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ALTERNATE OF COMMISSIONER KENNEDY (Mailed 1/13/2005)

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)

Daniel W. Douglass, by Gregory S.G. Klatt, Attorney at Law, Alcantar & Kahl LLP, by Nora Sheriff, Attorney at Law, and Robert B. Keeler, Attorney at Law, for Southern California Edison Company, applicant.
William H. Booth, Attorney at Law, interested party.
Regina DeAngelis, for Office of Ratepayer Advocates, protestant.
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OPINION RESOLVING THE REASONABLENESS PHASE OF SOUTHERN CALIFORNIA EDISON COMPANY'S ENERGY RESOURCE RECOVERY ACCOUNT APPLICATION

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OPINION RESOLVING THE REASONABLENESS PHASE OF SOUTHERN CALIFORNIA EDISON COMPANY'S ENERGY RESOURCE RECOVERY ACCOUNT APPLICATION

1. Summary

This decision adopts a joint Southern California Edison Company (SCE) and Office of Ratepayer Advocates (ORA) recommendation to reduce the Energy Resource Recovery Account (ERRA) by a net amount of $3,574,000 to reconcile certain audit issues. In all other respects, the decision finds SCE's procurement related and other operations were reasonable for the record period September 1, 2001 through June 30, 2003.

The scope of least-cost dispatch review in the ERRA is defined to include SCE's decisions to dispatch the resources under its control in the daily, hourly and real-time markets. The standard of review for least-cost dispatch is compliance with Standard of Conduct #4 (SOC 4), which is an element of SCE's procurement plan.

SCE and ORA are ordered to develop and implement a master data request process to be used in future SCE ERRA filings.

2. Procedural History

The December 9, 2003 Assigned Commissioner's Scoping Memo granted SCE's request to process this application in two phases – a forecast phase to consider SCE's requested revenue requirement, load forecasts and financing costs for calendar year 2004, and a reasonableness phase to review SCE's procurement related expenses, contract administration and least-cost dispatch operations for the record period. On April 22, 2004, the Commission issued Decision (D.) 04-04-066, which resolved forecast phase matters.

ORA issued its Report on Reasonableness Review on March 19, 2004. No other party filed testimony or otherwise participated in the reasonableness phase. In response to ORA's report, SCE submitted rebuttal testimony on April 2, 2004. Evidentiary hearings were held on April 13 and 14, 2004. Opening briefs were filed on April 30, 2004. Reply briefs were filed on May 11, 2004, at which time the reasonableness phase was submitted for decision.

3. SCE's Showing

SCE provided testimony to demonstrate, for the record period September 1, 2001 through June 30, 2003, that: (1) recorded fuel expenses were reasonable; (2) contract administration, dispatch of generation resources, and procurement activities complied with SCE's Commission-approved Short-Term Procurement Plan and other reasonableness requirements set forth in the Commission's procurement-related and other applicable decisions; and (3) operations related to the impact of electric restructuring on utility employees, electric vehicles and special sales contracts were reasonable.

4. ORA Recommendations

In its Report on Reasonableness Review, ORA stated:

> "Because this is the first reasonableness review of a utility's procurement activities since the utilities returned to procurement activities on January 1, 2003, ORA is still engaging in the process of developing the most efficient and effective method for reviewing the utility contract administration and least cost dispatch. ORA anticipates this process will improve over time by, most importantly, requiring the utilities to provide procurement data in formats more accessible to ORA. Improved accessibility is critical because ORA has found this review process to be tedious and inefficient." (ORA Report, p.1-2)

Accordingly, ORA requested the Commission require SCE to provide certain specified information in future ERRA filings.

ORA identified and discussed differences with SCE related to the scope of least-cost dispatch review. As opposed to SCE's assertion that least cost dispatch is a compliance matter, ORA contends that least cost dispatch should be subject to reasonableness review. In its report, ORA identified three specific concerns related to least cost dispatch and contract administration and recommended that SCE provide further explanation during this proceeding. ORA also recommended that SCE be required to file advice letters regarding two exchange agreement amendments.

ORA recommended disallowances related to qualifying facility (QF) contract administration as well as certain audit adjustments, totaling approximately $36 million.

5. Scope of Review for Least Cost Dispatch under SOC 4

In adopting the regulatory framework under which SCE, Pacific Gas and Electric Company and San Diego Gas & Electric Company would resume full procurement responsibilities on January 1, 2003, D.02-10-062 ordered that the utilities comply with minimum standards of conduct, including Standard of Conduct #4 (SOC 4), which states:

> "The utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least-cost manner. Our definitions of prudent contract administration and least cost dispatch are the same as our existing standard."[1]

[1] D.02-10-062, Conclusion of Law 11.

In elaborating on SOC 4, we stated that,

> "Prudent contract administration includes administration of all contracts within the terms and conditions of those contracts, to include dispatching dispatchable contracts when it is most economical to do so. In administering contracts, the utilities have the responsibility to dispose of economic long power and to purchase economic short power in a manner that minimizes ratepayer costs. Least-cost dispatch refers to a situation in which the most cost-effective mix of total resources is used, thereby minimizing the cost of delivering electric services…. The utility bears the burden of proving compliance with the standard set forth in its plan." [2]

SCE and ORA assert different positions on the scope of least-cost dispatch review. In considering this issue, we keep in mind previous Commission decisions as well as our responsibility to ensure just and reasonable rates. As explained below, the scope of least-cost dispatch review in the ERRA includes SCE's decisions to dispatch the resources under its control in the daily, hourly and real-time markets.

5.1. Positions of the Parties

SCE has interpreted the least-cost dispatch principle to require the scheduling of resources and contracted energy under SCE's control to result in the projected minimization of costs (including the maximization of net revenues for excess energy sales) to SCE's bundled service customers, based on the best information available to SCE at the time schedules were submitted to the Independent System Operator (ISO).

SCE asserts that only spot market transactions (day ahead, hour ahead and real-time) should be included in the Commission's review of least cost dispatch,

[2] See D.02-12-074, Ordering Paragraph 24b. The ellipsis indicates language deleted by D.03-06-076, p. 27 and Ordering Paragraph 16.

since they are the transactions that occur within the operating window that the utility makes its dispatch decisions. Futhermore, SCE states that the daily dispatch decisions are decisions made based on then-current daily market conditions and do not include the utility's forward transactions, which are made weeks, months or years in advance under the utility's procurement plan.

ORA's interpretation of least-cost dispatch is different than that of SCE. By requiring that the utilities operate their system on a least-cost dispatch basis, ORA asserts that the Commission intended that the utilities lower the overall cost to ratepayers by selecting resources based on the known variables and existing constraints in a manner that minimizes costs to ratepayers. As such, ORA's interpretation of least-cost dispatch is to determine whether the utility, while complying with the utility's procurement plan, selected the least-cost resources to meet the utility's load requirements over the entire time period that all short term procurement decisions and actions were made that impacted the dispatch day.

ORA asserts that to determine whether the utility selected least-cost dispatch, ORA needs to review the decisions, actions and estimates made by the utility as long as a year before the dispatch day, as well as month-ahead, week-ahead, day ahead and possibly hour ahead decisions. ORA states that it is important to determine what decisions and actions were made (or not made) based on what was known during those different periods.

ORA concludes that without the ability to review all of SCE's dispatched resources, it cannot determine whether SCE complied with the Commission's directive to "optimize" the value of the overall portfolio. In order to enable meaningful review in future proceedings, ORA requests the Commission to confirm that the scope of the least-cost dispatch analysis includes (1) all of SCE's

dispatched resources and (2) all decisions, actions and estimates made by SCE as long as a year before the dispatch day.

SCE argues that it is unnecessary for ORA to review forward transactions in order to verify from the relevant workpapers that SCE used the most cost-effective mix of total resources on any given day in the record period. SCE explains that for each operating day, SCE must evaluate the total mix of resources available for dispatch, including spot market transactions, utility-owned generation, and dispatchable utility and California Department of Water Resources (CDWR) contracts, and determine what would be the most economic mix of total resources to dispatch under existing circumstances. SCE states that this is the total mix of resources that the Commission and ORA must review to verify that SCE complied with least-cost dispatch standards that the Commission placed in SCE's procurement plan and that this mix of resources is laid out in the daily energy planning workpapers that SCE provided for each operating day of the record period.

5.2. Discussion

The issue that is in dispute between the parties is the scope of review that is permitted under SOC 4 with respect to SCE's dispatch decisions. In resolving the dispute, we look to previous Commission decisions as well as to the Public Utilities Code for guidance. As a matter of background, Assembly Bill 57 ("AB57") added to the Public Utilities Code, among other sections, section 454.5(d)(2) which provides that a procurement plan approved by the Commission shall accomplish, among other things, the following:

> Eliminate the need for after-the-fact reasonableness reviews of an electrical corporation's actions in compliance with an approved procurement plan, including resulting electricity procurements contracts, practices, and related expenses.

> However, the commission may establish a regulatory process to verify and assure that each contract was administered in accordance with the terms of the contract, and contract disputes which may arise are reasonably resolved.

In order to eliminate the need for after-the-fact reasonableness review of an electrical corporations actions in compliance with an approved procurement plan, Public Utilities Code Section 454.5(b)(7) was added to direct the Commission to include in an electrical corporation's procurement plan, "The upfront standards and criteria by which the acceptability and eligibility for rate recovery of a proposed procurement transaction will be known by the electrical corporation prior to execution of the transaction…"

Consistent with this directive, the Commission adopted various standards of behavior or standards of conduct that would become part of each utility's procurement plan. These standards of conduct are the upfront standards found in Public Utilities Code Section 454.5(b)(7). With respect to the dispute at hand, SOC 4 is the upfront standard in a utility's procurement plan regarding prudent contract administration and energy dispatch decisions. In carrying out the mandate of AB57, SOC 4 does not allow the Commission to conduct after-the-fact review of the terms or prices of the utilities' procurement contracts. Rather, SOC 4 establishes a standard for dispatching energy. This standard is not tied to specific generation contracts themselves; rather it applies to all generation resources.

Furthermore, least-cost dispatch is an up-front standard that is included in SCE's procurement plan. Any subsequent review of dispatch in SCE's ERRA filings merely ensures that SCE has complied with the approved procurement plan. Nothing in section 454.5 prohibits the Commission's review of SCE's

actions to determine whether it complied with an approved procurement plan. Indeed, the statute itself states that a procurement plan shall eliminate the need for after-the-fact reasonableness reviews of a utility's actions in compliance with an approved procurement plan. (§ 454.5(d)(2).)

SCE indicates that all generation resources are evaluated in its least cost dispatch process based solely on then-current daily market conditions and that its procurement transactions that are subject to least cost dispatch review under SOC 4 are limited to spot market transactions -- day-ahead, hour-ahead and real-time purchases and sales.[3] It is true that the existing scope of SOC 4 does not encompass all procurement activities. Specifically, ERRA filings review the reasonableness of contract administration and least-cost dispatch.

As previously stated, least-cost dispatch refers to a situation in which the most cost-effective mix of total resources is used, thereby minimizing the cost of delivering electric services. SCE's decisions to dispatch the resources under its control in the daily, hourly and real-time markets is relevant for review in ERRA filings. On the other hand, forward purchase and sale transactions done months prior to the time of dispatch are considered procurement activities and as such, should be reviewed in the quarterly compliance Advice Letter filings. Indeed, previous Commission decisions have made this determination:

> Whereas the SOC#4 review focuses on utility decisions to dispatch DWR-IOU supply resources and transact in the market, the type of

[3] Specifically, SCE explains that when it decides in the daily, hourly, and real-time markets which resources under its control would be most economic to dispatch, it must compare the variable operating cost of each dispatchable unit with the market price of power at the time of dispatch. If the variable operating cost of a given dispatchable unit is less than the market price of power, the unit is dispatched. If the variable operating cost is greater than the market price, the unit is not dispatched. (SCE Opening Comments at p. 5)

> any product purchased or sold, together with the bidding or other transaction procedure followed, and the contract's terms and price will be reviewed in the quarterly compliance Advice Letter filings. (D.03-06-067, p. 10, D.03-12-003, p. 6)

Therefore, we reiterate that SCE is required to optimize the value of its overall supply portfolio and consistent with D.02-10-069, that as part of the least-cost portfolio management standard, is prohibited from any action that results in inappropriate preference for URG resources or the utility's own negotiated contracts.

6. Standard of Review for Least Cost Dispatch under SOC 4

6.1. Positions of the Parties

SCE takes the position that the review for least cost dispatch under SOC 4 is one of compliance, not reasonableness. SCE states that the Commission has adopted an "up front, achievable standard" for contract administration and least cost dispatch, and has added the standard to SCE's procurement plan. SCE concludes that, because the Commission has included its least cost dispatch standard as an element of SOC 4 in its procurement plan, the issue is one of compliance. That is, whether SCE's economic dispatch activities during the record period complied with the following standard, which D.02-12-074 placed in SCE's procurement plan: "Least-cost dispatch refers to a situation in which the most cost-effective mix of total resources is used, thereby minimizing the cost of delivering electric services." SCE asserts that its testimony, exhibits and workpapers in this proceeding have demonstrated such compliance.

In support of its position, SCE refers to D.03-06-076, where we stated:

> "Contrary to the utilities' characterization, Standard 4 does not impose traditional after-the-fact reasonableness reviews.

Standard 4 does not allow the Commission to conduct after-the-fact review of the terms or prices of the contracts themselves. In the December decision, the Commission clarified that contract terms and prices would not be at issue in any review under Standard 4. Rather, Standard 4 establishes a standard for dispatching energy. This standard is not tied to the contracts themselves; rather it applies to all generation resources.

> Least-cost dispatch is an up-front standard that is included in the procurement plans. Any subsequent review of dispatch merely ensures that the utilities have complied with the approved procurement plans. Nothing in Section 454.5 prohibits the Commission's review of utility actions to determine whether the utility complied with an approved procurement plan. Indeed, the statute states that a procurement plan shall eliminate the need for after-the-fact reasonableness reviews of a utility's actions in compliance with an approved procurement plan. (§ 454.5(d)(2).)"[4]

ORA takes the position that review for least cost dispatch under SOC 4 must be one of reasonableness. ORA states that a compliance review provides practically no Commission oversight. ORA describes the compliance process to be that "ORA (1) review the actual provisions of the SCE's 2003 procurement plan, (2) locate the provision requiring SCE to operate according to the least cost dispatch principles and, based on these two findings, (3) ORA must conclude that SCE is 'in compliance' with its procurement plan – end of analysis."[5]

ORA concludes that the stakes are high and that "…it is simply untenable that the Commission would essentially abdicate its authority to review the 'reasonableness' of procurement costs, which amount to billions of dollars. A mere 'compliance review' would amount to a severe diminution of the Commission's oversight authority."[6]

In response to ORA, SCE asserts that a compliance review is neither an abdication nor a severe diminution of the Commission's oversight authority.

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[4] D.03-06-076, pp. 24-25.

[5] ORA, Opening Brief, p. 6.

[6] *Id.*, p. 7.

Rather it is recognition that AB 57 has changed the nature of the Commission's oversight authority. SCE describes the review process for SOC 4 as follows:[7]

> "First, the Commission reviews SCE's administration of its contracts to verify that its activities have complied with the terms and conditions of the contract, and that any contract disputes that may arise are reasonably resolved.
>
> …Second, the Commission reviews SCE's economic dispatch activities to verify that it dispatched dispatchable contracts (both utility and DWR contracts) when it was most economical to do so, and that it used the most cost-effective mix of total resources under its control, thereby minimizing the cost of delivering electric services to its customer.
>
> …Finally, the Commission reviews SCE's spot market transactions that are conducted in association with its daily dispatch operations. This review is to verify that SCE's economy purchases and sales of energy contributed to its using the most cost-effective mix of the total resources under its control."

6.2. Discussion

Standards of review for least-cost dispatch and contract administration under SOC 4 have been discussed in prior Commission decisions. In summary;

- The Commission's intent is to review contract administration, including least-cost dispatch.[8]
- SOC 4, which sets minimum standards of conduct regarding contract administration and least cost dispatch, was adopted by the Commission[9] and has been included as an element of the utilities' approved procurement plans.

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[7] See SCE Reply Brief, pp. 8-9.

[8] D.02-09-053, Conclusion of Law 10.

[9] D.02-10-062, Conclusion of Law 11.

- Least-cost dispatch is an up-front standard in the utilities' procurement plans. Therefore, subsequent review of dispatch should ensure that the utilities have complied with the approved procurement plans.[10]
- The Commission may review utility actions to determine whether the utility complied with its approved procurement plan.[11]

Under SOC 4, the utilities must demonstrate that they have prudently administered all contracts and dispatched the energy in a least-cost manner. SCE has articulated reasonableness criteria and provided testimony to support the prudence of its contract administration. Therefore, there are elements of reasonableness review within SOC 4. As we have previously stated, this is not a traditional reasonableness review in that only certain aspects (contract administration and least cost dispatch) are subject to review in the ERRA, while other aspects (including terms and prices) are reviewed in the quarterly procurement advice letter process. However, with regard to least cost dispatch, we have not specified prudence or reasonableness evaluative criteria. We have instead stated that the utilities must use the most cost-effective mix of total resources, thereby minimizing the cost of delivering electric services. That is a compliance matter.

It is for these reasons that we agree with SCE's characterization of the SOC 4 review process as well as its position that least-cost dispatch review is one of compliance. However, this determination does not necessarily diminish the need for, or breadth of, the utility's showing to demonstrate least-cost dispatch

[10] D.03-06-076, p. 25.

[11] *Id.*

compliance, when compared to that required in a reasonableness review. As SCE has explained,

> "[In the traditional reasonableness review] the Commission looks at a range of outcomes that a reasonable manager could have come to conclusion or an appropriate action to take. In other words, there is not a specific outcome that defines reasonableness. There's a range of outcomes that defines reasonableness, and it's based on what the manager knew or should have [known] at the time that the decisions were made. There's no standard per se when you can measure the actions the utility took against the standard. And that's what distinguishes an after-the-fact reasonableness review from our compliance review. Our compliance review in this ERRA proceeding with respect to Standard of Conduct 4 is a showing that demonstrates that we have operated our resources to produce the lowest possible cost for customers."[12]

Therefore, in the compliance review there are no ranges of possible outcomes. The outcome or standard for review has been predetermined -- that is the lowest cost. SCE must demonstrate that it has complied with this standard, by providing sufficient information and/or analysis in order for the Commission to verify that SCE's dispatch resulted in the most cost-effective mix of total resources, thereby minimizing the cost of delivering electric services. Based on analyses of SCE's showing and subsequent discovery, ORA or any other party may take the position that SCE did not fully comply with SOC 4. In such cases, we will judge the merits of the parties' positions and may impose disallowances and/or penalties, up to the maximum penalty cap.[13] This compliance process encompasses much more than that characterized by ORA. Imposing a

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[12] SCE, Opening Brief, p. 28.

[13] D.03-06-067 established a $37 million cap on penalties associated with SCE's contract administration and least cost dispatch.

compliance process for least-cost dispatch under SOC 4, rather than a reasonableness review process, does not diminish our ability to ensure just and reasonable rates.

ORA cites D.02-12-069 in support of its position that SOC 4 should be subject to reasonableness review. D.02-12-069 upheld the reasonable manager standard for purposes of administering CDWR contracts. However, that decision also stated, "The adoption of the utilities' procurement plans eliminates the need to conduct traditional reasonableness review of the utilities' activities related to procurement. Instead, consistent with the requirements of AB 57 and Senate Bill 1976, the Commission will approve the utilities procurement plans, including up-front standards of minimum behavior, and will conduct compliance review to evaluate utility compliance." (D.02-12-069, p. 56.) Under SOC 4, that compliance would consist of a showing of prudence for contract administration (for which the reasonable manager standard would apply) and a showing that resources were dispatched in a least cost manner. We do not find that our decision today is inconsistent with D.02-12-069.

In this decision we have defined the scope of least-cost dispatch review and have indicated the utilities' responsibility for proving compliance with the least-cost dispatch standard. However, at this time, the Commission has not specified criteria that should be used to determine what constitutes least-cost dispatch compliance or what the utility needs to provide to meet its burden to prove such compliance. If there is a need for such criteria, it should be developed in a generic proceeding where all affected utilities, as well as interested parties, could participate. In the meantime, SCE and ORA should use a master data request process, as discussed later in this decision, as a means to

reach some understanding on the types of information or analyses that would be useful in demonstrating SOC 4 compliance as it relates to least cost dispatch.

Further, if ORA or another party can demonstrate that SCE has not dispatched resources in a least-cost manner, the Commission will review that evidence and make appropriate adjustments for non-compliance.

7. Forum for Review of Spot Market Transactions

SCE states that it is required to demonstrate that spot market transactions comply with its adopted procurement plan in both the ERRA (for dispatch) and the quarterly procurement advice letter process (for matters other than dispatch), and requests that the review be combined in one forum, preferably the quarterly procurement advice letter process. ORA recommends that SCE's request be rejected, stating that a meaningful review of dispatch can only take place in an application proceeding, a forum where ORA has the opportunity to engage in discovery, prepare testimony and examine witnesses.

We agree with ORA.[14] An advice letter process is not an appropriate forum to review least-cost dispatch, the scope of which includes decisions, actions and estimates related to the dispatch of all generation resources in the daily, hourly and real-time markets. The demonstration of compliance with SOC 4 may involve significant amounts of testimony and associated information and data. There must be a sufficient opportunity for parties to conduct analyses and prepare responsive testimony. The ERRA application process provides that opportunity. In contrast, pursuant to Section 454.5(d)(2), the review of contract

[14] Even if we did not agree with ORA on this point, we note that this is not the appropriate forum for SCE to raise such a proposal which has industry-wide impacts.

terms and prices is subject to less stringent review and analysis.[15] The review of dispatch and contract administration in the ERRA and review of contract terms and prices in the quarterly procurement advice letter process is consistent with the requirements of Section 454.5 and our obligation to provide for just and reasonable rates. We do not see the need to change the processes at this time, and deny SCE's request to do so.

8. Other Least Cost Dispatch Issues

In its testimony on least cost dispatch, ORA noted the following:

1. The net short/long forecast conducted for the short-term procurement plan had large deviations as compared to forecasts done within a few days of the dispatch day.
2. It appears that SCE's resources exceeded loads by a factor significantly greater than the 7% reserve amount required by the Commission.
3. During the 2003 Record Period, SCE considered termination of a transition capacity contract but decided against termination. SCE did not provide justification for this decision.

For each of these items, ORA stated that the Commission should require SCE to justify its actions. Also, to facilitate compliance reviews of least-cost dispatch, ORA recommended that, for future filings, SCE should be required to include certain information, as listed in ORA's testimony.

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[15] This section states that an approved procurement plan should "eliminate the need for after-the-fact reasonableness reviews of an electrical corporation's actions in compliance with an approved procurement plan, including resulting electricity procurement contracts, practices and related expenses. However, the commission may establish a regulatory process to verify and assure that each contract was administered in accordance with the terms of the contract, and contract disputes which may arise are reasonably resolved." The regulatory process established by the Commission is the establishment and review of SOC 4.

In its April 2, 2004 rebuttal testimony, SCE addressed each of ORA's concerns. During evidentiary hearings, SCE agreed to provide further information on the justification for not terminating the transition capacity contract and a comparison of SCE available supply with SCE load during on-peak hours. This information was provided in late-filed Exhibits 23 and 24. Further explanations were included in SCE's opening and reply briefs.

For the net short/long forecast issue, SCE explained that forecast deviations must be considered in the context of SCE's load for any meaningful comparisons. That is, differences in net short/long amounts may be large on a percentage basis when compared between forecasts but as a percent of load requirements, the net short/long amount may be very small. Also the forecast in the procurement plan was prepared many months in advance of the operating day and SCE had to relay on average assumptions for economic, weather, load and supply conditions.

For the 7% reserve issue, SCE explained that a comparison of SCE's load and resources has nothing to do with operating reserves, which are the spinning and non-spinning reserves necessary to maintain grid stability in real time during the forecast annual peak hour. If a utility maintains a 7% operating reserve during the forecast annual peak hour, then during periods of average load, or even average on-peak load, its contracted capacity will exceed its load by much more than 7%. The utility then sells excess energy in the market, when it is economical to do so. Additionally, SCE asserts that this issue is beyond the scope of least-cost dispatch review, since review of compliance with the supply and capacity limits of its procurement plan takes place in the quarterly compliance advice letter process.

For the transition capacity contract, SCE explained that the reason for evaluating the contract's termination option was because the contract included such a provision if certain contractual deadlines were not met. SCE states that its evaluation indicated that the contract was still in the customers' interest, and therefore SCE decided not to terminate it. In late-filed exhibit 23, SCE provided a cost/benefit analysis to justify its decision.

In its opening brief, ORA indicated that it needed to review information presented in Application 04-04-005 (SCE's ERRA application for the record period July 1 through December 31, 2003) before making recommendations on the decision not to terminate the transition capacity contract and the supply reserves. ORA was apparently satisfied with SCE's explanation for deviations in the net short/long forecasts. In its reply brief, ORA stated that it is making no recommendation on reasonableness for the record period in this proceeding, indicating that it could only conclude that SCE has adequately managed most of the purchase contracts and that it did not find any deviations from the least cost dispatch requirements in its review of hourly data. While ORA has not recommended any disallowances for the record period, it requests that SCE and ORA be directed to establish a process where relevant data and information for future ERRA filings can be developed and provided in a timely manner.

SCE has substantially justified its least cost dispatch decisions during the record period, through its initial testimony, rebuttal testimony and late-filed exhibits. ORA has no specific least-cost dispatch disallowance recommendations in this proceeding. We therefore find SCE's actions to be reasonable, including the decision not to terminate the transition capacity contract. Regarding the reserve margin issue, we agree with SCE's position that it is beyond the scope of

least-cost dispatch review and should be reviewed in the quarterly compliance advice letter process.

While finding SCE's actions to be reasonable, we are concerned that SCE, due to its position on the scope of least-cost dispatch review, did not provide certain information to ORA during the discovery process. Since we have clarified the scope of review in this decision, this discovery conflict should not occur in the future. Also, ORA should bring discovery problems to the attention of the Commission prior to the issuance of its testimony. Early resolution of such disputes will ensure the development of a complete and relevant record.

ORA's recommendation, regarding the provision of information to facilitate future reasonableness reviews, is discussed later in this decision.

9. Contract Administration and Costs

ORA recommends that SCE file an advice letter so that the Commission can formally review the Third and Fourth Amendments to the Metro Water District (MWD) - Edison 1987 Service and Interchange Agreement (Exchange Agreement). SCE indicates that, as part of the present application, it filed copies of all settlement agreements and contract amendments that became effective during the record period, including the Third and Fourth Amendments to the Exchange Agreement. SCE requests that the Commission rule on the reasonableness of the contract amendments as part of the decision in this matter.

The Third Amendment became effective January 18, 2001 and terminated September 30, 2001. It established a new methodology to value the return of exchange energy to SCE. The new methodology uses an average of three publicly available published market price indices to value energy when returned to SCE. SCE indicates that the indices represent the price that SCE would have paid if it had been able to purchase energy from the market. SCE states that it

was reasonable to enter into the Third Amendment because it was able to receive the outstanding amount of exchange energy owed to SCE at a value that represented market prices at the time of return. The Fourth Amendment became effective October 1, 2001 and will terminate on a thirty-day notice provided by either party to the other party. The Fourth Amendment continues the use of market price indices for valuing energy exchanged between the parties. SCE indicates that neither party has indicated a desire to terminate this arrangement.

We see no reason to require SCE to now file an advice letter for contract amendments that were signed in 2001, one of which has already expired. One of the purposes of the ERRA proceeding is to review the reasonableness of contract administration. SCE has included a section on contract administration in its testimony, which details activity related to each of its contracts during the record period. This is the appropriate forum in which to test the reasonableness of SCE's decisions in this regard. We do not see any advantage in addressing such concerns in an advice letter process rather than in the ERRA. There is certainly more time for parties to respond to reasonableness concerns in an application process than in an advice letter process.

SCE has substantially justified its actions regarding the Third and Fourth Amendments to the MWD Exchange Agreement, and we find SCE was reasonable in this regard for the record period in this proceeding. ORA can consider the reasonableness of continuing the use of market prices for valuing exchanged energy for subsequent record periods, in appropriate subsequent ERRA reviews.

This decision does not preclude the use of the advice letter process, or other processes, for approving future agreements or amendments to agreements. In some cases, prior Commission review and approval may be in the best

interests of ratepayers and would provide certainty for the utility. However, in some cases, prompt action may be required to secure favorable opportunities and it may be in the ratepayers' best interests for the utility to act accordingly and justify the action in the subsequent ERRA.

ORA also identified an issue related to the termination option for a transition capacity contract, but included that issue in its least-cost dispatch testimony. As discussed earlier, we find the decision not to terminate the transition capacity contract during the record period to be reasonable.

In summary, SCE has provided testimony to support its contract administration and costs and we find them to be reasonable for the record period.

10. Cogeneration QFs and Renewable Contract Administration and Costs

For cogeneration QFs and renewable contract administration and costs, ORA identified one issue related to hydro spill provisions. ORA asserts that SCE did not take the opportunity to minimize costs by implementing the hydro spill contract provision that enforces the hydro savings price for the affected QFs, for the amount of hydro curtailed. ORA recommends a disallowance of $450,000, which is equal to the amount of the difference between the existing price of the affected QF and the hydro savings price for 9,772 megawatt-hour of SCE hydro that was curtailed.

In response, SCE states that when the ISO assumed responsibility for managing the grid and dispatching generation resources on April 1, 1998, SCE lost the ability to ensure compliance with the Commission's hydro spill policy, because the ISO makes the decisions to dispatch SCE's resources. SCE claims it is now unable to determine when the prerequisites are met under the

Commission's definition of hydro spill,[16] since the ISO is statutorily precluded from providing SCE the necessary information to make that determination. SCE also states that under the current market structure, the ISO dispatch orders can change and often do change every 10 minutes, making it impossible for SCE to give the Commission required "adequate notice" to QFs when a hydro spill condition exists.

It appears that ISO management of the grid and dispatch of resources seriously impedes SCE's ability to enforce the hydro spill provisions. There is no evidence or argument to counter SCE's position regarding the problems in determining when a hydro spill condition exists and in providing adequate notice to QFs, when it exists. We will therefore not impose a disallowance as recommended by ORA.

SCE asserts, and ORA agrees, that the Commission's existing hydro spill provisions are outdated and that resolution of the associated problems can and should be addressed in Rulemaking (R.) 04-04-025.[17] SCE should seek such resolution in that proceeding.

11. Master Data Request

In its testimony, ORA presented a list of additional information that SCE should provide in future filings, which would, in ORA's view, facilitate

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[16] In D.82-04-071, the Commission defined a hydro spill condition as occurring when all the following conditions are met: (1) all utility-owned non-hydro plants are shut down or are operated at the minimum level practical; (2) all non-QF electricity purchases are curtailed to the maximum amount possible without breaching contract terms; (3) the utility is making all feasible economy sales; and (4) if it accepts full QF power, the utility must spill its own hydro resources.

[17] This rulemaking was issued to promote consistency in methodology and input assumptions in the application of short-run and long-run avoided costs, including pricing for QFs.

subsequent reviews. In rebuttal, SCE agreed to provide some of the requested information but objected to many of the items as being irrelevant, unclear, or overly broad. ORA then indicated its interest in working with SCE to refine the type of information requested and has proposed a master data request procedure.

ORA now requests that the Commission, first, direct SCE and ORA to develop a workable list of additional information for SCE to provide ORA in future ERRA review filings; second, require SCE and ORA to formally memorialize this additional information in a master data request; and third, require SCE to include responses to this master data request in the next ERRA review application. In its reply brief, SCE indicates that it is willing to work with ORA to define the information that it should provide in these proceedings, and is also willing to explore ORA's suggestion of a master data request.

We agree that, rather than specifying, in this decision, the information that SCE should include in its next ERRA filing, it would be more appropriate for ORA to request the needed information in a data request process that is more in time with the application itself. As the ERRA process is being refined, data request questions can consider the most recent experience and decisions that might impact the scope of investigation.

The master data request has been used successfully in the past[18] and is an efficient tool that allows ORA to more quickly focus on issues and frame the scope of its review and analysis. Discovery disputes can be resolved in a timelier

[18] For instance, in the energy utility rate case plan and offset plans adopted by D.89-01-040, a master data request process was included for Energy Clause Adjustment Cost (ECAC) filings, which were similar in nature to ERRA filings.

manner, which could prevent discovery related delays in the procedural schedule.

ORA and SCE should work together to establish a master data request process for SCE's ERRA reasonableness proceeding to be filed in 2005, including an agreement on the questions to be asked and the information to be provided. ORA should then provide the master data request no later than two months prior to SCE's anticipated application filing date. SCE should respond to the master data request by either including the information in its testimony/workpapers or providing a separate data request response, at the time of the application filing. The decision in the 2005 proceeding can then establish master data request procedures for future SCE ERRA filings, based on experience in that, as well as other, utility ERRA proceedings.

12. Audit Issues

During evidentiary hearings, SCE and ORA resolved their differences on four audit issues, as discussed below.[19]

12.1. CDWR Settlement Payment Authorization

ORA had recommended that, for ratemaking purposes, SCE's December 2002 CDWR settlement payment should be amortized over a 12-month period, consistent with SCE's treatment of the Portland General Electric (PGE) Termination Agreement. In rebuttal, SCE stated that it did not amortize the PGE Termination Agreement. Unlike the payment made to CDWR, which was made in one lump sum amount, monthly payments were actually made to PGE, consistent with the Termination Agreement. SCE argued that the impact of ORA's proposal would result in a disallowance on a settlement

[19] The agreements are detailed in Exhibit 26, Stipulation Of ORA And SCE Regarding Audit Issues.

agreement that the Commission has found to be reasonable, since SCE would have to bear the financing costs caused by the timing difference between when the payment was made and when the total amount is included in the balancing account.

After further review and discussion with SCE, ORA now agrees that SCE's ratemaking treatment of the CDWR settlement payment is appropriate and has withdrawn its recommendation. Based on the evidence, SCE's accounting for the CDWR settlement payment is reasonable.

12.2. ISO Expense Adjustment

ORA has recommended exclusion of SCE's September 2001 adjustment of $2.85 million for ISO related costs, since those costs were included in the beginning balance of SCE's Procurement Related Obligations Account (PROACT).

After a review of ORA's findings SCE now believes that its September 2001 adjustment is inconsistent with the provisions of the PROACT settlement agreement and agrees to credit the ERRA in the amount of $2.85 million. ORA's recommended adjustment is reasonable and should be reflected in SCE's ERRA.

12.3. Refinancing Transaction Fees

ORA has recommended that SCE amortize the transaction fees over the life of the loans that SCE acquired to refinance its procurement liabilities.

SCE agrees that ORA's recommendation is consistent with Generally Accepted Accounting Principles (GAAP). The SCE and ORA agreement that the ERRA should be credited in the amount of $9.398 million to reflect the unamortized transaction fees as of July 31, 2003, and debited in the amount of $9.367 million to reflect the amount of fees amortized during the remaining life of the loans, August 1, 2003 through December 19, 2003, is reasonable and should be implemented.

12.4. Employee Related Costs

ORA recommends that SCE not be allowed recovery of $1.386 million in retraining costs for certain San Onofre Nuclear Generation Station (SONGS) employees who were involved in the "bumping" process, as a result of the effects of industry restructuring. Employees who were bumped remained employed at SONGS until such time as the bumping employee are trained and qualified to work at SONGS. The estimated training program duration is anywhere from

30 to 170 weeks. During that time, the bumped employee is still eligible to receive any and all job required training. ORA stated that it is unreasonable for ratepayers to pay for training costs of SONGS employees who were bumped as well as the employees who did the bumping. ORA also argues that SCE's utility retained generation (URG) rates include costs for training and SCE ratepayers should only be responsible for 80% of qualifying training costs, since SCE only owns 80 % of SONGS.

In its rebuttal, SCE stated that to comply with federal law, existing SONGS employees must remain in their current positions while the new employees complete their training. The existing employees are not bumped or severed until the new employees are fully qualified. SCE indicates there is no double counting of training costs in that it is only requesting the initial training costs for employees who are allowed to bump existing employees, all other training costs are included in URG rates, including requalification and other ongoing training that existing employees must receive. SCE also states that the agreement between SCE and the SONGS owners allows SCE to bill the co-owners for their share of normal operating costs. There are no provisions in that agreement that would allow SCE to bill the co-owners for retraining costs associated with the employees bumping into positions at SONGS.

Due to the nature of the costs at issue and the philosophical differences between ORA and SCE regarding their recovery, both parties agreed to mitigate their litigation risk, by agreeing to recovery of 50% of the requested amount.

Both SCE and ORA provide support for their respective positions on this issue. Whether all training costs for both the employees bumping into, as well as the employees being bumped from, positions at SONGS are necessary to ensure the plant is maintained safely and efficiently is a matter of judgment. Whether

SCE ratepayers should pay 100% of the retraining costs rather than the normal 80% ownership share is also a judgment matter. Based on the evidence, the parties' proposal to include 50% of the disputed retraining costs in rates is reasonable. SCE should therefore credit the ERRA in the amount of $0.693 million.

13. Uncontested Costs

SCE identifies a number of costs that were uncontested and requests they be found reasonable for the record period.

13.1. Generation

SCE presented testimony on the operations of its hydroelectric generation, coal generation and Catalina diesel generation. SCE states that, while ORA requested additional information be included in future ERRA filings, ORA did not recommend that any aspects of the generation operations be found unreasonable or that any associated costs be disallowed. SCE therefore requests a finding that its hydro, coal and Catalina generation operations were reasonable during the record period.

13.2. Special Contracts

SCE did not request recovery of specific costs, but did request the Commission to find that its administration of special contracts was reasonable. SCE asserts that each contract produced sufficient revenues to meet the positive contribution to margin standard, and ORA did not challenge the administration of the program.

13.3. Cost of Collateral

SCE states that during the record period it was required to post collateral to transact for power through the ISO and with other counterparties. Letter of credit commission fees, letter of credit issuance fees, letter of credit commitment

and participation fees and ISO escrow fees were incurred. Based on its testimony and the fact that ORA did not contest the fees, SCE requests a finding that these costs were required for SCE to post collateral to transact for power, and that they were reasonably incurred.

13.4. ISO-Related Costs

SCE identifies the following ISO related costs: (1) Grid Management charges of $149.4 million to support the ISO's operating costs associated with control area services, interzonal scheduling, real-time markets and ancillary services markets; (2) Market Costs of $163.3 million allocated by the ISO, which are associated with ancillary services, imbalance energy, congestion, and firm transmission rights; (3) Federal Energy Regulatory Commission fees of $5.9 million allocated to ISO participants in accordance with the ISO's filed tariffs; and (4) a net credit of $16 million in various true-ups and adjustments.

SCE states that the majority of ISO-related costs incurred during the record period were unavoidable, and for those costs that SCE had limited discretion to control, such costs were managed consistent with the Commission's least-cost economic dispatch requirement. Also, ORA did not contest the costs. For these reasons, SCE requests a finding that the costs are reasonable.

13.5. Fuel Oil Inventory Carrying Costs

The monthly fuel oil inventory costs recorded during the record period are addressed in SCE's testimony. SCE states that, due to its financial condition, it could not issue commercial paper after December 20, 2000. From September 2001 through February 2002, SCE recorded the actual interest rate that it paid on its outstanding commercial paper. As part of its refinancing, SCE retired the commercial paper on March 1, 2002. As a proxy for cost of short term funds, the carrying costs for fuel oil inventory were based on the weighted

average interest rate related to three specific instruments that were issued to finance SCE's PROACT. Based on its testimony and the fact that ORA did not contest the costs, SCE requests a finding that these costs are reasonable.

13.6. Electric Vehicle Costs

SCE has presented testimony in support of its expenditures of $7.379 million in electric vehicle costs during the record period. The Commission has reviewed SCE's Low-Emission Vehicle program on six previous occasions, in ECAC and Revenue Allocation Proceeding proceedings. SCE has included the reasonableness showing for the seventh period (August 1, 2001 through June 30, 2003) in this ERRA proceeding. Based on its testimony and the fact that ORA did not contest the costs, SCE requests a finding that these costs are reasonable.

On July 16, 2004, after the close of the record in this proceeding, the Commission issued D.04-07-022 in SCE's Test Year 2003 General Rate Case (GRC). In that decision, the Commission approved SCE's proposal to include its electric vehicle expenses in base rates, effective May 22, 2003, the effective date of the GRC decision. Since electric vehicle expenses from May 22, 2003 forward are now included in base rates, they are not subject to reasonableness review in the ERRA. The review period that should be considered in this proceeding should therefore be modified to August 1, 2001 through May 21, 2003.

13.7. Discussion

As noted by SCE, ORA did not contest the reasonableness of the costs indicated above. We have considered SCE's testimony and find it to be persuasive in justifying the uncontested costs. We therefore find these costs reasonable, as requested by SCE.

14. Confidential Information

At SCE's request, the following exhibits were identified and received into evidence under seal[20]:

- Exhibit 9 – ERRA Reasonableness of Operations, Volume 1
- Exhibit 10 – Errata to Exhibit 9
- Exhibit 13 -- ERRA of Operations, Volume 2
- Exhibit 14 – Errata to Exhibit 9
- Exhibit 19 – Rebuttal Testimony
- Exhibit 22 – Workpapers associated with Exhibit 13, Chapter 5, Pages 3 and 4.
- Exhibit 23 -- SCE analysis of a contract in dispute
- Exhibit 24 – Comparison of SCE Available Supply with SCE Load
- Exhibit 25 – Additional Errata to Exhibit 9

According to SCE, portions of the testimony and exhibits accompanying its application contain commercially sensitive, confidential, and proprietary information on its electric energy resources and its plans for managing its power resources to meet customer needs on a least cost basis. SCE claims that maintaining the confidentiality of this information is critical to protecting its ability to function effectively in both the electric and gas markets.

A review of Exhibit 1 indicates that the redacted portions relate to details of SCE's least cost dispatch implementation, benefit/cost information related to transition capacity contracts, bidding strategies related to the auction of firm transmission rights, and details of contract dispute settlement payments and other information that might put SCE at a competitive disadvantage, if revealed. Maintaining this information under seal for a period of one year is reasonable

[20] Redacted versions of Exhibits 9, 10, 13, 14 and 19 were also introduced by SCE and received into evidence.

and consistent with the provisions of Pub. Util. Code § 454.5(g), which states the Commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan.

Similarly, confidential and redacted versions of the Report on Reasonableness Review were introduced by ORA and received as Exhibits 27 and 28. The redacted portions of ORA's testimony are consistent with the information that SCE has redacted in its exhibits. Therefore, since we have determined that it is reasonable to maintain SCE's requested information under seal, it is reasonable to do likewise for Exhibit 27, with the same conditions.

15. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with the Pub. Util. Code § 311(d) and Rule 77.1 of the Rules of Practice and Procedure. SCE, ORA and Pacific Gas & Electric Company filed comments on October 18, 2004. Reply comments were filed on October 25, 2004. CDWR also commented in an October 18, 2004 memorandum addressed to the assigned commissioner and administrative law judge.

To the extent that the comments merely reargued the parties' positions taken in their briefs, those comments have not been given any weight. Comments that focused on factual, legal or technical errors have been considered, and appropriate changes have been made.

At the time SCE filed its briefs in this proceeding, it requested the Commission to hold oral argument on the issue of the proper scope of review of least-cost dispatch in the ERRA. The request was considered by the assigned commissioner's office and the administrative law judge and it was agreed that

oral argument was not necessary at that time. In its comments on the PD, SCE has renewed its request for oral argument. In response, ORA states that SCE has fully voiced its disagreement with ORA, and the existence of a legal dispute between SCE and ORA is known and is not an adequate basis for convening oral argument now.

The positions of both SCE and ORA, as presented in direct testimony, rebuttal testimony, opening briefs, reply briefs, comments on the PD and reply comments on the PD, while contrary, are clear. The record is sufficient to address the issue of least-cost dispatch review, consistent with the requirements of AB 57 and prior Commission decisions. SCE's request for oral argument is therefore denied.

16. Comments on the Alternate Decision

The proposed alternate decision of the Commissioner Susan P. Kennedy in this matter was mailed to the parties in accordance with the Pub. Util. Code § 311(e) and Rule 77.6(d) of the Rules of Practice and Procedure. SCE and ORA filed comments on January 20, 2005. Reply comments were filed on January 25, 2005. Changes in response to comments have been made herein.

17. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and David K. Fukutome is the assigned ALJ for this proceeding.

Findings of Fact

1. SCE is required to demonstrate cost optimization of its overall supply portfolio.

2. Least-cost dispatch is an up-front standard that is included in the SCE's procurement plan. Any subsequent review of dispatch in SCE's ERRA filings merely ensures that SCE has complied with the approved procurement plan.

3. Review of least-cost dispatch includes all of SCE's dispatched resources and surplus energy sales.

4. For least-cost dispatch review, it is reasonable to include SCE's decisions to dispatch the resources under its control in the daily, hourly and real-time markets.

5. The standard of review for SOC 4 is compliance.

6. Least-cost dispatch is not evaluated in the quarterly compliance advice letter process.

7. Imposing a compliance review process for least-cost dispatch under SOC 4 rather than a reasonableness review process does not diminish the Commission's ability to ensure just and reasonable rates.

8. It is reasonable to continue to address dispatch of spot market transactions in the ERRA and all other aspects of spot market transactions in the quarterly compliance advice letter process.

9. SCE's least-cost dispatch activities during the record period were reasonable.

10. SCE's contract administration and costs during the record period were reasonable.

11. SCE's cogeneration QFs and renewable contract administration and costs were reasonable during the record period.

12. The hydro spill contract provisions that enforce the hydro savings price for affected QFs are outdated.

13. Specific information for future ERRA filings is more appropriately obtained through a master data request process, rather than through an order in this decision.

14. The master data request has been used successfully in the past and is an efficient tool that allows ORA to more quickly focus on issues and frame the scope of its review and analysis.

15. SCE's accounting for the CDWR settlement payment is reasonable.

16. ORA's recommendation to exclude $2.85 million in ISO related costs that were booked to the ERRA, is reasonable.

17. ORA's recommendation that SCE amortize transaction fees over the life of the loans that SCE acquired to refinance procurement liabilities is consistent with GAAP.

18. The SCE and ORA agreement that the ERRA should be credited in the amount of $9.398 million to reflect the unamortized transaction fees as of July 31, 2003, and debited in the amount of $9.367 million to reflect the amount of fees amortized during the remaining life of the loans, August 1, 2003 through December 19, 2003, is reasonable.

19. The SCE and ORA proposal to only include 50% of the disputed retraining costs, or $0.693 million, in rates is reasonable.

20. SCE's hydroelectric, coal and Catalina generation operations were reasonable during the record period.

21. SCE's administration of special contracts was reasonable during the record period.

22. Letter of credit commission fees, letter of credit issuance fees, letter of credit commitment and participation fees and ISO escrow fees were required for SCE to post collateral to transact for power, and were reasonably incurred during the record period.

23. ISO-related costs incurred during the record period are reasonable.

24. The monthly fuel oil inventory costs recorded during the record period are reasonable.

25. SCE expenditures for electric vehicle costs incurred during the seventh review period August 1, 2001 through May 21, 2003 are reasonable.

26. At the request of SCE, Exhibits 9, 10, 13, 14, 19, 22, 23, 24 and 25 were identified and received under seal.

27. At the request of ORA, Exhibit 27 was identified and received under seal.

Conclusions of Law

1. In the ERRA, consistent with SOC 4, SCE must demonstrate that it has prudently administered all contracts, including CDWR contracts and generation resources and dispatched its energy in a least-cost manner.

2. Least-cost dispatch review in the ERRA should include SCE's decisions to dispatch the resources under its control in the daily, hourly and real-time markets.

3. SCE's request to combine review of spot market transactions in one forum rather than in both the ERRA and quarterly compliance advice letter process should be denied.

4. SCE should seek resolution of problems associated with implementing outdated hydro spill provisions in R.04-04-025.

5. As specified in the body of this decision, SCE and ORA should develop and implement a master data request process to be used in SCE's 2005 ERRA filing.

6. SCE should make the proper accounting adjustments to reflect the ORA/SCE recommended audit adjustments related to ISO costs, amortization of refinancing transaction fees, and employee retraining costs.

7. Information placed under seal should remain sealed for the limited period of time specified herein; if disclosed, it would put SCE at a competitive disadvantage.

8. Today's order should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. Southern California Edison's (SCE's) request to combine review of spot market transactions in one forum rather than in both the Energy Resource Recovery Account (ERRA) proceeding and the quarterly compliance advice letter process is denied.

2. As specified in the body of this decision, SCE and ORA shall develop and implement a master data request process to be used in SCE's 2005 ERRA filing.

3. SCE shall make the proper accounting adjustments to reflect the ORA/SCE recommended audit adjustments related to Independent System Operator costs, amortization of refinancing transaction fees, and employee retraining costs, as detailed in the body of this decision.

4. All information placed under seal shall remain sealed for a period of one-year from the effective date of this decision, unless the Commission decides otherwise. If SCE believes that further protection of sealed information is needed beyond this time, it may file a motion stating the justification for further withholding of the sealed information from public inspection, or for such other relief as the Commission may provide. This motion shall be filed no later than 30 days before the expiration of this ordering paragraph.

5. SCE's request for oral argument on the scope of review for least-cost dispatch is denied.

6. Application 03-10-022 is closed.

This order is effective today.

Dated _____, at San Francisco, California.