Decision 03-09-016 September 4, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Verification, Consolidation, and Approval of Costs and Revenues in the Transition Revenue Account.	Application 98-07-003 (Post PX Direct Access Credits; Petition to Modify Filed October 16, 2002)

(Appearances are in Appendix A.)

DECISION GRANTING SOUTHERN CALIFORNIA EDISON'S PETITION TO MODIFY DECISION 02-07-032

Southern California Edison Company (SCE) petitions to modify Decision (D.) 02-07-032 to reflect that the appropriate portion of SCE's Procurement Related Obligation Account (PROACT) balance to collect from Direct Access (DA) customers is $493 million, rather than $391 million as adopted in D.02-07-032. This decision grants the petition and authorizes $473 million.

Background

On October 2, 2001, the Commission and SCE reached a settlement agreement in Federal District Court Case No. 00-12056RSWL (Mcx) that allows SCE to recover its alleged past procurement cost undercollections as measured by the starting balance in SCE's PROACT. That balance was $3.577 billion as of August 31, 2001. The settlement agreement was approved by the Federal District Court on October 5, 2001. On January 23, 2002, the Commission adopted the ratemaking framework of the settlement in Resolution E-3765.

In Application (A.) 98-07-003, SCE proposed to establish a Historical Procurement Charge (HPC), and to adjust the credit that DA customers receive so that DA and bundled service customers would make equivalent contributions to the recovery of SCE's past procurement cost undercollections reflected in the PROACT balance. SCE's proposal was based on the theory that similarly situated bundled service and DA customers contributed in the same manner to the PROACT balance. SCE proposed that the HPC amount, which is only applicable to DA customers, be set at $496.8 million.

In D.02-07-032, we determined that the amount to be recovered from DA customers through the HPC was the amount SCE paid and was obligated to pay for negative credits.[1] The HPC amount adopted in D.02-07-032 was $391 million. We noted that:

> "SCE, in its comments on the APD, states that the $391 million calculation ignores several 'other significant sources of contribution to the PROACT balance by DA customers.' However, none of the other sources discussed by SCE are delineated on the record, or quantified. SCE or any other party may file a Petition to Modify this order if there is new evidence on this point." (D.02-07-032 at p. 21.)

SCE asserts that it filed this petition to modify D.02-07-032 because it believes that the conclusions reached in D.02-07-032 are defective, and in particular, that the Commission's rejection of the fact that DA customers made equivalent contributions, on a per kWh basis, to SCE's procurement cost undercollections is wrong. SCE has provided an analysis that calculates the

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[1] D.02-07-032, at p. 21. A negative credit is the net amount that SCE would owe a customer during a particular billing cycle. This anomaly of paying customers to take service resulted from the DA credit exceeding the entire amount of a customer's bill as determined under the frozen rates.

contribution that the current DA customers made to SCE's past procurement cost undercollections that directly addresses our request for additional record evidence. This analysis is based on a customer-by-customer evaluation, and finds that the appropriate balance to collect from DA customers, consistent with the methodology adopted in D.02-07-032, is $493 million.

TURN support SCE. TURN argues that all customers, both bundled and DA, contributed equally to the revenue shortfall, and all should pay equally.

The California Manufacturers & Technology Association (CMTA) and the California Large Energy Consumers Association (CLECA) oppose SCE's petition. They argue that SCE's attempt to increase the HPC by $102 million fails to set forth any new facts or circumstances necessary to justify modification of the original decision and, in fact, raises more questions than it answers. They say that both in the initial and current phases of this proceeding, SCE has repeatedly failed to justify the amounts it seeks to recover via the HPC.

Public hearing was held and the matter submitted.

SCE's Evidence

SCE's witness testified he performed a detailed analysis to determine how much each DA customer contributed to SCE's past procurement cost undercollections. He said the use of individual customer calculations avoids having to rely on indirect measures such as the credit bills SCE paid to the energy service providers (ESPs), as was done in D.02-07-032.

SCE conducted two independent analyses. For the first analysis, SCE identified all of its customers who were DA on July 24, 2002. This date was selected because it was the most recent date of available data and is virtually identical to the date the HPC was implemented pursuant to D.02-07-032. SCE

used this list of customers to obtain the recorded information from the customers' bills. The information included:

a) Account Id (the identification number for the customer)
b) Account status (Bundled Service or Direct Access)
c) Billing date (date when customer was billed)
d) KWh (total kWh for the billing period)
e) Generation revenue (revenue due to generation charges)
f) Bill limiter (amount of bill limiter for the I-6 customers)
g) I-6 credits (amount of interruptible discount the I-6 customers receive)
h) CTC revenue (revenue due to CTC – reported for Direct Access customers only)
i) Direct Access credit (credit amount – reported for Direct Access customers only)
j) Total bill (sum of all charges, excluding taxes and PUC refund fee).

The data selected was for a sixteen month period beginning May 1, 2000 and ending August 31, 2001. May 1, 2000 is the beginning of the period when SCE's procurement related costs began to exceed its generation related revenues under the frozen rates and ratemaking framework of Assembly Bill 1890. August 31, 2001 is the date when the starting balance for PROACT was established. In addition to this customer-specific information, SCE obtained the historical energy procurement costs for the same recorded period. Historical energy costs were based on the Power Exchange (PX) prices until January 17, 2001, when SCE was no longer able to procure from the PX. For the post-PX period, SCE used the energy cost accounting (ECA) calculations that were used to determine DA credits after the demise of the PX, and which were reflected in SCE's proposed schedule Procured Energy (PE). The historical

energy procurement cost was used to derive generation related costs by multiplying the energy cost, in average cents per kWh, by the total recorded kWh usage for each customer. This calculation takes into consideration that each customer account may be on different tariffs.

After the generation cost was determined, a shortfall amount was calculated for the bundled service customers and was defined as the generation cost minus the generation revenue minus the interruptible credit and interruptible bill limiter credits.[2] Adjustment was made on individual customer bills for the interruptible credit and the interruptible bill limiter credit, which serve to lower the customer's bill, since the cost of these credits is included in SCE's retail rates. The adjustment has the effect of increasing the generation related revenues for a customer with either of these credits. The shortfall amount for DA customers was defined as the negative CTC appearing on those customers' bill adjusted for the interruptible and bill limiter credits. The effect of these calculations is to identify by how much the cost of procuring energy for a bundled service customer, or the equivalent cost of providing DA credits for a DA customer, exceeded the effective generation related revenues, where effective

[2] More accurately, this calculation was done for the time that any of the current DA customers received bundled service, if they were not continuously DA during the entire 16-month period.

generation related revenues are defined as generation related revenues adjusted for the interruptible and bill limiter credits.

The results of this analysis are shown in Table 1, labeled as "Shortfall Caused by Current DA Customers."

Table 1
Shortfall Caused by Current DA Customers

	MWh	Generation Revenue ($M)	Generation Cost ($M)	Total Bill ($M)	I-6 Credits ($)	Shortfall ($M)
Bundled Service[3]	10,713,334	$737,299	$1,445,092	$960,227	($46,883)	($660,910)
Direct Access[4]	4,420,233	$279,127	$600,266	($237,227)	($16,589)	$304,550
Total	15,133,567	$1,016,426	$2,045,358	$723,000	($63,472)	$965,460

[3] This row shows the relevant data for current DA customers while they were on bundled service during the period of May 2000 to August 2001.

[4] This row shows the relevant data for current DA customers for the period of time between May 2000 and August 2001, during which they received DA service. The $600,266,000 shown as the "Generation Cost" reflects the credit that was provided to these DA customers while they received DA service.

For the second analysis, SCE compiled a table with recorded information for all of SCE's accounts. This information is aggregate in nature and included the following information:

a) Customer group (Bundled Service or Direct Access)
b) Customer rate group (any of SCE's 13 rate groups)
c) Date (date of month when information is reported)
d) KWh (total kWh for the reported month)
e) Generation revenue (revenue due to generation charges)
f) Bill limiter (amount of bill limiter for the I-6 customers)
g) I-6 credits (amount of interruptible discount the I-6 customers receive)
h) Direct Access credit (credit amount – reported for Direct Access customers only)
i) Total bill (sum of all charges, excluding taxes and PUC refund fee).

The period of data selected was the same sixteen-month period beginning May 1, 2000 and ending August 31, 2001. Consistent with the first analysis, generation cost and revenue were calculated in the same manner. The shortfall amount for the bundled service customers was defined as the generation cost minus the generation revenue minus the interruptible and bill limiter credits. The shortfall amount for the DA customers was defined as the difference between generation revenue and the DA credits, adjusting again for the impact of interruptible and bill limiter credits. SCE has labeled

this analysis "Total Liabilities" in the results shown in Table 2:[5]

Table 2
Total Liabilities

	MWh	Generation Revenue ($M)	Generation Cost ($M)	I-6 Credits ($M)	Shortfall ($M)
Bundled Service	102,814,056	$7,484,748	$14,204,184	($168,880)	$6,550,556
Direct Access	7,581,456	$458,346	$892,575	($37,380)	$396,849
Total	110,395,512	$7,943,094	$15,096,759	($206,260)	$6,947,405

In general, SCE applied the same methodology for both analyses with the biggest difference being that the "Shortfall Caused by Current DA Customers" analysis uses an individual list of customer accounts, about 44,000 accounts, that are reported every month for a total number of about 700,000 records, while the "Total Liabilities" analysis uses summarized data, with only 16 records each representing the monthly system activity, one for each of the sixteen months.

Summary of Results

The witness testified that based on the results of the analyse, the percent of kWh attributable to DA customers was calculated as "Current DA Customers' MWh" divided by "Total System MWh."

15,133,567 / 110,395,512 = 13.7%

[5] These results are consistent with Attachment 1 of the federal settlement agreement, which shows SCE's total obligations at the beginning of the settlement period.

SCE next calculated the percentage of the shortfall attributable to DA customers as "Shortfall Caused by Current DA Customers" divided by "Total Liabilities."

$965,460 / $6,947,405 = 13.9%[6]

Finally, SCE calculated the "PROACT Obligation of DA Customers" as the PROACT account balance multiplied by the percent of shortfall attributable to DA customers.

$3,577.0m² x 13.9% = $496.8m²

For illustrative purposes, SCE also calculated the "Obligation of DA at 15% of the Load" as the PROACT obligation of DA Customers' multiplied by 15% over the percent of kWh attributable to DA customers.

$496.m² x .150 / .137 = $543.9m²

Again for illustrative purposes, SCE calculated the rate, in cents/kWh, that would be needed to recover the DA obligation over a two-year period, assuming that the DA load was at 15%.

(.139 x $3,577m² / 2)

---------- = 2.31¢/kWh[7]

(.137 x 78,580 gWh)

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[6] This calculation shows that this set of DA customers using 13.7% of SCE's total system kWhs over the period of May 1, 2000 to August 31, 2001 was responsible for 13.9% of SCE's liabilities. This is precisely the one-to-one relationship that SCE relied upon in its original proposal in this proceeding to state that if DA customers represented 15% of SCE's system sales, they should be responsible for 15% of the PROACT balance.

[7] Again, this very close to the HPC of approximately 2.46 cents per kWh proposed by SCE considering the fact that the latter number includes the interest charges for amortization of the PROACT balance over the two years while the calculated 2.31 cents per kWh does not include the interest charges.

These final calculations are responsive to the discussion in D.02-07-032 that SCE's originally proposed charge would be "expected to generate more that $540 million."[8] SCE's methodology originally proposed in A.98-07-003 was oriented toward calculating the HPC as a rate, not as a revenue requirement as adopted in D.02-07-032. The amount of revenue collected in HPC revenues under SCE's proposal depended on the amount of DA load. Since SCE's proposed HPC rate produced an equivalent contribution to PROACT by a DA customer as a similarly situated bundled service customer, it was not necessary to track individual customers.

In the witness's opinion these final two calculations demonstrate that the methodology originally proposed by SCE in A.98-07-003 produces an equivalent result to the customer-by-customer analysis described here. The witness concluded that D.02-07-032 should be modified to adopt a PROACT balance responsibility for SCE's current DA customers of $493 million.

In his rebuttal testimony SCE's witness agreed with CLECA's witness that any contributions to the recovery of the PROACT balance made by current DA customers after September 1, 2001, while they took bundled service, should be subtracted from the $493 million proposed by SCE. SCE's witness estimated that this contribution is approximately $20 million and agreed to reduce the HPC balance to $473 million.

CMTA and CLECA Evidence

The witnesses for CMTA and CLECA testified that SCE's showing in this phase contains several significant errors, such as ignoring roughly $20 million

[8] *See* D.02-07-032, p. 20.

contributed by current DA customers while they received bundled services after September 1, 2001; that rather than identifying new sources of contributions to its past procurement-related liabilities, SCE has simply recalculated the negative credits using a different set of customers and a higher total liability figure ($7.0 billion) than authorized by the settlement ($6.3 billion). They said that SCE's methodology is inconsistent with both the settlement and the approach taken in D.02-11-011 with regard to the responsibility of DA customers for past DWR undercollection. They concluded that the portion of the PROACT balance attributable to customers who received direct access service during the period from May 2000 through August 2001 is no more than approximately $454 million (using SCE's value of $7.0 billion for total procurement-related liabilities) and approximately $393 million (using the settlement balance of $6.3 billion of total procurement-related liabilities).

The CMTA witness testified that SCE has not shown that its method for calculating the shortfall amounts attributable to DA customers is reliable. He said that SCE attempts to combine a "bottoms-up" approach with a "tops-down" approach to calculate DA customer responsibility for past shortfalls, but the two methods produce substantially different results which significantly undermines the credibility of SCE's calculation. He said that to derive the percentage of DA shortfall, SCE used a "bottoms-up" approach (both on a MWh and a dollar basis). (*See* Petition at 7 (Table I – Shortfall Caused by Current DA Customers).) But, to derive the total shortfall, SCE used a "tops-down" approach. (*See* Ex. 3 at 1 (Table II (Revised) Total Liabilities).) He concludes that because SCE does not show that the two methods it uses produce the same result for the total shortfall, the amount that SCE derives is of questionable reliability. His analysis shows that SCE's tops-down approach creates shortfall figures on a $/MWh

basis that are substantially different from its bottoms-up approach, particularly for DA customers.[9] He believes this large discrepancy calls into question the reliability of SCE's approach.

He summarized the results obtained by combining the "bottoms-up" and "tops-down" approaches as follows. SCE divides the total shortfall calculated for current DA customers ($965,460M) resulting from its "bottoms-up" approach in Table I by a Total Liability amount of $7,004,702 M from its "tops-down" analysis shown in Table II (Revised) to derive a percentage of 13.78 which it then multiplies by the PROACT balance of $3,577,000 M to yield the amount of $493 million. (Ex. 3 at 1-2.) Thus, whereas the "tops-down" approach in Table II (Revised) shows that the shortfall arising from DA customers amounted to only 6.5 percent of the total liability ($454 MM divided by $7,004 MM), SCE's "bottoms-up" analysis assigns 13.78 percent of the PROACT to DA customers. (Ex. 3 at 1-2.) The effect of using the Total Liabilities amount of $7.0 billion is to inflate the amount of the shortfall ($454 million) attributable to DA customers. If the $7.0 billion in total liability was scaled back to the $6.3 billion recognized in the federal settlement, the resulting shortfall amount attributable to DA customers would be reduced to approximately $412 million. If DA customers are given a proportionate share of the $300 million absorbed by SCE

[9] Rather than producing comparable shortfall amounts (expressed in $ per MWh) for both bundled and DA customers, CMTA Exhibit 9 shows substantially different results under the SCE methodology for those DA customers that have returned to bundled service. The shortfall attributable to these customers ($47.32/ MWh) is substantially below the shortfalls calculated for both bundled and DA customers computed using either the "tops-down" or "bottoms-up" approaches (approximately $60-65/MWh). Thus, combining the two approaches as SCE does yields anomalous results, in the witness's opinion.

shareholders, the end result is an HPC revenue requirement of less than $395 million – very close to the amount adopted in the D.02-07-032. He recommend that D.02-07-032 not be modified.

TURN's Evidence

TURN believes that CMTA's witness has added little more than confusion to the discussion of DA responsibility. This proceeding is to determine the amount of the PROACT balance that should fairly be attributed to current DA customers for collection through the HPC. TURN's witness analyzed both SCE's testimony and CMTA/CLECA's and concluded that SCE's presentation was accurate. He said the 6.5% that CMTA has developed has nothing to do with the shortfall attributable to current DA customers. Rather, it represents the percentage of Edison's historical undercollection that can be traced to customers who were on DA during the past period when the undercollection was accruing. He said there is no particular relationship between the customers who were on DA in second half of 2000 (when most of the undercollection accrued) and the customers who are on DA today. CMTA ignores the fact that a customer who is on DA today may have been a bundled customer during the period when the undercollection accumulated. That customer should be responsible for the resulting shortfall, and the HPC would be the vehicle through which collection would occur. Customers should pay for the portion of the undercollection that can be attributed to their consumption during the crisis, regardless of whether they were bundled or DA at that time. Edison's proposal attempts to determine that amount. CMTA's calculations produce something entirely different – a lower number that has no real world significance.

TURN asserts that a major issue is the appropriate interest rate to apply to the adopted HPC balance. It proposes a rate of 1% per month, slightly less than

the average rate of 1.19% per month at which actual interest costs have accrued in the PROACT since its creation effective September 1, 2001. TURN argues that since the HPC is simply the DA portion of the overall PROACT, the two accounts should bear the same rate of interest, beginning on the same date – September 1, 2001. No party took exception to TURN's proposal.

TURN also recommends that the collection of the HPC be made explicitly subject to refund, in the event that the Settlement Agreement which is the source of the PROACT account is ultimately held to be unlawful by the courts. Both bundled and DA customers should receive refunds in that eventually.

Discussion

SCE has made a clear and convincing showing that the share of PROACT balance to be paid by current DA customers is $473 million. CMTA/CLECA's position, that the share of the PROACT balance attributable to DA customers should be calculated based on the contribution of customers who received DA service anytime during the period SCE accumulated its undercollection, is untenable. SCE and TURN contend that the calculation should be based on the contributions of current DA customers. CMTA/CLECA take advantage of the fact that the level of DA load on SCE's system during the undercollection period was significantly below the current level of DA to assign a lower responsibility to current DA customers. CMTA/CLECA's approach ignores the large contribution current DA customers made to SCE's procurement-related liabilities while they took bundled service. CMTA/CLECA would shift those costs to current bundled service customers because, they say, "it is quite common for parties that enter a new class to pay historic costs incurred previously by that class even though during the historical period the customer was not a member of that class." In other words, CMTA/CLECA argue that current DA customers

should be allowed to shift the costs incurred on their behalf while they took bundled service during 2000 and 2001 (an undercollection of about $708 million) to current bundled service customers because they left the class of bundled service. This is precisely the kind of cost shifting that this Commission has attempted to eliminate in establishing the DA Cost Responsibility Surcharge (CRS) in R.02-01-011 to keep current bundled service customers indifferent to the migration of customers from bundled to DA service. To follow CMTA/CLECA's flawed approach, we would have allowed current DA customers to avoid all DWR's costs incurred on their behalf while they were on bundled service because they no longer take bundled service. We did not do that in D.02-11-022 and will not do so here.

D.02-07-032 was an interim decision.[10] In that decision we noted that the evidence presented was not all inclusive, and we invited the parties to present additional evidence. (D.02-07-032 at 21.) Further, at the Commission meeting of July 17, 2002, when discussing D.02-07-032, Commissioner Peevey observed "that there is a better number" and Commissioner Brown was concerned "that the DA customers are getting a free ride."

In response to the invitation of D.02-07-032 and the concerns of individual Commissioners, SCE produced a detailed analysis of how much the cost of providing DA credits to DA customers exceeded the effective generation-related revenues (adjusted for interruptible and bill limiter credits) received from those customers. This analysis revealed that current DA customers were responsible for a total shortfall of $493 million. SCE showed the time periods for which the

[10] Ordering Paragraph 6 of D.02-07-032: "This is an Interim Order, subject to potential subsequent modificatioin."

customer was either DA or a bundled service customer, the kWh used as a DA or bundled service customer, the generation and non-generation revenues billed as a DA or bundled service customer, the generation cost of serving the bundled service customer or providing credits to the DA customer, and the shortfall associated with serving the bundled service customer or providing credits to the DA customer.

We have shown the mathematical computation above, under SCE's Evidence, and will not repeat it. It is persuasive. Basically, it provides the details regarding current DA customers who were bundled customers when the HPC undercollection was incurred. It shows individual customer contributions to the SCE undercollection. CMTA's argument that SCE did not provide any new sources of contributions from DA customers to the PROACT balance other than DA credits, is unpersuasive. SCE's workpapers confirm additional contributions of current DA customers to SCE's shortfall while they were on bundled service. SCE also identified the contribution by current DA customers to SCE's undercollection under dual or UDC consolidated billing. In showing contributions from current DA customers while they were on bundled service and from customers under dual or UDC consolidated billing, the evidence shows contributions from sources other than DA credits.

There is no dispute that some of the current DA customers were bundled service customers after September 1, 2001 and have already contributed to the recovery of the PROACT balance. SCE agrees that any contributions to the recovery of the PROACT balance made by current DA customers while they took bundled service should be subtracted from the $493 million proposed by SCE.

SCE estimates that this contribution is approximately $20 million, reducing the proposed sum to $473 million. We adopt SCE's proposed modification for the reason stated.

The evidence is convincing that DA customers made equivalent contributions to SCE's undercollection, leaving no doubt that current DA customers are responsible for considerably more than the $391 million allocation of SCE's PROACT balance found reasonable in D.02-07-032. We find that the evidence supports increasing the DA customers' share of the responsibility for SCE's PROACT balance from $391 million to $473 million.

TURN's proposed interest rate of 1% per month to be applied to the HPC balance is reasonable and will be adopted. Its request to make the HPC subject to refund is denied.

Based on the Findings of Fact made in this proceeding, specific findings in D.02-07-032 should be modified as follows:

5. A HPC designed to recover ~~$391~~ - $473 million requires DA customers pay a fair amount of SCE's past procurement costs.

12. The HPC should be set at an initial level of 2.7¢/kWh, decreasing to 1.0¢/kWh when a cost responsibility surcharge is adopted in R.02-01-011 and continuing at 1.0¢/kWh until ~~$391~~ - $473 million plus interest is collected, or until adjusted by the Commission.

Assignment of Proceeding

Carl W. Wood is the Assigned Commissioner and Robert Barnett is the assigned Administrative Law Judge in this proceeding.

Comments on the Proposed Decision

The proposed decision of the Administrative Law Judge was mailed to the parties in accordance with Pub. Util. Code § 311(d) and Rule 77.1 of the Rules of

Practice and Procedure. SCE, TURN, CMTA, and The Irvine Company (TIC) filed comments. CMTA and TIC merely restate arguments previously made and have not shown error. For instance, CMTA repeats its argument that SCE did not introduce evidence of new sources of undercollections attributable to DA. SCE's new sources include contributions from those current DA customers who were a bundled service during the time SCE incurred its procurement-related liabilities and from those current DA customers who contributed under dual or UDC consolidated billing.

SCE recommends modification of the interest rate provision to reflect an interest rate of 1% per month from September 2001 to July 2003 (the end of PROACT recovery period). It says that after July 2003, the interest rate should equal the rate adopted for the Direct Access Cost Responsibility (DA CRS) undercollection in R.02-01-011. TURN supports SCE's recommendation that once the PROACT is recovered, the HPC should bear interest at the same rate adopted for the DA CRS undercollection. No party opposed this proposal. We agree.

TURN argues that the PD failed to consider its adjustment to the HPC liability which would have negated the $20 million downward adjustment proposed by CLECA/CNTA and adopted in the PD. TURN had made the argument in its testimony that in determining the percentage cost responsibility of current DA customers, SCE compared the portion of the undercollection attributable to those current DA customers to the total shortfall created by all customers during the historical period, including both current and former customers. This approach essentially forces current bundled service customers to pay for all of the shortfall caused by those customers who left the system between the time the undercollection accrued and when it was collected. Both

bundled and DA customers should bear their proportionate share of the shortfall attributable to customers who have left the system.

TURN estimates the adjustment would increase the DA share of the PROACT in approximately the same amount as the CLECA/CMTA adjustment lowered the DA share of the PROACT. Assuming TURN's argument has merit, there is no record evidence to qualify the adjustment. TURN's "back of the envelop" estimate of "about $148 million to $22.2 million" is not persuasive.

Findings of Fact

1. D.02-07-032 was an interim decision in which the Commission invited the parties to submit additional evidence on the amount of the PROACT balance which was the obligation of DA customers.

2. SCE presented additional evidence which reasonably represents the amount of the PROACT balance which is the obligation of current DA customers. That the amount is $473 million.

3. SCE's methodology for determining the amount is reasonable.

4. SCE conducted two independent analyses. For the first analysis, SCE identified all of its customers who were DA on July 24, 2002. This date was selected because it was the most recent date of available data and is virtually identical to the date the HPC was implemented pursuant to D.02-07-032. SCE used this list of customers to obtain the recorded information from the customers' bills. The data selected was for a 16-month period beginning May 1, 2000 and ending August 31, 2001. May 1, 2000 is the beginning of the period when SCE's procurement related costs began to exceed its generation related revenues under the frozen rates and ratemaking framework of Assembly Bill 1890. August 31, 2001 is the date when the starting balance for

PROACT was established. In addition to this customer-specific information, SCE obtained the historical energy procurement costs for the same recorded period.

5. For the second analysis, SCE complied recorded information for all of SCE's accounts. The period of data selected was the same 16-month period beginning May 1, 2000 and ending August 31, 2001. Consistent with the first analysis, generation cost and revenue were calculated in the same manner. The shortfall amount for the bundled service customers was defined as the generation cost minus the generation revenue minus the interruptible and bill limiter credits. The shortfall amount for the DA customers was defined as the difference between generation revenue and the DA credits, adjusting again for the impact of interruptible and bill limiter credits.

6. SCE applied the same methodology for both analyses with the biggest difference being that the "Shortfall Caused by Current DA Customers" analysis uses an individual list of customer accounts, about 44,000 accounts, that are reported every month for a total number of about 700,000 records, while the "Total Liabilities" analysis uses summarized data, with only 16 records each representing the monthly system activity, one for each of the sixteen months.

7. SCE's calculation shows that DA customers using 13.7% of SCE's total system kWhs over the period of May 1, 2000 to August 31, 2001 were responsible for 13.9% of SCE's liabilities.

8. The appropriate interest rate to apply to the adopted HPC balance is a rate of 1% per month, slightly less than the average rate of 1.19% per month at which actual interest costs have accrued in the PROACT since its creation effective September 1, 2001. Since the HPC is simply the DA portion of the overall PROACT, the two accounts should bear the same rate of interest, beginning on

the same date – September 1, 2001. After July 31, 2003, the interest rate should equal the rate adopted for the DA CRS undercollections.

9. CMTA/CLECA's approach is unreasonable. It ignores the large contribution current DA customers made to SCE's procurement-related liabilities while they took bundled service. CMTA/CLECA's argument that current DA customers should be allowed to shift the costs incurred on their behalf while they took bundled service during 2000 and 2001 (an undercollection of about $708 million) to current bundled service customers because they left the class of bundled service, has no merit.

Conclusion of Law

The HPC of $473 million as described in this decision is reasonable and is adopted.

O R D E R

IT IS ORDERED that:

1. Decision (D.) 02-07-032, Findings of Fact 5 and 12 are hereby modified to read as follows:

   5. A HPC designed to recover -$473 million requires DA customers pay a fair amount of SCE's past procurement costs.

   12. The HPC should be set at an initial level of 2.7¢/kWh, decreasing to 1.0¢/kWh when a cost responsibility surcharge is adopted in R.02-01-011 and continuing at 1.0¢/kWh until $473 million plus interest is collected, or until adjusted by the Commission.

2. Southern California Edison Company (SCE) shall begin charging direct access customers the increased Historic Procurement Charge (HPC) authorized by this Order 10 days from today's date.

3. Within five days of today's date SCE shall file an advice letter to implement this Order. The advice letter shall be effective 10 days from today's date subject to the Energy Division determining that it is in compliance with this Order.

4. All Ordering Paragraphs in D.02-07-032 consistent with this decision remain in full force and effect.

This order is effective today.

Dated September 4, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners