

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Application of SOUTHERN CALIFORNIA)	
EDISON COMPANY (U 338-E) For Authority)	Application 04-12-014
To, Among Other Things, Increase Its Authorized)	(Filed December 21, 2004)
Revenues For Electric Service In 2006, And To)	
Reflect That Increase In Rates)	
_____)	

**REPLY OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)
TO RESPONSE AND PROTESTS**

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Dated: **February 2, 2005**

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Pursuant to Rule 44 of the California Public Utilities Commission’s (“CPUC”) Rules of Practice and Procedure, Southern California Edison Company (“SCE”) submits the following reply to the January 18, 2005 Response of the Greenlining Institute (“Greenlining”) to SCE’s 2006 General Rate Case Application No. 04-12-014, the January 12, 2005 Protest of the Independent Energy Producers Association (“IEP”), the January 24, 2005 Protest of the Western Power Trading Forum (“Western Power”), the January 24, 2005 Protest of the Alliance for Retail Energy Markets (“AReM”),¹ and the January 24, 2005 Protest from the Office of Ratepayer Advocates.

¹ Pursuant to Rule 44, replies are due within 10 days of the last day for filing protests and responses. Protests and responses were due within 30 days of December 23, 2004 (the date SCE’s application was noticed on the CPUC’s calendar).

I.

SCE'S REPLY TO GREENLINING'S RESPONSE

Some issues raised by Greenlining are clearly outside the scope of the General Rate Case (“GRC”) and should not be litigated in this proceeding. In Issue Nos. 2 and 4,² Greenlining intends to introduce corporate philanthropic issues in this rate case and link SCE’s philanthropic contributions (which SCE is not seeking to recover in rates) to executive compensation.³ These issues were raised in SCE’s 2003 rate case application and rejected by the CPUC, which explicitly stated that it does not have the jurisdiction to order changes in SCE’s giving practices.⁴ The CPUC further reiterated that it would not, as part of its ratemaking responsibilities, “interject itself into utility management decisions regarding corporate philanthropy.”⁵ Therefore, any attempt by Greenlining to raise philanthropic contributions issues in this rate case or to link philanthropic contributions with executive compensation should be rejected as outside the scope of this proceeding.⁶

II.

SCE'S REPLY TO IEP'S AND WESTERN POWER'S PROTESTS

During SCE’s 2003 General Rate Case (“GRC”) SCE was directed to submit testimony which described the structure and cost of reassembling those departments necessary to begin the

² Further, with regard to Issue No. 4, the comparison of the level of corporate transparency of executive compensation between PG&E and other utilities is currently being addressed in R. 03-08-019 and should not be relitigated in this proceeding. Indeed, the December 28, 2004 Draft Decision of ALJ Koss in that proceeding points out that the reporting requirements agreed to by PG&E should not be imposed on other utilities. Further, the draft decision would find that the compensation data contained in GO 77-L and the SEC Proxy Statements is sufficient for rate making purposes.

³ With regard to Issue No. 4, SCE also disagrees with Greenlining’s proposal to compare executive compensation to “average worker compensation.” The Total Compensation Study performed by Hewitt Associates, under the combined management of SCE and the Office of Ratepayer Advocates, compares the compensation of employees based on comparable job categories and companies. This comparative approach has long been accepted by the Commission as appropriate and relevant.

⁴ D. 04-07-022, Section 6.7.2.2.3.

⁵ *Id.*

⁶ SCE addressed the issue of philanthropic contributions at the CPUC’s October 18, 2004 en banc hearing, in which Greenlining participated as a panelist.

development of utility-owned generation. In its decision on SCE's 2003 GRC, the CPUC stated that it would consider the development of new utility-owned generation on a case-by-case basis and that it recognized such a policy could have significant benefits.⁷ Specifically, the CPUC stated, "we preserve the option of filling customer resource needs through new utility-owned generation to the extent it is in the interests of both customers and shareholders."⁸ Decision No. 04-07-022 serves as the basis for SCE's inclusion of the Project Development Division's costs in this Application. Under cost-of-service ratemaking, the only way to preserve the option the CPUC has explicitly said it wishes to preserve, is by making a request for funding in the GRC. Both IEP's and Western Power's protests fail to acknowledge Decision No. 04-07-022 and thus fundamentally fail to present an accurate picture of the authority for SCE's funding request. Since the CPUC has specifically stated that project development may be in the interests of both ratepayers and shareholders, SCE has properly included its request in its GRC application.

Both IEP's and Western Power's protests oppose the Project Development Division based on the CPUC's recently announced support for "an open, transparent and competitive bidding process" and "greater head-to-head competition" for generation projects and the CPUC's lifting of a ban on affiliate transactions entered into through an open and transparent solicitation process.⁹ Both IEP and Western Power believe that SCE's proposal for a Project Development Division conflicts with the CPUC's goals and rulings as announced in that decision. The protests assert that granting SCE authority to recover Project Development costs from ratepayers will unfairly tilt the outcome of evaluations toward utility-owned projects. Nothing in the language of Decision No. 04-12-048 supports the positions set forth by IEP and Western Power. For example, there is nothing in Decision No. 04-12-048 directly barring SCE from including the cost of a Project Development Division in its GRC. Decision No. 04-12-048 at no point makes mention of a Project Development Division. Such a division was not at issue in R.04-04-003--

⁷ See D. 04-07-022, p. 305.

⁸ *Id.* at 305-306.

⁹ IEP Protest, p. 3.

the long-term procurement proceeding leading up to Decision No. 04-12-048. There was no briefing of this subject, no testimony on this subject, and no hearing time spent on this subject. Accordingly, Decision No. 04-12-048 cannot be read to have any bearing on whether SCE has properly included the Project Development Division in its GRC Application.

Even if Decision No. 04-12-048 did indirectly speak to the issue of inclusion of Project Development costs (which it does not), SCE has identified improper and illegal portions of Decision No. 04-12-048 in a recently filed Application for Rehearing. These issues prevent Decision No. 04-12-048 from being considered the CPUC's definitive pronouncement on generation procurement. In its recently filed application for rehearing, SCE points out that Decision No. 04-12-048 is fundamentally at odds with a CPUC decision issued less than one year earlier, which determined that a hybrid market structure where capacity is provided through a competitive Request for Proposal process for power purchase agreements and a separate Certificate of Public Convenience and Necessity ("CPCN") process for utility-owned projects is appropriate for California.¹⁰ SCE also notes that Decision No. 04-12-048 unfairly requires utility-owned and turnkey projects to compete with power purchase agreements, without allowing investor-owned utilities ("IOUs") to recover all of their costs.¹¹ Furthermore, Decision No. 04-12-048 fails to account for how utility-owned projects and independently-owned projects can be competitively evaluated if the utility-owned projects are more heavily regulated than the independently-owned projects.

III.

SCE'S REPLY TO AREM'S PROTEST

SCE takes issue with AREM's view that generation-related A&G and certain general plant costs should not be allocated to direct access ("DA") customers. AREM's view is contrary

¹⁰ Decision No. 04-01-050. p. 60.

¹¹ SCE's Application for Rehearing of Decision No. 04-12-048, filed January 19, 2005, p. 3.

to the CPUC's avoided cost base standard adopted in Decision No. 01-01-019 where the CPUC determined that these costs should be paid by all customers because the utility does not avoid these costs by virtue of a customer taking service from another provider. This is especially true since the utility, as the provider of last resort, must be ready and able to serve any DA customer that returns to the utility for service. Further, contrary to AReM's Protest,¹² the elimination of the PX credit merely reflects a change in billing practices, but it does not change the CPUC's fundamental avoided cost base standard adopted in Decision No. 01-01-019. Therefore, SCE has correctly and accurately included generation-related A&G and general plant costs in its distribution revenue requirement to be reflected in its distribution rates.

IV.

SCE'S REPLY TO ORA'S PROTEST

SCE agrees with ORA's proposal for one set of hearings on direct and rebuttal testimony together,¹³ and SCE has so informed ORA.

V.

CONCLUSION

Wherefore, for the above reasons:

- The CPUC should affirm that the issue of philanthropic contributions and any link between these contributions and executive compensation are outside the scope of this application.
- The CPUC should affirm that the costs of a Project Development Division are appropriately included in SCE's application.

¹² AReM's Protest, p. 3.

¹³ ORA's Protest, p. 10.

- The CPUC should affirm the avoided cost base standard adopted in Decision No. 01-01-019 for purposes of allocating generation-related A&G and general plant cost to the utility's customers.

Respectfully submitted,

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February 2, 2005
LW050200010

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the CPUC's Rules of Practice and Procedure, I have this day served a true copy of REPLY OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) TO RESPONSE AND PROTESTS on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

- Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.
- Placing the copies in sealed envelopes and causing such envelopes to be delivered by hand or by overnight courier to the offices of the CPUC or other addressee(s).
- Placing copies in properly addressed sealed envelopes and depositing such copies in the United States mail with first-class postage prepaid to all parties.
- Directing Prographics to place the copies in properly addressed sealed envelopes and to deposit such envelopes in the United States mail with first-class postage prepaid to all parties.

Executed this **2nd day of February, 2005**, at Rosemead, California.

Linda Morales
Project Analyst
SOUTHERN CALIFORNIA EDISON COMPANY

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February 2, 2005

Docket Clerk
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

RE: 04-12-014

Dear Docket Clerk:

Enclosed for filing with the Commission are the original and eight copies of the **REPLY OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) TO RESPONSE AND PROTESTS** in the above-referenced proceeding.

We request that a copy of this document be file-stamped and returned for our records. A self-addressed, stamped envelope is enclosed for your convenience.

Your courtesy in this matter is appreciated.

Very truly yours,

James M. Lehrer

[JML:meb:LW050200010.doc](#)

Enclosures

cc: All Parties of Record in A. 02-05-004
(U 338-E)

