PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-3895**
January 27, 2005

R E S O L U T I O N

Resolution E-3895. Southern California Edison (SCE) requests authorization to implement Test Year 2003 General Rate Case (GRC) revenue requirements, 2004 GRC Post Test Year revenue requirements, 2004 consolidated rate level changes and adopted ratemaking mechanisms in accordance with Commission Decision (D.) 04-07-022. This resolution approves SCE's requests with modifications.

By Advice Letter 1808-E. Filed on July 16, 2004.

SUMMARY

SCE filed Advice Letter (AL) 1808-E to request authorization to implement test year 2003 GRC revenue requirements pursuant to D.04-07-022. In addition, SCE requests authorization to consolidate the resulting rate changes with rate changes authorized by the Commission in other proceedings before June 30, 2004.

- SCE's requests are approved with the following modifications:
  - SCE shall file an advice letter to establish an account to track the revenues that it collects from the upper tiers of residential rates resulting from AB1X limitations on Residential tiers 1 and 2.
  - SCE shall file an application to the Commission addressing AB1X limitations within 60 days of the approval of this draft resolution.
  - The protests of the Alliance for Retail Energy Markets (AReM) are granted.
    - SCE shall credit the refund of transmission rate revenues to customer classes through a newly created transmission account and adjust to distribution rates and generation rates.
    - SCE's tariff sheets shall clearly identify the Competition Transition Charge (CTC) component of bundled customer rates. SCE shall make these bill revisions within 60 days.

- SCE shall state the CTC component billed to each customer for a given billing cycle as a separate line item on the customer's bill.
- SCE shall file an advice letter with revised tariff sheets within 14 days from the effective date of this resolution to comply with the provisions of this order. The advice letter shall be effective on today's date subject to the Energy Division determining that it complies with this order.

BACKGROUND

On May 3, 2002, SCE filed its GRC Application 02-05-004 requesting an increase in its base-related revenue requirements for the 2003 test year and 2004 and 2005 post test years.

On July 16, 2004, the Commission issued D.04-07-022 determining SCE's authorized base related revenue requirements. Among the items authorized in D.04-07-022 were the following:

- A Commission jurisdictional base revenue requirement of $2.814 billion for the 2003 test year;
- The consolidation of GRC-related rate changes with revenue requirement changes authorized by the Commission in other proceedings;
- The development of consolidated rates based on a system average percentage change (SAPC) basis in accordance with D.03-07-029.[1]
- The disposition of amounts recorded in the GRC Revenue Requirement Memorandum Account (RRMA); and
- The establishment of new regulatory accounts.

On July 16, 2004, SCE filed Advice Letter (AL) 1808-E. AL 1808-E requested authorization for the following:

[1] D.03-07-029 adopted SCE's post-PROACT rate settlement and fixed SCE's retail rates for a 12-month period. That decision approved a settlement assumption, which required SCE to adhere to a specific rate structure, "subject to modification on a system average percent change (SAPC) basis as the result of any intervening decision changing SCE's authorized revenue requirement, to be superseded after 12 months by the rates the Commission approves in Phase 2 of SCE's 2003 GRC".

- To implement the Commission approved revenue requirements for the 2003 test year and 2004 post test year;
- To consolidate base related rate changes resulting from D.04-07-022 with other rate changes authorized by the Commission before June 30, 2004 in other proceedings and pursuant to the ratemaking mechanisms approved in D.04-07-022;
- To modify SCE's preliminary statements section to establish new ratemaking mechanisms, modify existing ratemaking mechanisms, and eliminate those ratemaking mechanisms no longer consistent with D.04-07-022;
- To set for the recorded operation of the GRC RRMA pursuant to ordering paragraphs 2 and 3 of D.04-07-022;
- To implement Commission authorized Other Operating Revenue (OOR) charges;
- To certify that SCE's requested GRC revenue requirement does not include incremental costs associated with non-tariffed products and services that are to be borne by shareholders pursuant to D.99-09-070; and
- To confirm that the post-retirement benefits other than pensions (PBOP) contributions, associated with SCE's non-nuclear generation, actually made by year-end 2002 will be included in all future revenue requirement calculations.

NOTICE

Notice of AL 1808-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

On July 30, 2004, the California Farm Bureau Federation (CFBF) protested SCE's AL 1808-E. On August 5, 2004, California Manufactures & Technology Association (CMTA) and the Alliance for Retail Energy Markets (AReM) submitted their protests to SCE's AL 1808-E. SCE responded to the CFBF protests on August 9, 2004 and to the protests of CMTA and AReM on August 12, 2004.

The following is a more detailed summary of the major issues raised in the protests:

CFBF protests SCE's implementation of the System Average Percent Change (SAPC) method.

CFBF objects to the rates filed in AL 1808-E on the grounds that SCE's implementation violates the retail rate change limitations imposed by D.03-07-029. CFBF maintains that pursuant to D.03-07-029, SCE can only implement its revenue requirement change by changing rate schedules by the equivalent system average percent change (SAPC) prior to the completion of its Phase 2 GRC. According to CFBF, the rates filed in AL 1808-E result in a higher than SAPC rate change and violate D.03-07-029.

According to CFBF, the application of the SAPC should result in rate change of no more than 0.2%. CFBF raises concern that AL 1808-E raises rates for its lower load factor customers by much more than 0.2%. CFBF argues SCE's proposal seeks to modify the individual rate components for all of its rates schedules, resulting in reductions in peak energy charges and increases in distribution rate components. CFBF contends that AL 1808-E should be denied because SCE's implementation of SAPC redesigns rates, a process reserved exclusively for Phase 2 of its 2003 GRC, and significantly increases the rates and bills of its lower load factor customers.

SCE asserts that SAPC should be calculated separately for the Generation system and Distribution system.

In its response, SCE agrees with CFBF that D.03-07-029 requires that SCE implement its change in rates on a SAPC basis, but disagrees that the SAPC factor should be calculated on a total system revenue requirement basis rather than by generation and distribution functions. SCE argues that D.03-07-029 also approved "bottoms-up" billing for all customers. SCE maintains that, given an unbundled revenue requirement and rate levels, SAPC should be applied separately to the generation and distribution systems. SCE argues that CFBF's interpretation of SAPC is unworkable and impractical in the current environment of unbundled rates and revenue requirements when SCE's adopted generation revenue requirement is declining by 19% and its adopted distribution revenue requirement is increasing by 28%.

SCE claims that adopting CFBF's approach would result in two unintentional consequences. First, applying an aggregated SAPC of 0.2%, as recommended by

CFBF, to each rate component would result in an overcollection in SCE's Energy Resource Recovery Account and may trigger another rate change when no such rate change is warranted and would be caused by a mismatch between SCE's generation and distribution rates. Second, SCE maintains that the implementation of CFBF's approach would result in SCE's bundled service customers subsidizing the distribution rates of DA customers by paying higher generation rates until SCE could properly align its unbundled generation and distribution rates in Phase 2 of its 2003 GRC.

CMTA notes that the AL proposes to include a $66.5 million credit in its generation rate component in anticipation of the forthcoming refunds. CMTA's issue is that it needs clarification that SCE will be making a simultaneous credit to the Historical Procurement Charge Balancing Account (HPCBA).

SCE in its response to CMTA's concern indicated that it had incorrectly stated in AL 1808-E that it had recorded a credit to the HPCBA. SCE says it had, in fact, recorded a credit of $9.092 million in the Direct Access Cost Responsibility Surcharge (DACRS).

Based on SCE's response, we conclude that CMTA concern has been resolved.

AReM has expressed several concerns with SCE's proposed treatment of the refunds of transmission rate revenues in Federal Energy Regulatory Commission (FERC) Docket No. ER97-2355-000.

AReM states the following concerns in its first issue with AL 1808-E:

1) **Some direct access (DA) customers will not receive any portion of the refunded transmission revenues.** According to AReM, the problem arises because the proposal provides for the DA portion of the refund to be credited to the Historical Procurement Charge (HPC) Balancing Account. A reduction in the HPC will benefit DA customers that contribute to the HPC. However, some DA customers are exempt from paying into the

HPC.[2] These exempt DA customers will not receive any portion of the refund. Thus, the proposed rates will unfairly discriminate against DA customers that are exempt from paying into the HPC.

2) **DA customers would not get the immediate benefit of the refund if the refund is applied to the HPC.** According to AReM, bundled customers will benefit from the refund of transmission revenues ordered by FERC in the form of an immediate rate reduction. The DA customers refund would be deferred until the end of the HPC recovery period and the refund would only occur if other elements of the DA Cost Responsibility Surcharge (CRS) total less than the then effective CRS cap.

3) **The generation rates resulting from SCE's proposal are artificially low, in that they do not reflect the full cost of SCE generation service.** The generation rates reflect the generation revenue requirement offset by refunded transmission revenues. This will unfairly disadvantage energy service providers (ESPs) that compete against utility generation rates.

AReM cites Section 453 of the California Public Utilities Code that prohibits a utility from "establish(ing) or maintain(ing) any unreasonable difference as to rates, charges, service, facilities, or in any other respect, either as between localities or as between classes of service". Section 453 prohibits a utility from, "as to rates charges, service, facilities, or in any other respect, mak(ing) or grant(ing) any preference or advantage to any corporation or person or subject(ing) any corporation or person to any prejudice or disadvantage." AReM believes SCE's ratemaking proposal violates Section 453.

AReM recommends that the Commission direct SCE to modify its ratemaking for the refunded transmission revenues so that the revenues are credited against SCE's transmission service revenue requirements. AReM states "This approach will ensure that all customers receive a share of the refund that is proportional to their contributions to SCE's transmission revenues, without discrimination between customer classes or subclasses, and without placing

[2] Customers that moved to direct access after July 18, 2004, the date on which the PROACT balance was fully paid off, are exempt from paying the HPC. Otherwise, they would be charged for the same costs twice. See Resolution E-3843, p. 10.

DA customers or ESPs at a disadvantage compared to bundled customers or SCE."

SCE states that AReM is, in fact, requesting the Commission to modify approved AL 1783-E that indicated the methodology that SCE would use to credit the retail transmission rate revenue refund.

In AL 1783-E, SCE proposed to credit the entire retail transmission rate revenue refund to SCE's bundled service customers through the operation of the Energy Resource Recovery Account (ERRA). In that advice letter, SCE also proposed that DA customers' share of the refund would be credited to HPC, thereby expediting recovery of the HPC Balancing Account. SCE states "AReM's protest is procedurally flawed because it attempts to modify the proposal SCE made in Advice letter 1783-E on March 22, 2004, and approved by the Commission's Energy Division effective May 1, 2004." In addition, SCE states that AReM had the opportunity to protest AL 1783-E and did not do so. "It is inappropriate for AReM to protest AL 1808-E which simply returns the transmission rate refunds to SCE's bundled service customers consistent with a previously-adopted ratemaking treatment."[3] SCE states that "for this reason alone the Commission should reject AReM's protest in this area."

SCE indicates that its "DA customers already owe its bundled service customers more than half a billion dollars in DA CRS shortfall resulting in inflated bundled service rates in the last three years and in foreseeable future." It appears that "AReM in effect is arguing that DA customers should not pay less than $20 million in their share of transmission refund toward this ever-growing undercollection." In addition, "SCE does not recall AReM ever invoking Section 453 on behalf of bundled service customers who are paying higher rates to keep DA customers' existing contracts economically viable."

SCE does not believe that Section 453 of the California Public Utilities Code is applicable in this instance because AL 1808-E is not establishing different rates for HPC-exempt and non HPC-exempt DA customers. SCE states that "regardless of the form a refund is reflected in rates some retail customers

[3] SCE credited the HPC balancing account with DA customers' share of this refund on May 1, 2004.

receive more refund than their original over-payment and some receive less." In addition, SCE believes AReM's interpretation of Section 453; its own proposal would violate that section.

SCE states that its transmission revenue requirement and rates are under FERC jurisdiction and cannot be altered by the Commission.

SCE refutes AReM's recommendation that the Commission direct SCE to modify its ratemaking for the refunded transmission revenues so that the revenues are credited against SCE's transmission service revenue requirements. SCE indicated in AL 1783-E that it had requested the FERC to defer the ratemaking treatment of retail transmission refunds to the Commission to be determined through Commission-jurisdictional ratemaking mechanisms. FERC approved SCE's request on May 25, 2004 and the Commission approved the methodology proposed by SCE in AL 1783-E. SCE states "AReM's recommendation is legally and procedurally flawed and should be ignored."

AReM's second issue is that SCE should clearly identify the Competition Transition Charge (CTC) component of bundled customer rates in its tariffs pursuant to PUC Code Section 392.

AReM states that in AL 1808-E, the above-market costs of utility retained generation reflected in the CTC rates established in D.04-04-066 are aggregated with the proposed generation charges for bundled customers.[4] SCE's tariffs provide that the CTC collected from DA customers be a separately identified component of the DA CRS.[5] AReM believes that the CTC component of bundled rate should be clearly identified in SCE's rate schedules.

AReM's third issue is that SCE should state the CTC billed to each customer for a given billing cycle as a separate line item on the customer's bill.

AReM states that pursuant to Section 392 of the California Public Utilities Code, SCE is required to disclose each rate component as a separate line item on

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[4] Preliminary Statement, Sheet 5, Section ZZ – Energy Resource Recovery Account.

[5] SCE Tariff Schedule DA-CRS, Section A.

customer bills. "Otherwise, DA customers may mistakenly believe that they will avoid CTC by returning to bundled services, and bundled customers that are contemplating moving to direct access in the future may mistakenly believe that they will only be responsible for CTC if they leave bundled service." In addition, in D.04-02-062, the Commission directed Pacific Gas and Electric Company to show the specific charges for CTC and other rate components separately on both DA and bundled customers' bills.[6] AReM believes that SCE should be required to do the same.

SCE responds that Section 392 only requires the CTC to be included in the "total" generation charge reflected on bundled service customers' bills and that SCE does so.

SCE states "Section 392 requires electrical corporations to disclose "The total charges associated with generation, including the competition transition charge." SCE indicates it complies with Section 392 and "there is no reason for SCE to once again modify its bill format at significant cost to satisfy AReM's desire when there is no legal requirement to do so."

In addition, SCE believes that customers would not be confused because they would think that CTC is only applicable if they elect DA service. SCE state that its "customer can easily compare the total generation rate on SCE's rate schedules and bills with the sum of their DA CRS and ESP energy charge and make a decision to remain on bundled service or switch to DA when they can legally do so."

DISCUSSION

The Energy Division has reviewed AL 1808-E. SCE filed AL 1808-E in compliance with D.04-07-022, Phase 1 of its 2003 General Rate Case (GRC). The primary purpose of D.04-07-022 was to determine the just and reasonable base revenue requirement for SCE for the 2003 test year. SCE's authorized base rate revenue requirement was set at $2.814 billion for the 2003 test year.

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[6] D.04-02-062, Conclusion of Law 9.

SCE's functionalization approach was uncontested in its GRC A.02-05-004.

SCE's functionalization proposal was uncontested and D.04-07-022 states, "As a general matter, with respect to individual uncontested issues in this proceeding, we find that SCE has made a *prima facie* just and reasonable showing unless otherwise stated in this opinion."[7] On that basis, the decision approved SCE's functionalization proposal.

While Phase 2 of SCE GRC will determine the allocation of revenue requirement responsibility to customer classes and the design of rate structure, Phase 1 decision did authorize SCE to adjust its rates on a SAPC basis pursuant to D.03-07-029. In addition, the Phase 1 decision authorized SCE to consolidate rate changes authorized in D.04-07-022 with other rate changes authorized by the Commission before June 30, 2004 in other proceedings.

In AL 1808-E, the adopted 2003 test year base revenue requirement was functionalized between generation and distribution. While SCE's functionalization proposal was uncontested in its Phase 1 GRC proceeding, nowhere in D.04-07-022 was the functionalization proposal discussed nor did any of the attached tables reflect the functionalization between generation and distribution. This made review of SCE's functionalization difficult for the Energy Division staff. SCE has stated that its future GRC applications' Results of Operations Model will contain the functionalized data between generation and distribution. That will help expedite the reviewing process.

D.03-07-029 permits SCE to modify its retail rates on a system average percent change basis.

Ordering Paragraph 1 of D.04-07-022 authorized SCE to recover, through rates and through authorized ratemaking accounting mechanisms, the 2003 test year base revenue requirement as set forth in Appendix C to D.04-07-022. D.03-07-029 requires that SCE's rates be subject to modification on a SAPC basis, to be superceded by the rates the Commission approves in Phase 2 of SCE's 2003 GRC.

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[7] D.04-07-022, Section 2.1. The Utility's Showing, p. 10.

SCE's proposal to functionalize the revenue requirement was uncontested in A.02-052-004 and found to be just and reasonable in D.04-07-022[8].

In this advice letter, SCE applies separate SAPC factors to its generation and distribution system revenue requirement consistent with its functionalized revenue requirement to devise its retail rates. Energy Division finds SCE's application of SAPC on a generation and distribution system basis in this advice letter consistent with D.03-07-029.

CFBF's protest regarding SCE's implementation of the SAPC method is denied.

In AL 1808-E, SCE applies separate SAPC factors to its authorized test year 2003 generation system and distribution system revenue requirements consistent with D.03-07-029. The SAPC scalars reflect the decrease in the generation revenue requirement and increase in the distribution revenue requirement to reflect the total system revenue change of $17 million, or 0.2%[9].

We deny CFBF's protest. Adopting CFBF's proposal to apply a SAPC increase of 0.2% to SCE customer's overall retail rates would undercollect SCE's adopted distribution revenue requirement and overcollect SCE's adopted generation revenue requirement for the period between the effective date of AL 1808-E and the date the Commission rates become effective in Phase 2 of SCE's 2003 GRC.

We find SCE's application of SAPC to its generation and distribution system revenue requirement reasonable and consistent with D.03-07-029 because it reflects the functionalized revenue requirement approved in D.04-07-022, in a manner consistent with the limitations of D.03-07-029.

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[8] Conclusion of Law 2 of D.04-07-022 found that SCE has made a prima facie showing of justness and reasonableness with respect to uncontested issues not explicitly addressed in the discussion.

[9] AL 1808-E, table 6.

Assembly Bill (AB) 1X limits the total energy charges for residential usage in Tiers 1 and 2 up to 130% of baseline.

AB1X requires that rates for up to 130% of baseline usage by residential customers cannot be raised above the level of those rates in effect on February 1, 2001. Similarly, rates for specified income brackets (i.e. California Alternate Rates for Energy or CARE) cannot be raised above specified levels.

In AL 1808-E, SCE states that the total SCE generation revenue allocated to the residential class is $544.84 million and the revenue shortfall due to AB1X restrictions is $61.77 million. SCE proposes to shift $27.81 million of this shortfall to tier 3 and $33.96 million to tier 4.

We will allow SCE to allocate the AB1X shortfall to the upper tiers of residential generation rates as it has proposed on an interim basis.

In Commission approved Resolution E-3897 (November 19, 2004), SCE's proposal to recover the revenue shortfall due to AB1X limitations from Residential tiers 3 and 4 was denied. That resolution ordered SCE to track this shortfall in generation revenues for Residential tiers 1 and 2 for later recovery after the Commission has decided how to allocate this shortfall. In comments on this draft Resolution, SCE states that it implemented the rates requested herin on August 5, 2004 which leads us to believe that Residential tiers 3 and 4 are already paying the AB1X related shortfall since August 5, 2001. Pending a Commission decision on an appropriate methodology for allocating the AB1X revenue shortfall, we will allow SCE to continue to allocate the AB1X shortfall to the upper tiers of residential generation rates as an interim approach. SCE shall establish an account to track these revenues. SCE's proposed allocation method as filed in AL 1808-E is subject to modification pending the Commission's determination on how these revenues should be allocated.

AReM's protest regarding SCE ratemaking treatment for the refund of transmission revenues is granted.

While we acknowledge that the Commission has no jurisdiction over FERC regulations, we can modify or rescind prior Energy Division's recommendations that are found to be inappropriate. Upon further review of the methodology proposed in SCE's AL 1783-E, we agree with AReM that this methodology does

unfairly discriminate against DA customers and is in conflict with Section 453 of the California Public Utilities Code.

Energy Division's approval of SCE's AL 1783-E is rescinded.

SCE shall credit the refund of transmission rate revenues to customer classes through a newly created transmission account and make adjustment to distribution rates and generation rates as stated in the comment section of this draft resolution. SCE shall file an advice letter with revised tariff sheets that incorporates its ratemaking methodology as described in the comment section within 14 days from the effective date of this resolution.

AReM's protest that the CTC component of bundled customer rates in SCE's tariff and billing, should be clearly identified is granted.

In D.04-02-062, the Commission required that Pacific Gas and Electric Company show the specific charges for CTC and other rate components separately on both DA and bundled customers' bills. SCE is similarly ordered to generate tariff sheets and customers' bills to show the CTC component as a separate line item. SCE shall make these bill revisions within 60 days.

COMMENTS

Public Utilities Code section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. The draft resolution was mailed to parties for comment pursuant to PU Code section 311(g) (1) on December 28, 2004. Comments were filed by SCE and AReM on January 12, 2005. No reply comments were filed by SCE and AReM.

AReM states that the draft resolution resolves its protests to SCE methodology for implementing the FERC ordered refund of transmission revenues and the CTC rate component as a separate line item, "consistent with the Commission's statutory mandates to ensure that all customers are treated fairly and to facilitate retail competition." AReM urges the Commission to adopt the draft resolution recommendation on these issues without modification.

SCE's request not to rescind Energy Division's approved AL 1783-E in this draft resolution is denied.

SCE states that the rescinding of an approved AL "would establish an improper precedent and would suggest that any advice letter approval by the Commission's Energy Division is meaningless since that approval can be overturned at any time." We disagree. We believe that it is appropriate for the Energy Division to rescind a prior approval of an advice letter if it is later found that the approval was in error. The Energy Division has the responsibility to make the necessary corrections as soon as possible to stop these inappropriate actions once they are identified.

SCE's proposed ratemaking changes to credit the refund of transmission rate revenues to customer classes through a newly created transmission account and adjustments to distribution rates and generation rates is adopted.

SCE requests that the following ratemaking changes should be implemented if approval of SCE's AL 1783-E is rescinded:

1. SCE will make a debit entry to its Energy Resources Recovery Account (ERRA) balancing account and a credit entry to a newly created sub-account of its Base Revenue Requirement Balancing Account (BRRBA) – called the transmission sub-account in the amount of $134 million;

2. For a 12 month period, SCE will reduce its distribution rates by $134 million in order to refund transmission rate overcharges to customers and amortize the balance in the transmission sub-account of the BRRBA. After the end of the 12 month amortization period, SCE's distribution rates will be adjusted to remove the refund amount; and

3. SCE will adjusts its generation rates to a) remove the $134 million refund amount that was placed into generation rates on August 5, 2004; and b) recover that portion of the refund that was returned to customers through lower generation rates for the period of August 5, 2004 through the effective date of draft resolution E-3895.

4. SCE will also remove a credit it made to the HPCBA for the direct access customers' share of the transmission rate revenue refunds.

In addition, SCE requests that the rate changes above be consolidated with the rate changes that SCE will implement upon receiving a Commission decision in its 2005 ERRA forecast Proceeding (A.04-08-008).[10]

AReM did not provide a reply comment on SCE new methodology to address the refunds of transmission rate revenues in FERC Docket No. ER97-2355-000. The above revisions are reasonable and SCE is ordered to file the above methodology by advice letter within 14 days.

SCE 's request that the Commission establish a policy for the recovery of undercollections resulting from AB1X limitations on Residential Tier 1 and 2 rates in draft resolution E-3895 is denied.

SCE urges the Commission to make a decision in establishing a policy for the recovery of undercollections generated from ABIX limitations in this draft resolution. SCE states that the expected shortfall as a result of Resolution E-3997 is $13 million. SCE further states that the annual revenue shortfall identified in its AL 1808-E is about $62 million. If this situation is not resolved, additional shortfall will accumulate until the Commission makes a decision on this situation.

SCE continues to urge the Commission to allow the shortfall from Residential tiers 1 and 2 rates to be recovered in the tiers 3 and 4 residential rates. SCE believes that any other approach will result in unjustified cost shifts to other classes of customers. In addition, SCE requests that any billing adjustment associated with the AB1X revenue shortfall adjustment be made on a prospective basis.

We will allow SCE to continue to collect the AB1X shortfall from the upper tiers of residential generation rates as it has proposed on an interim basis. SCE's proposed allocation method as filed in AL 1808-E is subject to modification pending the Commission's determination on how these revenues should be allocated. We require SCE to track these revisions.

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[10] SCE anticipates a Commission decision in March 2005 and the implementation of consolidated rate changes in April 2005.

SCE shall establish an account to track the AB1X related revenue shortfall that it collects from Residential tiers 3 and 4 pending Commission's establishment of a policy on this.

We agree that SCE should be allowed to recover the shortfall in Residential tiers 3 and 4 until the Commission has made a decision on this issue. Therefore, no later than 14 days from today, SCE shall file an advice letter to establish an account to track the revenues that it began collecting beginning August 5, 2004 from the upper tiers of residential rates to recover the shortfall due to ABIX. If SCE chooses to track these amounts in an exiting account, it shall establish a separate sub-account. The proper allocation of revenues recorded in this account will be determined by the Commission in an application that SCE will file as ordered by this draft resolution.

SCE is ordered to file an application to the Commission addressing AB1X limitations within 60 days.

It is appropriate that the shortfall revenue issue created by the AB1X be resolve through the application process and not by an advice letter. Thus, no later than 60 days from today SCE shall file an application to address AB1X revenue shortfall. In this application SCE shall include its proposed methodology to recover revenues associated with AB1X restrictions. SCE shall give notice to all parties listed on its GRC A.02-05-004 and A.04-12-014 regarding this filed application that addresses the AB1X limitations.

SCE's request to have the CTC component disclosed as a footnote is denied.

SCE argues in its comments that the "disclosure requirement can be handled by reflecting the CTC amount/rate in the footnote section of customers' bills, as well as in the 'Rate' section of each rate schedule of SCE's tariffs" instead of having the CTC component shown as a separate line item. In addition, SCE further states that the footnote disclosure will provide customers with the CTC information and still be in compliance with Section 392 of the PUC code. SCE's request is denied.

In D.04-02-062 the Commission required Pacific Gas and Electric Company show the specific charges for CTC and other rate components separately on both DA and bundled customers' bills. To be consistent, SCE is ordered to do the same.

SCE can seek recovery of cost to revise its customer bill format in its current GRC or other appropriate forums.

SCE states that due to the volume of information currently shown on its bill, there would be a significant cost to modify the current bill format. It is not appropriate to recover this cost through the advice letter process. However, SCE should be allowed to cover any expense it incurs by modifying its bill format as ordered in this draft resolution.

FINDINGS

1. On May 3, 2002, SCE filed its GRC Application 02-05-004.

2. On July 16, 2004, the Commission issued D.04-07-022.

3. On July 16, 2004, SCE filed AL 1808-E to comply with D.04-07-022.

4. CFBF, CMTA and AReM timely protested SCE's AL 1808-E.

5. On August 5, 2004, SCE implemented rate increases pursuant to D.04-07-022.

6. SCE responded to protests of CFBE, CMTA and AReM.

7. SCE and AReM filed comments to this draft resolution on January 12, 2005.

8. D.03-07-029 requires that rate changes prior to the implementation of Phase 2 of SCE's 2003 GRC be subject to modification on an SAPC basis.

9. D.04-07-022 found SCE's functionalization of its test year base revenue requirement into generation and distribution components to be just and reasonable.

10. In AL 1808-E, SCE applies separate SAPC scalars to its generation and distribution components in a manner consistent with D.03-07-029.

11. CFBF's protest regarding SCE's implementation of SAPC is denied.

12. AB1X limits the total energy charges for residential usage in tiers 1 and 2.

13. No later than 14 days from today, SCE shall file an advice letter to establish an account to track the revenues that it began collecting beginning August 5, 2004 pursuant to D.04-07-022 from the upper tiers of residential rates which are associated with adjusting rates for residential usage below 130% of baseline to comply with AB1X. If SCE chooses to track these amounts in an exiting account, it shall establish a separate sub-account. Allocation of revenues recorded in this account will be determined by the Commission in an application that SCE will file as ordered by this draft resolution.

14. No later than 60 days from today, SCE shall file an application to the Commission addressing AB1X limitations.

15. In AL 1783-E, SCE proposed to credit the retail transmission rate revenue refund to SCE's bundled service customers through the operation of the Energy Resource Recovery Account (ERRA). SCE proposed to credit the share of the refund for DA customers to the HPC account.

16. On May 1, 2004, the Energy Division approved AL 1783-E.

17. Energy Division now finds that SCE's proposal in AL 1783-E is unfairly discriminatory to DA customers.

18. The Energy Division's approval of SCE's AL 1783-E is rescinded.

19. SCE shall credit the refund of transmission rate revenues to customer classes through a newly created transmission account and adjust distribution rates and generation rates.

20. D.04-02-062 ordered Pacific Gas and Electric Company to show the specific charges for CTC and other rate components separately on both DA and bundled customers' bills. SCE is ordered to show these charges separately in a similar manner.

21. AReM's protests are granted.

THEREFORE IT IS ORDERED THAT:

1. SCE request in Advice Letter AL 1808-E is approved with the following modifications:
    a. No later than 14 days from today, SCE shall file an advice letter to establish an account to track the revenues that it collects from the upper tiers of residential rates resulting from AB1X limitations on Residential tiers 1 and 2.
    b. SCE shall file an application to the Commission addressing the issue of allocation of the revenue shortfall associated with AB1X limitations within 60 days from today.
    c. SCE shall credit the refund of transmission rate revenues to customer classes through a newly created transmission account and make adjustment to distribution rates and generation rates. SCE shall file an advice letter with revised tariff sheets that incorporates its ratemaking methodology as described in the comment section within 14 days from the effective date of this resolution.
    d. SCE's tariff sheets shall clearly identify the Competition Transition Charge (CTC) component of bundled customer rates.
    e. SCE shall state the CTC component billed to each customer for a given billing cycle as a separate line item on the customer's bill. SCE shall make these bill revisions within 60 days.

2. CFBF protests of SCE's implementation of the System Average Percent Change (SAPC) method are denied.

3. AReM's protests are approved.

4. Energy Division's approval of SCE's AL 1783-E is rescinded.

5. SCE shall file an advice letter with revised tariff sheets within 14 days from the effective date of this resolution to comply with the provisions of this order. The advice letter shall be effective on today's date subject to the Energy Division determining that it complies with this order.

6. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on January 27, 2005; the following Commissioners voting favorably thereon:

_____
STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

Comr. Grueneich recused herself
from this agenda item and was not
part of the quorum in its consideration.