
July 14, 2000

ADVICE 1470-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Creation of Memorandum Account Associated With Using
Capacity And Associated Energy As A Hedging Product

PURPOSE

This advice filing requests California Public Utilities Commission (Commission) authorization for establishment of a memorandum account to record costs associated with Southern California Edison Company's (SCE) purchase of capacity with associated energy as a hedging product. The revised tariff sheets are listed on Attachment A and are attached hereto.

**SCE REQUESTS AUTHORIZATION TO ESTABLISH A MEMORANDUM
ACCOUNT TO RECORD COSTS ASSOCIATED WITH CAPACITY
PRODUCTS**

The California Trading Services Division (CTS) of the California Power Exchange Corporation (CalPX or PX) currently operates a forward market for monthly sales of energy and ancillary services with a variety of delivery periods and delivery locations. CTS does not operate a forward market to trade capacity products. However, if SCE reserves capacity through a third party and then elects to purchase the energy associated with the capacity, SCE could bid the associated energy in the PX Day-Ahead market.

At the June 28, 2000 Independent System Operator (ISO) Board of Governors meeting, the ISO Board issued a resolution stating that ISO management, among other things, should "work with responsible agencies and the legislature to streamline and accelerate the construction of other plants and transmission lines

and to eliminate the constraints to hedging opportunities for the UDCs."
(Emphasis added).

SCE seeks authorization to establish the Power Exchange Capacity Reservation Memorandum Account to record costs associated with the purchase of capacity products. Such products are a hedge against price and quantity volatility, and can be customized to meet peak demands. SCE believes that capacity products can be an extremely valuable product in hedging against load increases due to temperature and will also facilitate SCE's efforts to arrange for and ensure sufficient generation for market reliability. In essence, energy associated with capacity products has the characteristics of energy from a peaking generating plant and can be used to cover demand when it is high or there is a unit outage. Capacity products are a traditional product that SCE has used in the past, provide SCE reserve capacity in a manner that potentially provides new supply in the California market, and enhances market efficiency. The energy associated with the capacity product would be bid into the PX Day-Ahead markets.

TERM AND PURCHASE LIMITS

The term of SCE's participation in the PX forward markets for energy services is through the end of SCE's rate freeze (Resolutions E-3658 and E-3666). SCE is not requesting any change to these term limits for the capacity products addressed in this advice filing. Resolutions E-3658 and E-3666 provided ratemaking and per se reasonableness of SCE's participation in the PX forward markets for energy through the end of SCE's rate freeze. Decision No. 00-06-034 (D.00-06-034) further provides that SCE's purchases in the PX energy markets are per se reasonable, even if delivery occurs after the end of the rate freeze, until such time as the Commission has considered the role of the Utility Distribution Company in the post-transition period and the need for a new procurement oversight mechanism.

SCE would prefer that there be more flexibility than afforded by the existing purchase limits on hedging products. In the interest of Commission consideration and approval of SCE's request in time for the remainder of the critical summer months, SCE is not requesting an increase in the current purchase limits for forward products, including capacity products with associated energy, at this time. In other words, SCE would make its capacity purchases under the existing Commission limits for forward products.

RATEMAKING

In D.00-06-034 the Commission stated its belief that during the rate freeze period the utilities have an incentive to minimize the costs of procurement for bundled service customers due to the "headroom" concept and the residual calculation of the Competition Transition Charge. The Commission also found that "[a]ny procurement practices that unnecessarily increase the energy charge to customers

will necessarily decrease the amount of headroom available, and thus, the amount of revenues available to apply to transition cost recovery.^{1/} Therefore, SCE has a strong incentive to prudently use the capacity products discussed in this advice letter. For example, if SCE pays too much for a capacity product, it would reduce the headroom available to pay off its transition costs and thereby jeopardize recovery of those costs. SCE believes that this incentive creates alignment between the interests of SCE and its customers and is sufficiently strong to obviate the need for any further reasonableness review of the transactions proposed in this advice filing.

Nevertheless, in view of the fact that this program is new and the Commission and other parties may require additional assurances that SCE is prudent in its use the new program, SCE would be willing to accede to a reasonableness review of its capacity purchases on a portfolio basis if appropriate boundaries (i.e., a tolerance band) are exceeded, as further described below.

SCE would propose that the tolerance band for initiating a reasonableness review be derived from SCE's purchases and transactions in those markets in which transactions have been deemed by the Commission to be per se reasonable. More specifically, SCE proposes to create a portfolio of bilateral transactions for energy and capacity products, including the energy associated with the capacity products.^{2/}

SCE proposes that if the average price of SCE's bilateral energy and capacity products over the course of an annual period exceeds by more than 20% the average price of SCE's corresponding per se reasonable portfolio of energy transactions delivered or requiring delivery over the same period, then the Commission initiate a reasonableness review of SCE's portfolio of bilateral energy and capacity transactions. Such a reasonableness review would not necessarily lead to a finding of imprudence. There may be valid reasons for the differences in average price between the bilateral and per se reasonable portfolios, such as the timing of power purchases. SCE believes that if a reasonableness review is conducted, the entire portfolio of transactions should be considered over the entire annual period, and that the reasonableness determination be made on the basis of the knowledge that SCE had or should have had at the time it made its purchase decisions.

SCE would propose that the first record period for transactions commence upon approval of this advice letter and end June 30, 2001. If the need for a reasonableness review is indicated, it could be conducted as part of SCE's Annual Transition Cost Proceeding (ATCP), which would file in September 2001, and shares the same end date for the record period. If any specifics of the

^{1/} D.00-06-034, p.32.

² SCE requests in this advice letter to create a portfolio of energy and capacity transactions similar to its request in Advice 1469-E, filed on July 13, 2000, except that this request includes a provision for capacity products and associated energy requirements. SCE proposes to incorporate all capacity costs, regardless of whether energy was delivered, in the calculation of the average price for its proposed energy and capacity portfolio.

reasonableness review tolerance band need to be clarified, SCE suggests that they can be addressed in that ATCP.

Costs incurred for SCE's use of capacity products will be recorded in the Power Exchange Capacity Reservation Memorandum Account. If these costs are within SCE's proposed tolerance band, or are found reasonable in the ATCP, SCE shall seek recovery of these costs in the Revenue Adjustment Proceeding (RAP).

In Resolution E-3637, the Commission recognized that costs may be incurred by SCE which will not be billed by the PX or ISO, and thus authorized the establishment of the Block-Forward Markets (BFM) Memorandum Account. If such costs are incurred by SCE as a result of its use of capacity products, these costs will also be tracked in the BFM Memorandum Account for future Commission review.

SCE will include purchases of capacity products in the monthly BFM reports that SCE submits under Public Utilities Code Section 583 to Energy Division.

In Resolution E-3637, the Commission recognized that costs may be incurred by SCE which will not be billed by the PX or ISO, and thus authorized the establishment of the BFM Memorandum Account. If such costs are incurred by SCE as a result of its use of the purchased capacity, these costs will also be tracked in the BFM Memorandum Account for future Commission review.

SCHEDULE PX

To incorporate the cost of these new purchases in SCE's energy charge to bundled customers (an amount which is also credited to direct access customers), SCE proposes to modify its Schedule PX to allow for the inclusion of energy and capacity costs and gains and losses on bilateral energy and capacity purchases which are invoiced by entities other than the PX and ISO in the calculations described on that schedule. Specifically, SCE envisions two types of transactions if the Commission approves this advice filing.

In the first type of transaction, the physical delivery will be made through the PX Day-Ahead market and all financial settlements and invoicing functions will be performed by the PX. SCE believes that the costs of such transactions can be incorporated under the current structure of Schedule PX, but has added clarifying language to that effect. Under the second type of transaction, the physical delivery will be made through the PX Day-Ahead market and SCE will be invoiced by the PX for such deliveries. However, in this case, the financial settlement between SCE and the counter party to the bilateral contract will not be handled by the PX. SCE has modified the Schedule PX to allow for inclusion of the net gains and losses invoiced by the counter party in its Schedule PX.

No cost information is required for this advice filing.

This advice filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any schedule or rule.

EFFECTIVE DATE

SCE requests that the Commission approve this advice filing at its August 3, 2000 Commission Meeting. Time is of the essence in getting Commission approval. This is especially the case given that there are no other Commission meetings scheduled in August. The Commission may reduce the 30-day comment period provided by PU Code § 311(g)(1) for resolutions in accordance with its rules adopted pursuant to PU Code § 311(g)(3). Pursuant to Rule 77.7 (f)(9), SCE requests that the Commission reduce the 30-day comment period due to public necessity.

In order to act by August 3, 2000, the Commission must reduce the protest period, as well as the review and comment period for the draft resolution. In order to accomplish this objective, SCE proposes the following schedule, which incorporates reductions to the normal protest period and to the review and comment period on a resolution:

<u>Action</u>	<u>Due Date</u>
File Advice Letter	7/14/2000
Protests to Advice Letter	7/21/2000
Reply to Protests	7/25/2000
Draft Resolution	7/28/2000
Comments to Draft Resolution	7/31/2000
Comments on the Draft Resolution	8/2/2000
Final Resolution	8/3/2000

NOTICE

Anyone wishing to protest this advice filing may do so by sending a letter by facsimile or electronically, either of which must be received by SCE no later than seven days after the date of this advice filing. Protests should be mailed to:

IMC Program Manager
Energy Division
California Public Utilities Commission
505 Van Ness Avenue, Room 4002
San Francisco, California 94102
Facsimile: (415) 703-2200
email: JJR@CPUC.CA.GOV

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004 (same address above).

In addition, protests and all other correspondence regarding this advice letter should also be sent by letter and transmitted via facsimile to the attention of:

Donald A. Fellows
Manager of Revenue and Tariffs
Southern California Edison Company
2244 Walnut Grove Avenue, Rm. 303
Rosemead, California 91770
Facsimile (626) 302-4829
email: fellowda@sce.com

Bruce Foster
Vice President of Regulatory Operations
Southern California Edison Company
601 Van Ness Avenue, Suite 2040
San Francisco, California 94102
Facsimile (415) 673-1116
email: fosterbc@sce.com

There are no restrictions on who may file a protest, but the protest shall set forth specifically the grounds upon which it is based and shall be submitted expeditiously.

In accordance with Section III, Paragraph G, of General Order No. 96-A, SCE is mailing copies of this advice filing to the interested parties shown on the attached service list and R.94-04-031/I.94-04-032. Address change requests to the attached GO 96-A Service List should be directed to John Montanye at (626) 302-2308.

Further, in accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping the advice filing open for public inspection at SCE's corporate headquarters.

Southern California Edison Company

Donald A. Fellows, Jr.

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Enclosures

<u>Cal. P.U.C. Sheet No.</u>	<u>Title of Sheet</u>	<u>Cancelling Cal. P.U.C. Sheet No.</u>
Revised 27450-E	Preliminary Statement, Part N	Revised 27436-E
Original 27451-E	Preliminary Statement, Part N	----- -E
Revised 27452-E	Schedule PX	Revised 27438-E
Revised 27453-E	Table of Contents	Revised 27439-E
Revised 27454-E	Table of Contents	Revised 27440-E

PRELIMINARY STATEMENT
(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

2. Definitions. (Continued)

d. Specified Project (Continued)

<u>Section No.</u>	<u>Specified Project</u>	<u>Interest Bearing Memorandum Account*</u>
(34)	SONGS 2&3 Permanent Closure Memorandum Account	Yes
(35)	SONGS 2&3 Property Tax Memorandum Account	Yes
(36)	Palo Verde Permanent Closure Memorandum Account	Yes
(37)	California Public Utilities (PU) CODE "SECTION 376" - CTC Displacement Tracking Memorandum Account	Yes
(38)	California Public Utilities (PU) CODE "SECTION 381 (d)" - Renewable Program Tracking Memorandum count	No
(39)	Rate Group Tracking Memorandum Account	No
(40)	Independent System Operator Revenue Memorandum Account	Yes**
(41)	Power Exchange Revenue Memorandum Account	Yes**
(42)	Unavoidable Fuel Contract Costs Memorandum	Yes
(43)	Hydro Generation Memorandum Account	Yes**
(44)	Increased Return on Equity on Divestiture Memorandum Account	Yes
(45)	Deemed Fossil Inventory Memorandum Account	Yes
(46)	Jurisdictional Allocation Memorandum Account	Yes
(47)	Non-nuclear Generation Capital Additions (NGCA) Memorandum Account	Yes
(48)	Transmission Revenue Requirement Reclassification Memorandum Account (TRRRMA)	Yes
(49)	Santa Catalina Island Diesel Fuel (SCIDF) Memorandum Account	Yes
(50)	Streamlining Residual Memorandum Account (SRA)	Yes
(51)	ISO/PX Implementation Delay Memorandum Account	Yes
(52)	Direct Access Discretionary Services Costs (DADSC) Memorandum Account (DADSC Memorandum Account)	Yes
(53)	Affiliate Transfer Fee Memorandum Account	Yes
(54)	Fuel Oil Inventory Memorandum Account (FOIMA)	Yes
(55)	Energy Efficiency DSM (EEDSM) Memorandum Account	Yes
(56)	Block-Forward Market Memorandum Account (BFMMA)	Yes
(57)	Power Exchange Credit Audit Memorandum Account (PXCA Memorandum Account)	Yes
(58)	Interim Power Exchange Market Clearing Price (IPXMCP) Memorandum Account	Yes
(59)	Hourly Pricing Implementation Cost (HPIC) Memorandum Account	Yes
(60)	Voluntary Power Reduction Credit Memorandum Account (VPRCMA)	Yes
(61)	Applicant Installed Trench Inspection Memorandum Account (AITIMA)	No
(62)	Short-Term Generation Capacity Memorandum Account (STGCMA)	Yes
(63)	Power Exchange Bilateral Option (PXBO) Memorandum Account	Yes
(64)	Power Exchange Capacity Reservation (PXCR) Memorandum Account	Yes

(N)

* Interest shall accrue monthly to interest-bearing Memorandum Accounts by applying the Interest Rate to the average of the beginning and ending balance.

** Interest shall accrue monthly to credit balances only. See specific memorandum accounts for more information.

(Continued)



PRELIMINARY STATEMENT
(Continued)

N. MEMORANDUM ACCOUNTS (Continued)

64. Power Exchange Capacity Reservation (PXCR) Memorandum Account

The purpose of the PXCR Memorandum Account is to record the costs associated with SCE's purchase of capacity products for use in the PX Day-Ahead market.

These costs are not reflected in presently effective rates.

A debit entry shall be made to the PXCR Memorandum Account in the month in which costs associated with the capacity products used in the PX Day-Ahead market are incurred.

Interest shall accrue to the PXCR Memorandum Account by applying the Interest Rate to the average of the beginning and ending account balance.

SCE will request Commission approval for recovery of the costs recorded in the PXCR Memorandum Account in its annual Revenue Adjustment Proceeding (RAP), or any other proceeding authorized by the Commission. Any amounts recorded in the RAP, or any other proceeding authorized by the Commission to be recovered from customers, shall be included in the PX credit calculation.



Schedule PX
POWER EXCHANGE ENERGY
(Continued)

Sheet 2

RATES (Continued)

1. PX Energy Cost (Continued)

b. Adjustment For Cost of Settlement For Imbalance Energy

An adjustment for settlement costs paid by SCE to the PX or ISO for imbalance energy shall be included in the hourly PX Energy Cost. An adjustment for the cost of imbalance energy reflects price and quantity differences between hourly purchases in Forward markets and final realized prices and quantities purchased based on PX/ISO settlement information. On the trading day on which energy consumption occurs ("transaction date"), or as soon as practicable thereafter, a per kWh adjustment amount will be calculated for each hour, based on actual prices and estimated volumes for imbalance energy. This estimated settlement for imbalance energy, on an hourly basis, will be included in the hourly PX Energy Cost.

Approximately 60 days following the transaction date, a per kWh adjustment amount will be calculated based on actual settlement information provided by the PX or ISO for the transaction date. The settlement information will be used to re-calculate the weighted average PX price for each hour on the transaction date. The adjustment for each hour will be calculated by subtracting the weighted average PX prices determined using estimated settlement data for imbalance energy from the weighted average PX price calculated using actual settlement costs.

c. Adjustment For Uplift Charges

An adjustment for uplift charges shall be included in the hourly PX Energy Cost. Uplift charges shall include charges for ancillary services, administrative fees, Schedule VPRC administrative costs, congestion fees, subscription fees, any additional charges not included in the charges described in Section 1.a and 1.b above that are paid to the PX or ISO by SCE for energy purchased on behalf of SCE Bundled Service Customers that are similar in nature to charges paid by Scheduling Coordinators on behalf of Direct Access Customers, and any other payments billed by CTS or the PX to SCE as required by the CTS Trading Rules and/or Participation Agreement and any payments billed to SCE by the PX or counter parties to bilateral agreements approved by the Commission; net of any credits, refunds, or rebates. Costs directly resulting from the PX requirements for participation in the CTS Block Forward Market which are not billed directly to SCE are tracked in the Block Forward Market Memorandum Account (BFMAA) as described in Preliminary Statement Part N(55). Costs associated with bilateral agreements are tracked in the Power Exchange Bilateral Option Memorandum Account (PXBOMA) and Power Exchange Capacity Reservation Memorandum Account (PXCRA) as described in Preliminary Statement, Part N(63) and (64). Costs recorded in the BFMAA, PXBOMA, and PXCRA will be included in the uplift charge adjustment after they are authorized for recovery by the Commission in the annual Revenue Adjustment Proceeding (RAP) or Annual Transition Cost Proceeding.

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To the extent there are uplift charges that are not assessed in the Forward Markets, an hourly estimate of these uplift charges shall be calculated on or as soon as practicable after the transaction date using actual unit prices and estimated volumes. For uplift charges that are assessed on an hourly basis, the estimated hourly uplift charge shall be calculated by dividing the estimated forecast for uplift amount for each hour on the transaction date by the total kWh forecast for that hour. For uplift charges that are assessed on a non-hourly basis, the estimated hourly uplift charge shall be calculated by dividing the estimated uplift amount charged to SCE by the total kWh purchased in the period.

Uplift charges that are assessed hourly in the Forward Markets, as well as those estimated on an hourly basis, shall be added to the PX prices before the weighted average PX price is calculated as described in Section 1.a above.

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CC-DSF	Customer Choice - Discretionary Service Fees	25171-25172-25173-25174-E	
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