Decision **DRAFT DECISION OF ALJ BARNETT** **(Mailed 1/25/2005)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 339 E) for Authority to, Among Other Things, Increase Its Authorized Revenues for Electric Service in 2003, and to Reflect that Increase in Rates.	Application 02-05-004 (Filed May 3, 2002)
Investigation on the Commission's Own Motion Into the Rates, Operations, Practices, Service and Facilities of Southern California Edison Company.	Investigation 02-06-002 (Filed June 6, 2002)

DECISION ALLOCATING SOUTHERN CALIFORNIA EDISON COMPANY'S REVENUE REQUIREMENT OF $9.2 BILLION

I. Introduction

This proceeding was initiated by Southern California Edison Company (SCE) seeking a rate increase of $251 million. In Phase 1, we authorized a rate increase of $73 million on a revenue requirement of $8.47 billion (Decision (D.) 04-07-022) totaling $9.2 billion. In this Phase 2, we allocate the revenue requirement responsibility to customer classes and we design the rate structure.

SCE served its prepared direct testimony on marginal costs, revenue allocation, and rate design in Phase 2 on October 30, 2002. SCE updated its initial showing on March 23, 2003. The Office of Ratepayer Advocates (ORA) served its initial testimony on July 1, 2003. Intervenors served testimony on

August 29, 2003, and various parties served rebuttal testimony on September 30, 2003.

On December 3, 2003, SCE provided notice to all parties of its intent to conduct a telephonic conference related to potential settlement of issues in Phase 2 of this proceeding. In compliance with Rule 51.1(b), of the Commission's Rules of Practice and Procedure (Rule), an initial settlement conference was held on December 12, 2003. Additional settlement conferences have taken place over a considerable period of time among parties related to the potential settlement of issues in this proceeding. On November 10, 2004, pursuant to Rule 51 SCE, on behalf of itself and the Settling Parties,[1] moved that the Commission adopt and find reasonable the "Settlement of Issues Related to Marginal Costs, Revenue Allocation, And Rate Design In Phase 2 of Southern California Edison's 2003 General Rate Case," (Settlement Agreement) (Attachment A). The Settling

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[1] SCE; The Utility Reform Network (TURN); ORA; California Farm Bureau Federation (CFBF); Agricultural Energy Consumers Association (AECA); Federal Executive Agencies (FEA); California Manufacturers and Technology Association (CMTA); California Large Energy Consumers Association (CLECA); Indicated Commercial Parties (ICP); the California Clean DG Coalition (CCDC), formerly known as the Joint Parties interested in Distributed Generation/Distributed Energy Resources; the California City-County Street Light Association (CAL-SLA); the Western Manufactured Housing Communities Association (WMA); the Cogeneration Association of California and Energy Producers and Users Coalition (CAC/EPUC); and the Natural Resources Defense Council (NRDC) are collectively referred to herein as the Settling Parties.

The Settlement Agreement is joined by Manfred Gildner, an SCE residential customer, who intervened in this proceeding and raised an issue regarding the baseline allocation provided to a small number of customers in a portion of the city of San Bernardino. That issue is addressed in Paragraph 6.c.ii.k of the Settlement Agreement.

parties assert that the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

SCE and the active parties to this proceeding have reached a settlement that resolves all outstanding issues regarding marginal costs, revenue allocation, and rate design that are the subject of Phase 2 of SCE's General Rate Case (GRC). SCE will adjust their current rates and tariff schedules for all customers pursuant to the terms of the Settlement Agreement.

The parties in this proceeding represent virtually every spectrum of customer interests. Many of the parties participated by serving prepared testimony. Each of those proposals would have resulted in a wide range of outcomes relative to SCE's and the ORA's positions. SCE and the Settling Parties executed the Settlement Agreement on or after November 1, 2004.

II. Terms of the Settlement

The Settlement Agreement resolves all issues related to Phase 2 of SCE's 2003 GRC. Its primary provisions are summarized below:

A. Revenue Allocation

The revenue allocation results for bundled-service and direct-access customers are shown in Appendix B to the Settlement Agreement and are summarized in Table II-1.

Table II-1
Revenue Allocation

Rate Group	Bundled Service		Direct Access Service		Retail Service	
	Capped Revenue ($MM)	% Change	Capped Revenue ($MM)	% Change	Capped Revenue ($MM)	% Change
Domestic						
CARE	455.0	3.70%	1.0	-11.92%	456.0	3.66%
Non-CARE	2,926.0	3.70%	21.2	-1.57%	2,947.2	3.66%
Group Total	3,381.0	3.70%	22.2	-2.07%	3,403.2	3.66%
Lighting, Small Med. Power						
GS-1	649.3	-5.20%	7.8	-13.03%	657.1	-5.30%
TC-1	8.3	-7.88%	0.1	11.16%	8.4	-7.63%
GS-2	2,554.7	-2.60%	216.0	11.64%	2,770.7	-1.63%

Time of Use (TOU) - GS-2	61.9	-20.53%	4.5	-13.60%	66.4	-20.09%
Group Total	3,274.1	-3.55%	228.5	9.93%	3,502.6	-2.77%
Large Power						
TOU-8 - Sec	783.2	-0.91%	122.1	3.14%	905.3	-0.38%
TOU-8 - Pri	476.5	-1.99%	98.1	-1.71%	574.6	-1.94%
TOU-8 - Sub	280.8	-0.64%	156.6	-0.64%	437.4	-0.64%
Group Total	1,540.4	-1.20%	376.8	0.27%	1,917.3	-0.91%
Agricultural and Pumping						
PA-1	56.4	-4.71%	0.4	11.64%	56.8	-4.62%
PA-2	38.2	-2.63%	1.2	3.69%	39.5	-2.43%
TOU – Ag	95.1	2.00%	3.2	3.99%	98.3	2.06%
TOU – PA - 5	88.1	2.00%	0.4	11.64%	88.4	2.04%
Group Total	277.8	-0.08%	5.2	4.91%	283.0	0.00%
Street and Area Lighting	84.8	-7.71%	1.3	11.64%	86.2	-7.46%
Grand Total	8,558.2	-0.30%	634.0	3.52%	9,192.2	-0.05%

The principles and assumptions used to develop these results are summarized below:

- The Settlement Agreement establishes revenue responsibility for each of SCE's generation and the Department of Water Resources Power Charge revenue requirement, and the revenue requirements for transmission, distribution, Department of Water Resources bond charge, direct access (DA) cost responsibility surcharge, nuclear decommissioning, and public purpose programs.
- In order to avoid harsh bill impacts while at the same time moving revenue responsibility toward the cost of service each rate group imposes on SCE, the Settlement Agreement provides for a cap on revenue responsibility for bundled-service customers of the system average percentage change (SAPC) for bundled service customers plus four percent. The revenues assigned to DA customers in each of the rate groups shall not exceed the system average percentage change for DA customers plus 5%.
- The Settlement Agreement provides that the revenue deficiency created by the capping of the revenues

allocated to the bundled-service customers shall be allocated to all other rate groups who are otherwise receiving revenue decreases. However, bundled-service customers in such rate groups, on average, shall receive no less than 40% of the revenue decrease the rate group otherwise would have received in the absence of any capping of the increased revenue responsibility to any bundled-service rate group. The amount of the revenue reduction or the revenue increase to rate groups resulting from the capping of revenues allocated to bundled-service customers shall be allocated to SCE's distribution and generation rate components based on marginal distribution and generation cost revenues, respectively. DA customers only receive the benefit or detriment of capping with regard to the distribution rate component.

- Under the terms of the Settlement Agreement, the projected revenue deficiency of approximately $16 million created by the capping of revenues allocated to DA customers at SAPC plus 5% will not be reallocated to other DA or bundled-service customers. This revenue deficiency will be reflected in the appropriate SCE balancing accounts for future amortization in rates. The benefit of this cap to the affected DA customers will be reflected in a ¢/kWh credit to those customers in order to maintain a uniform SCE delivery rate for both DA and bundled-service customers.

These revenue allocation issues are addressed in the Settlement Agreement beginning at Paragraph 6. b)(1) (Page 10) through Paragraph 6. b)(4)b. (Page 17).

B. Rate Design

The rate design results are provided in Appendix C to the Settlement Agreement, which shows current and proposed rates for SCE's rate schedules.

While rate design may vary among SCE's rate groups and rate schedules, the Settlement Agreement employs the following common pricing principles:

- Customer charges shall be maintained at the levels established by Advice Letter 1808-E, as they were implemented on August 5, 2004.
- Recovery of Delivery Costs
- For non-demand-metered rate schedules, all delivery costs shall be recovered through seasonal or flat annual energy charges.
- Recovery of Generation-related costs
- For non-demand metered rate schedules, generation-related costs shall be recovered through energy charges on SCE's rate schedules (similar to delivery costs).
- For demand-metered rate schedules, generation-related costs shall be recovered through seasonal or TOU energy and demand charges. Total generation-related costs are divided into energy – and capacity – related components for recovery through energy and demand charges based on rates in effect prior to the addition of the energy surcharges in 2001.
- Demand charges

  For demand-metered rate schedules, distribution costs (excluding generation A&G allocated to SCE's distribution revenue requirement) shall be allocated on a pro rata basis of 68% and 32% to non-coincident and coincident demands, respectively, of rate groups and shall be recovered through facilities-related and peak-demand related (seasonal or TOU) demand charges.
- Facilities Related Demand Charges

  For demand metered rate schedules, a portion of generation capacity – related costs, 68% of distribution costs, as well as the FERC-authorized transmission

charges, shall be recovered through facilities-related demand charges.

- Peak Demand Charges

  Remaining generation capacity-related costs, as well as 32% of distribution costs shall be allocated to season or TOU period by the Loss of Load Probability method. These costs shall be recovered through seasonal or TOU demand charges.

Specific rate design issues that are related to each rate group are addressed separately in the Settlement Agreement at Paragraphs 6. c)(2) (Page 21) through 6. c)(8) (Ending at page 36).

III. Request for Adoption of the Settlement Agreement

The Settlement Agreement is consistent with Commission decisions on settlements which express the strong public policy favoring settlement of disputes if they are fair and reasonable in light of the whole record.[2] This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.[3] This strong public policy favoring settlements weighs in favor of our resisting the temptation to alter the results of the negotiation process. As long as a settlement taken as a whole is reasonable in light of the record, consistent with the law, and in the public interest it should be adopted.

This Settlement Agreement complies with Commission guidelines and relevant precedent for settlements. The general criteria for Commission approval of settlements are stated in Rule 51.1(e), as follows:

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[2] *See e.g.*, D.88-12-083 (30 CPUC 2d 189, 221-223) and D.91-05-029 (40 CPUC 2d. 301, 326).

[3] D.92-12-019, 46 CPUC 2d 538, 553.

> The Commission will not approve stipulations or settlements, whether contested or uncontested, unless the stipulation or settlement is reasonable in light of the whole record, consistent with law, and in the public interest. (Emphasis added.)[4]

The Settlement Agreement complies with Commission guidelines and relevant precedent for settlements. The general criteria for Commission approval of settlements are stated in Rule 51.1(e), as discussed in Section III.A., below.

In addition, the parties to the Settlement Agreement are the active parties, *i.e.*, those parties submitting testimony in this phase of this proceeding. Thus, the Settlement Agreement is an all-party settlement and satisfies the criteria set forth in decisions on all-party settlements, including D.92-12-019 (All-Party Settlement Decision).[5]

In the All-Party Settlement Decision (a settlement of San Diego Gas & Electric Company's 1993 General Rate Case), the Commission outlined four conditions that "must be satisfied" in order for the Commission to approve an all-party settlement. The sponsoring parties must show that:

a. The settlement agreement commands the unanimous sponsorship of all active parties to the proceeding;

b. The sponsoring parties are fairly reflective of the affected interests;

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[4] *See also, Re San Diego Gas & Electric Company*, D.90-08-068, 37 CPUC 2e 360: "[S]ettlements brought to this Commission for review are not simply the resolution of private disputes, such as those that may be taken to a civil court. The public interest and the interest of ratepayers must also be taken into account and the Commission's duty is to protect those interests."

[5] *See e.g.*, Application of Pacific Gas & Electric Company, D.96-09-037, 1996 Cal. PUC Lexis 904, p. 12; *Re Application of San Gabriel Valley Water Company*, D.96-07-057, 1996 Cal. PUC Lexis 809, p. 25.

c. No term of the settlement contravenes statutory provisions or prior Commission decisions; and

d. The settlement conveys to the Commission sufficient information to permit it to discharge its future regulatory obligations with respect to the parties and their interests.[6]

The Settlement Agreement meets the criteria for an all-party settlement, as discussed in Section III.B., below.

A. The Settlement Is Reasonable in Light of the Record, Consistent with Law, and in the Public Interest

1. The Settlement Agreement is Reasonable in Light of the Record

The prepared testimony and this motion contain the information necessary for us to find the Settlement Agreement reasonable in light of the record. Prior to the settlement, parties conducted extensive discovery, and served detailed testimony on the issues related to marginal costs, revenue allocation and rate design. The prepared testimony and related exhibits are set forth below, and have been made part of the record of this proceeding:

Table III-1
Exhibit List

Exhibit	Party	Document	Date	
			Intro.	Recd.
2-1	SCE	SCE-13 Policy Proposals	11/1/04	11/1/04
2-2	SCE	SCE-14 Marginal Cost & Sales Forecast Proposals	11/1/04	11/1/04
2-3	SCE	SCE-15 Allocation Proposals	11/1/04	11/1/04
2-4	SCE	SCE-16 Rate Design Proposal	11/1/04	11/1/04
2-5	SCE	SCE-17 Load Control Proposal	11/1/04	11/1/04
2-6	SCE	SCE-18 Proposed Rate Schedule Changes	11/1/04	11/1/04

[6] *See* D.92-12-019, 46 CPUC 2d 538, 550-551 (1992); D.97-06-066, 1997 Cal PUC LEXIS 229, *19.

2-7	SCE	SCE-19 Witness Qualifications	11/1/04	11/1/04
2-8	SCE	SCE-13 Updated	11/1/04	11/1/04
2-9	SCE	SCE-14 Updated	11/1/04	11/1/04
2-10	SCE	SCE-15 Updated	11/1/04	11/1/04
2-11	SCE	SCE-16 Updated	11/1/04	11/1/04
2-12	SCE	SCE-17 Updated	11/1/04	11/1/04
2-13	SCE	SCE-18 Updated	11/1/04	11/1/04
2-14	SCE	Marginal Cost Update	11/1/04	11/1/04
2-15	ORA	Phase 2 Testimony	11/1/04	11/1/04
2-16	ORA	Errata to Phase 2 Testimony	11/1/04	11/1/04
2-17	TURN	Phase 2 Testimony of Jeff Nahigian	11/1/04	11/1/04
2-18	TURN	Phase 2 Testimony of William Marcus	11/1/04	11/1/04
2-19	AECA	Phase 2 Testimony	11/1/04	11/1/04
2-20	WMA	Phase 2 Testimony	11/1/04	11/1/04
2-21	FEA	Phase 2 Testimony	11/1/04	11/1/04
2-22	NRDC	Phase 2 Testimony	11/1/04	11/1/04
2-23	CAL-SLA	Phase 2 Testimony	11/1/04	11/1/04
2-24	PG&E	Phase 2 Testimony	11/1/04	11/1/04
2-25	Indicated Commercial Parties	Phase 2 Testimony	11/1/04	11/1/04
2-26	CFBF	Phase 2 Testimony	11/1/04	11/1/04
2-27	CAC/EPUC	Phase 2 Testimony	11/1/04	11/1/04
2-28	CLECA	Phase 2 Testimony	11/1/04	11/1/04
2-29	Joint Parties	Phase 2 Testimony	11/1/04	11/1/04
2-30	PG&E	Phase 2 Rebuttal Testimony	11/1/04	11/1/04
2-31	FEA	Phase 2 Rebuttal Testimony	11/1/04	11/1/04
2-32	ORA	Phase 2 Rebuttal Testimony	11/1/04	11/1/04
2-33	ICP	Phase 2 Rebuttal Testimony	11/1/04	11/1/04
2-34	AECA	Phase 2 Rebuttal Testimony	11/1/04	11/1/04
2-35	WMA	Phase 2 Rebuttal Testimony	11/1/04	11/1/04
2-36	CLECA	Phase 2 Rebuttal Testimony	11/1/04	11/1/04
2-37	TURN	Phase 2 Rebuttal Testimony of William Marcus	11/1/04	11/1/04
2-38	TURN	Phase 2 Rebuttal Testimony of Jeff Nahigian	11/1/04	11/1/04
2-39	SCE	SCE-31 Phase 2 Rebuttal Testimony	11/1/04	11/1/04

The Settlement Agreement represents a reasonable compromise of the parties' positions. The prepared testimony of the parties, comprising the record for Phase 2, contains sufficient information for us to judge the reasonableness of the Settlement Agreement.

2. The Settlement Agreement is Consistent With Law

The Settling Parties believe that the terms of the Settlement Agreement comply with all applicable statutes and prior Commission decisions, and reasonable interpretations thereof. In agreeing to the terms of the Settlement Agreement, the Settling Parties have explicitly considered the relevant statutes and Commission decisions and believe that we can approve the Settlement Agreement without violating applicable statutes or prior Commission decisions.

3. The Settlement Agreement is in the Public Interest

The Settlement Agreement is a reasonable compromise of the Settling Parties' respective positions. The Settlement Agreement is in the public interest and in the interest of SCE's customers. The agreed-upon revenue allocation moderates potentially harsh bill impacts while at the same time moving revenue responsibility close to the cost of service. The Settlement Agreement avoids the cost of further litigation, and frees up Commission resources for other proceedings. Given that our workload is extensive, the impact on Commission resources is doubly important. The Settlement Agreement frees up the time and resources of other parties as well, so that they may focus on other proceedings.

The Settling Parties assert that each portion of the Settlement Agreement is dependent upon the other portions of the Settlement Agreement. Changes to one portion of the Settlement Agreement would alter the balance of interests and the mutually agreed upon compromises and outcomes which are contained in the Settlement. As such, the Settling Parties request that it be adopted as a whole by the Commission, as it is reasonable in light of the whole record, consistent with law, and in the public interest.

B. The Settlement Agreement Meets the Commission's Criteria for an All-Party Settlement

The Settling Parties are the active parties in Phase 2 of SCE's GRC. Therefore, the Settlement Agreement commands the unanimous sponsorship of all active parties in this proceeding. The Settling Parties fairly represent the interests of the parties affected by the Settlement Agreement. The Settling Parties believe that the terms of the Settlement Agreement comply with all relevant statues and prior Commission decisions.

We find that the prepared testimony and evidentiary record contain sufficient information for us to judge the reasonableness of the Settlement Agreement and for us to discharge any future regulatory obligations with respect to this matter.

IV. Comments on the Settlement Agreement

The Alliance for Retail Energy Markets (AReM) has filed comments on the Settlement Agreement along with a concurrent motion to intervene. The motion is granted. AReM states that it does not support the adoption of the Settlement Agreement, but does not challenge the Settlement Agreement, or seek a hearing on any issue related to the Settlement Agreement. AReM requests that the Commission make it clear that if the Settlement Agreement is adopted, any principle or procedure agreed to in the Settlement Agreement shall not establish any precedent in future Commission proceedings and that the marginal costs agreed in the settlement do not accurately reflect SCE's cost of service and shall not be used for any other purpose or in any future proceeding.

SCE responded to AReM's comments and agrees that the principles and terms reflected in the Settlement Agreement cannot be used as precedent in subsequent Commission proceedings. The methodology used to develop the marginal costs in the Settlement Agreement cannot be cited as binding precedent

in any other Commission proceeding. This is explicitly noted on page 37 of the Settlement Agreement.

AReM's contention that the marginal costs reflected in the Settlement Agreement shall not be used for any other purposes or in any future Commission proceedings takes the restriction on using the settlement in future proceedings beyond its conventional meaning. As SCE asserts, and we agree, if AReM's argument had merit, then SCE could not use the rates approved within the Settlement Agreement as a defense to any complaint case because AReM's argument would mean that such rates could not be used for any other purpose or in any future Commission proceedings. The Settlement Agreement is a reasonable compromise of the litigation positions of the parties. AReM participated in the negotiations that culminated in the Settlement Agreement; it had the opportunity to present its position. We see no reason to anticipate the effect of the Settlement Agreement on hypothetical rate issues.

V. Comments on the Draft Decision

The draft decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311(g)(1) of the Public Utilities Code and Rule 77.7 of the Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____.

VI. Assignment of Proceeding

Susan P. Kennedy is the Assigned Commissioner and Robert Barnett is the assigned ALJ in this proceeding.

Findings of Fact

1. In Phase 1 of this proceeding a rate increase of $73 million was authorized on a revenue requirement of $8.47 billion, totaling $9.2 billion.

2. On November 10, 2004, SCE, on behalf of the Settling Parties filed a motion requesting the Commission to adopt a settlement agreement entitled "Settlement of Issues Related to Marginal Costs, Revenue Allocation, and Rate Design In Phase 2 of Southern California Edison's General Rate Case."

3. All issues in this Phase 2 are encompassed by, and resolved in, the Settlement Agreement.

4. The revenue allocation set forth in Table II-1 of this decision is reasonable and is adopted.

5. The rate design set forth in Appendix C to the Settlement Agreement is reasonable and is adopted.

6. All the parties to the Settlement Agreement are all of the active parties in Phase 2.

7. The Settling Parties are fairly reflective of the affected interests.

8. No term of the Settlement Agreement contravenes statutory provisions or prior Commission decisions.

9. The Settlement Agreement conveys to the Commission sufficient information to permit it to discharge its future regulatory obligations with respect to the parties and their interests.

10. The Settlement Agreement is reasonable in light of the record, is consistent with law, and is in the public interest.

Conclusion of Law

The Settlement Agreement should be approved.

O R D E R

IT IS ORDERED that:

1. The Settlement Agreement is approved.

2. Within 10 days of the effective date of this order, Southern California Edison Company shall file an Advice Letter with revised tariff sheets to implement the authority granted in this decision. The revised tariff sheets shall become effective March 1, 2005, subject to a finding of compliance by the Energy Division, and shall comply with General Order 96-A. The revised tariff sheets shall apply to service rendered on or after their effective date.

3. Application 02-05-004 and Investigation 02-06-002 are closed.

This order is effective today.

Dated _____, at San Francisco, California.