

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



March 18, 2011

Advice Letter 1889-E

Akbar Jazayeri
Vice President, Regulatory Operations
Southern California Edison Company
P O Box 800
Rosemead, CA 91770

Subject: Withdrawal of SCE's Advice Letter 1889-E

Dear Mr. Jazayeri:

Advice Letter 1889-E is withdrawn as requested in your letter dated January 20, 2011.

Sincerely,

A handwritten signature in blue ink that reads "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division

PUBLIC VERSION

April 28, 2005

ADVICE 1889-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Submission of Southern California Edison Company's Risk Assessment & Planning Tool (RAPT) Model Report, Pursuant to Decision (D.) 03-12-062

Southern California Edison Company (SCE) hereby submits its Risk Assessment & Planning Tool (RAPT) Model Report to the Energy Division (ED) for verification. This advice letter filing consists of this cover letter and the following two confidential attachments, which comprise the Model Report:

- Attachment 1: SCE's Risk Assessment & Planning Tool Report; and
- Attachment 2: The RAPT User's Guide.

PURPOSE

Through this advice filing, SCE hereby complies with D.03-12-062, in which the Commission adopted "the provisional use of SCE's model, *subject to the model verification steps outlined in this decision.*"¹ In D.03-12-062, the Commission explained the manner in which SCE could verify the RAPT model through submission of a report describing the final form of the model to the ED:

"To initiate the verification effort, SCE shall submit a *model report* to Energy Division staff, describing the *methodology, assumptions, and formulas of the model*. When SCE submits this report, it indicates that the model is in final form."²

¹ D.03-12-062, Ordering Paragraph 3, *mimeo*, p. 87. Emphasis added.

² D.03-12-062, *mimeo*, p. 14. Emphasis added.

In D.03-12-062, the Commission indicated that SCE and ED staff would work together to develop the *validation process*:

“Following the submittal of the model report, SCE and Energy Division staff will discuss elements of the validation process, such as selecting the independent auditor, scope of the audit, and the *methodology for model validation*.”³

In D.03-12-062, the Commission held that: “An *unqualified model certification* will serve as *the basis for authorizing the model*.”⁴ On February 19, 2004, SCE filed a Petition to Modify D.03-12-062 (PTM) on twelve issues that SCE claimed affect its ability to procure power and make it difficult for SCE to comply with portions of the decision as written. One such issue related to the words “unqualified certification.” SCE believed that an “unqualified certification” would be extremely hard to obtain.⁵ Although the Commission denied SCE’s request in its PTM to change these words, the Commission explained the standard:

“With regard to an “unqualified certification” of SCE’s proprietary risk model, we are not asking that the model be proven infallible. We are simply seeking an independent review of the internal validity of the model, that all the features of the model work as advertised, that the model is mathematically sound and that the assumptions utilized by the model are reasonable.”⁶

In D.03-12-063, the Commission also held that: “In the event that the model is not successfully validated, *SCE and Energy Division staff will agree on the use of a commercially available risk measurement model*.”⁷

At the time of hearings in Rulemaking (R.) 01-10-024, SCE was in the process of developing this model to calculate the risk associated with its market-sensitive procurement costs.⁸ The model report that the Commission requested is contained in the attachments to this advice letter. An independent group within SCE, the Risk Control Department, internally validated the RAPT model.⁹ In addition, SCE is prepared to discuss and implement additional validation procedures that ED staff deem necessary to validate the RAPT model.

³ *Id.*

⁴ *Id.*

⁵ D.04-12-048, *mimeo*, p. 108.

⁶ *Id.* at 109.

⁷ D.03-12-062, *mimeo*, p. 14, emphasis added.

⁸ R.01-10-024, Hearing Tr. p. 5213.

⁹ The Risk Control Department (RCD) has the appropriate expertise to test whether the RAPT performs its intended functions and, after its analysis of the RAPT, RCD prepared a report for upper management verifying the validity of the RAPT.

BACKGROUND

In D.03-12-062, the Commission, among other things, adopted a short-term procurement plan (STPP) under which each California investor owned utility (IOU)¹⁰ would operate in 2004. The Commission recognized that each IOU's short-term focus, in the planning and procurement process, should be on measuring the price risk exposure of its open portfolio position and managing that position within a specified range of the consumer risk tolerance level in a manner which ultimately leads to the procurement and dispatch of power in a least-cost manner.¹¹

In addition, in D.03-12-062, the Commission also addressed risk management issues, including the choice of the risk management tools that the respondent utilities would use. At that time, SCE was developing a proprietary in-house model to report TEVaR (To Expiration Value at Risk) for measuring and reporting portfolio risk.¹² SCE was willing to have an independent source validate its model. In D.03-12-062, the Commission agreed to "adopt the provisional use of SCE's model, subject to the model verification steps outlined in this decision."¹³ In order to initiate the verification efforts anticipated by D.03-12-062, SCE hereby submits a full model report.

The contents, assumptions, and formulas in the model are proprietary, and SCE requests that they be treated as confidential information pursuant to Public Utilities Code Section 583 and General Order 66C.

REQUEST FOR COMMISSION APPROVAL:

In D.03-12-062, the Commission directed SCE to verify that the model is in final form when it submits its model report.¹⁴ Although the model is currently in service and in that respect is in a "final form," it is possible that the model will be refined and improved over time. Before implementing any changes to the model algorithms, however, SCE will, as it did before with the existing version: (a) review model changes with its Procurement Review Group (PRG); (b) require that the new version be validated by an internal group, such as SCE Risk Control, which is an SCE department that is independent of the department that developed the new version of the RAPT model; and (c) obtain approval of SCE's Risk Management Committee.¹⁵

¹⁰ The California electric IOUs are: Pacific Gas and Electric (PG&E), San Diego Gas and Electric Company (SDG&E), and SCE.

¹¹ D.03-12-062, Finding of Fact 5, *mimeo*, p. 79.

¹² D.03-12-062, Finding of Fact 6, *mimeo*, p. 79.

¹³ D.03-12-062, Ordering paragraph 3, *mimeo*, p. 87.

¹⁴ D.03-12-062, *mimeo*, p. 14.

¹⁵ SCE has and is likely to continue to make changes to the model that improve its performance or utility, but do not change the underlying model algorithms. These changes include, for example, modifying the format of model inputs or outputs, changing the memory that the model uses to store intermediate results, etc. Although SCE internally validates the model after making such changes, SCE does not perform the formal process steps (a) through (c) indicated above when the model algorithms remain unchanged.

SCE is also willing to provide a report on these activities to ED or, if desired, submit a revised version of this Advice Letter and proceed to discuss with ED additional validation processes for the model revisions. SCE must be able to revise the RAPT, so SCE requests that the Commission or ED define the steps that SCE should follow before implementing newer versions of the risk model. Regarding inputs that the model utilizes, SCE will continue to explain any material changes in its monthly portfolio risk reports to ED.

EFFECTIVE DATE

SCE respectfully requests that the Commission expeditiously approve SCE's RAPT Model Report attached to this advice filing, effective the date of filing, so that SCE's model will have the "unqualified certification" required by D.03-12-062, as explained in D.04-12-048.

NOTICE

Anyone wishing to protest this advice filing may do so by a letter sent through the U.S. Mail Service, facsimile, or electronically, any of which must be received no later than 20 days after the date of this advice filing. Protests should be mailed to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, California 94102
E-mail: jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

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

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

Akbar Jazayeri
Director of Revenue and Tariffs
Southern California Edison Company
2244 Walnut Grove Avenue, Rm. 303
Rosemead, California 91770
Facsimile: (626) 302-4829
E-mail: AdviceTariffManager@sce.com

Bruce Foster
Vice President of Regulatory Operations
c/o Karyn Gansecki
Southern California Edison Company
601 Van Ness Avenue, Suite 2040
San Francisco, California 94102
Facsimile: (415) 673-1116
E-mail: karyn.gansecki@sce.com

No restrictions exist on who may file a protest, but the protest must specifically identify the grounds upon which it lies and the protestant must submit it 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 GO 96-A and R.01-10-024 service lists and PRG members. Address change requests to the attached GO 96-A Service List should be directed to AdviceTariffManager@sce.com or (626) 302-2930. For changes to the R.01-10-024 and all other service lists, please contact the Commission's Process Office at (415) 703-2021 or by electronic mail at Process_Office@cpuc.ca.gov.

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. To view other SCE advice letters filed with the Commission, log on to SCE's web site at <http://www.sce.com/AboutSCE/Regulatory/adviceletters>.

For questions, please contact Sharim Chaudhury at (626) 302-3324 or by electronic mail at sharim.chaudhury@sce.com.

Southern California Edison Company

Akbar Jazayeri

AJ:ag:sq

Attachment 1: SCE's Risk Assessment & Planning Tool Report
Attachment 2: RAPT User's Guide

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)	
Company name/CPUC Utility No.: <u>Southern California Edison Company (U 338-E)</u>	
Utility type: <input checked="" type="checkbox"/> ELC <input type="checkbox"/> GAS <input type="checkbox"/> PLC <input type="checkbox"/> HEAT <input type="checkbox"/> WATER	Contact Person: <u>James Yee</u> Phone #: <u>(626) 302-2509</u> E-mail: <u>James.Yee@sce.com</u>
EXPLANATION OF UTILITY TYPE ELC = Electric GAS = Gas PLC = Pipeline HEAT = Heat WATER = Water	(Date Filed/ Received Stamp by CPUC)
Advice Letter (AL) #: <u>1889-E</u>	
Subject of AL: <u>Submission of Southern California Edison Company's Risk Assessment & Planning Tool (RAPT) Model Report, Pursuant to Decision (D.) 03-12-062</u>	
Keywords (choose from CPUC listing): <u>Compliance, Procurement</u>	
AL filing type: <input type="checkbox"/> Monthly <input type="checkbox"/> Quarterly <input type="checkbox"/> Annual <input checked="" type="checkbox"/> One-Time <input type="checkbox"/> Other _____	
If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: <p style="text-align: center;"><u>D.03-12-062</u></p>	
Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: <u>None</u>	
Summarize differences between the AL and the prior withdrawn or rejected AL:	
Resolution Required? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Requested effective date: <u>4/28/05</u> No. of tariff sheets: <u>-0-</u>	
Estimated system annual revenue effect: (%): _____	
Estimated system average rate effect (%): _____	
When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).	
Tariff schedules affected: <u>None</u>	
Service affected and changes proposed ¹ : _____	
Pending advice letters that revise the same tariff sheets: _____	

¹ Discuss in AL if more space is needed.

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

Akbar Jazayeri
Director of Revenue and Tariffs
Southern California Edison Company
2244 Walnut Grove Avenue
Rosemead, California 91770
Facsimile: (626) 302-4829
E-mail: AdviceTariffManager@sce.com

Bruce Foster
Vice President of Regulatory Operations
c/o Karyn Gansecki
Southern California Edison Company
601 Van Ness Avenue, Suite 2040
San Francisco, California 94102
Facsimile: (415) 673-1116
E-mail: Karyn.Gansecki@sce.com

Advice 1889-E

Attachments 1 and 2

Confidential Information Redacted