigger application, the Commission admits SCE's exhibit into evidence.

## **7. Motion to Seal and Other Procedural Matters**

Pursuant to Rule 11.5, portions of the record of a proceeding (such as served testimony) may be sealed. The Commission protects the confidentiality of market sensitive information using established Confidentiality Protocols to maximize the amount of information that utilities can make publicly available, while ensuring they do not disclose market sensitive information.<sup>24</sup>

SCE submitted public and confidential versions of its testimony. Pursuant to Rule 11.5(b), SCE filed a motion, dated October 12, 2020, requesting that the confidential version of Exhibit SCE-01C be filed under seal.

The information referenced in the motion to file under seal and the information contained in the testimony filed under seal constitutes commercially sensitive material. Accordingly, we grant confidential treatment of and seal (as detailed in the ordering paragraphs herein) Exhibit SCE-01C. The documents placed under seal shall remain under seal for the applicable period of time set forth in the Confidentiality Matrix in D.14-10-033.

All rulings by the assigned Commissioner and assigned ALJ are affirmed herein, and all motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ, are denied.

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<sup>23</sup> Exhibit SCE-01 -- Testimony in Support of Expedited Application of SCE Regarding ERRA Trigger Mechanism (Public Version), dated August 31, 2020.

Exhibit SCE-01C -- Testimony in Support of Expedited Application of SCE Regarding ERRA Trigger Mechanism (Confidential Version), dated August 31, 2020.

<sup>24</sup> D.14-10-033.

## **8. Waiver of Comment Period**

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities 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 waived.

## **9. Assignment of Proceeding**

Martha Guzman Aceves is the assigned Commissioner and Zita Kline is the assigned ALJ in this proceeding.

## **Findings of Fact**

1. On July 31, 2020, SCE's \$370.223 million overcollection of its ERRa trigger mechanism-related balance exceeded the four percent trigger point and AB 57 threshold amount, and SCE projected that its overcollection by 7.34% of its 2019 generation revenue requirement would not self-correct within 120 days.

2. On July 31, 2020, SCE projected a year-end ERRa trigger mechanism-related overcollection of \$322.024 million, or 6.38% of SCE's 2019 generation revenue requirement.

3. The July 31, 2020 overcollection was the result of 1) the overcollection of the \$ 223 million revenue requirement from SCE's bundled service customers to compensate for capped PCIA rates from SCE's departed-load customers in 2020 and 2) lower than expected fuel prices in 2020 as a result of the COVID-19 pandemic.

4. The designated 2020 forecast energy index benchmark is \$34.54/MWh.

5. The market energy prices in 2020 prior to the August heat wave averaged \$21.67/MWh.

6. A heat wave occurring from August 14 - 20, 2020 caused energy market prices to spike, at times exceeding \$600/MWh.

7. Following the heat wave in August 2020, SCE's ERRA trigger mechanism-related balance self-corrected to a \$139.535 million overcollection, or 2.76% of SCE's 2019 generation revenue requirement, which is below the 2020 ERRA trigger point and AB 57 threshold amount.

8. After the August heat wave, SCE's year-end ERRA trigger mechanism-related balance is projected to be a \$137.411 million undercollection, or 2.72% of SCE's 2019 generation revenue requirement.

9. SCE filed an ERRA trigger application on August 31, 2020, notifying the Commission its ERRA BA balance had exceeded its ERRA trigger point and AB 57 threshold amount as of July 31, 2020.

10. SCE requests to admit exhibits SCE-01 and SCE-01C into the record of this proceeding.

11. SCE requests confidential treatment of Exhibit SCE-01C.

12. SCE requests no rate change as a result of its July 31, 2020 ERRA trigger point and AB 57 threshold amount exceedance, considering subsequent self-correction of the ERRA trigger mechanism-related balance following the August 2020 heat wave.

### **Conclusions of Law**

1. Pub. Util. Code § 454.5(d)(3) provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.

2. The combined balance in an ERRA balancing account and the amount recorded for bundled customers' rates in the PABA is not to exceed or fall below five percent of the electric utility's actual recorded generation revenues or the prior calendar year excluding revenues collected for CDWR.

3. SCE is required to file an expedited application when SCE exceeds its trigger balance and either 1) rate changes are necessary to amortize the balance, or 2) SCE cannot determine if rate changes are necessary to amortize the balance.

4. SCE complied with the Commission's requirements to file an expedited trigger application following its ERRRA trigger point and AB 57 threshold amount exceedance on July 31, 2020, when SCE could not determine that its ERRRA balance would self-correction within 120 days.

5. SCE's proposal to maintain its current rates should be approved.

6. SCE's exhibits should be admitted into the evidentiary record of this proceeding.

7. SCE's exhibit SCE-01C should be granted confidential treatment.

## **O R D E R**

### **IT IS ORDERED** that:

1. Southern California Edison Company's expedited Energy Resource Recovery Account trigger mechanism application is approved.

2. Southern California Edison Company's request to maintain its current rates is granted.

3. Exhibits SCE-01 and SCE-01C, as identified herein, are received into evidence.

4. Southern California Edison Company's (SCE) request to treat as confidential exhibit SCE-01C as well as pertinent testimony thereunder, is granted for a period of three years from the date of this order. During this three-year period, this information shall not be publicly disclosed except on further Commission order or Administrative Law Judge ruling. If SCE believes that it is necessary for this information to remain under seal for longer than three

years, it may file a new motion showing good cause for extending this order by no later than 30 days before the expiration of this order.

5. All rulings issued by the assigned Commissioner and Administrative Law Judge (ALJ) are affirmed herein; and all motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ, are denied.

6. Application 20-08-024 is closed.

This order is effective today.

Dated November 19, 2020, at San Francisco, California.

MARYBEL BATJER

President

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

Commissioners