BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) for Authority to,
Among Other Things, Increase Its Authorized Revenues For Gas Service For Santa Catalina Island In 2009, And to Reflect That Increase In Rates.

A.08-09-019
(Filed September 23, 2008)

SOUTHERN CALIFORNIA EDISON COMPANY’S (U 338-E) OPENING BRIEF

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<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. SCE’S SUMMARY OF RECOMMENDATIONS</td>
<td>1</td>
</tr>
<tr>
<td>2. OPERATIONS AND MAINTENANCE EXPENSES</td>
<td>3</td>
</tr>
<tr>
<td>2.1 Gas Production Accounts 844.2 and 847.1 (LPG Processing)</td>
<td>4</td>
</tr>
<tr>
<td>2.2 Gas Distribution Account 874 (Gas Distribution Mains and Service Expenses)</td>
<td>4</td>
</tr>
<tr>
<td>2.3 Gas Distribution Account 887 (Gas Distribution Maintenance of Mains)</td>
<td>6</td>
</tr>
<tr>
<td>2.4 Gas Distribution Accounts 893 and 902 (Meters)</td>
<td>6</td>
</tr>
<tr>
<td>2.5 Gas Distribution Accounts 920/921 (Safety, Training)</td>
<td>7</td>
</tr>
<tr>
<td>2.6 Gas Distribution Accounts 488 and 495 (Other Operating Revenue)</td>
<td>8</td>
</tr>
<tr>
<td>3. CAPITAL PROJECTS</td>
<td>9</td>
</tr>
<tr>
<td>3.1 LPG Vaporization Plant Upgrade</td>
<td>10</td>
</tr>
<tr>
<td>3.2 Pebbly Beach Village Line Replacement Project</td>
<td>12</td>
</tr>
<tr>
<td>3.3 Infrastructure Replacement Project</td>
<td>14</td>
</tr>
<tr>
<td>3.4 SCADA Enhancement Project</td>
<td>15</td>
</tr>
<tr>
<td>4. UNDISPUTED TESTIMONY</td>
<td>16</td>
</tr>
<tr>
<td>4.1 Gas Sales Forecast</td>
<td>16</td>
</tr>
<tr>
<td>4.2 Cost Escalation</td>
<td>17</td>
</tr>
<tr>
<td>4.3 Summary of Utility Plant</td>
<td>18</td>
</tr>
<tr>
<td>4.4 Depreciation Expense and Accumulated Depreciation</td>
<td>18</td>
</tr>
<tr>
<td>4.5 Rate Base</td>
<td>19</td>
</tr>
<tr>
<td>4.6 Taxes</td>
<td>19</td>
</tr>
<tr>
<td>5. RESULTS OF OPERATIONS</td>
<td>20</td>
</tr>
<tr>
<td>6. RATE DESIGN</td>
<td>21</td>
</tr>
<tr>
<td>7. MEMORANDUM ACCOUNT</td>
<td>23</td>
</tr>
<tr>
<td>8. CONCLUSION</td>
<td>24</td>
</tr>
</tbody>
</table>
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Pursuant to Rule 13.11 of the California Public Utilities Commission (Commission) Rules of Practice and Procedure, Southern California Edison Company (SCE) submits its opening brief in this proceeding, its general rate case (GRC) application for gas service for Santa Catalina Island, Test Year 2009.¹

1. SCE’S SUMMARY OF RECOMMENDATIONS

SCE has been the primary provider of utility service (including gas distribution) to Catalina residents and commercial customers since 1962.² Over this forty-seven year period, SCE has requested and been authorized to increase its base distribution rates only two times, once in 1987, and subsequently in the 2005 General Rate Case even though SCE has rarely earned its authorized rate of return.³ In its Application, SCE forecasts a Test Year 2009 revenue requirement of $1.654 million. The increase of $0.751 million is an increase of 83 percent in base rates and a 27 percent increase in total gas rates.⁴ SCE is not requesting attrition year increases for either 2010 or 2011.⁵

¹ The SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER, dated December 2, 2008, set April 24, 2009 as the date for opening briefs, and May 8, 2009 for reply briefs.
² See SCE-01 at p. 2.
³ See SCE-01 at p. 2.
⁴ The wholesale cost of gas, which is not included in this proceeding, is passed through to customers through the Gas Cost Adjustment Clause (GCAC), which was established by the Commission in Decision (D)92059 in 1980.
⁵ See SCE-01 at p. 1.
In this proceeding, SCE has submitted comprehensive testimony and workpapers that provide compelling support of the Company’s Test Year 2009 O&M funding and capital expenditure request. In addition, SCE has provided in workpapers to DRA detailed engineering studies and documentation that fully justify the Test Year request. DRA disregards this analysis, and, despite the advanced age of the system and SCE’s direct testimony indicating the need to begin important system upgrades, DRA makes clear that it expects SCE to continue operating at status quo by rejecting important O&M expense items and proposes reducing SCE’s capital expenditure request by over 91%, or $2.904 million.6 DRA’s proposed funding level falls short of what SCE requires to provide safe and reliable service. SCE requests the entire 2009 Test Year revenue requirement be authorized as necessary and reasonable to maintaining the Catalina gas production and distribution system.

In its Application, SCE forecasts O&M expense for gas operations on Catalina to be $769,000 for Test Year 2009, which results in an overall increase of six percent above 2006 recorded O&M expenses.7 The major cost driver for this increase is greater O&M expense due to maintenance requirements for the system infrastructure. SCE’s total capital expenditure request is $3.2 million for projects expected to close through 2009.8 The primary drivers for the capital expenditures forecast are related to infrastructure replacements and for a new monitoring and control system. The gas distribution system has continued to age and there is a serious need to repair and replace portions of the system. SCE also requests incremental capital expenditures due to scope changes related to the LPG Vaporization Plant Upgrade and Pebbly Beach Village Line Replacement projects that were previously approved in SCE’s 2005 Catalina Gas GRC.

The total request in this GRC reflects SCE’s efforts to continue to operate and maintain the Catalina gas system in a safe, reliable and cost effective manner consistent with applicable law and[

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6 See DRA-1 at p. 2.
7 See SCE-01 at p. 6.
8 See SCE-01 at p. 26.
regulations. To ensure the long-term health of the system, SCE recommends that the Commission adopt SCE’s proposals and reject DRA’s harmful and short-sighted modifications.

2. **OPERATIONS AND MAINTENANCE EXPENSES**

SCE forecasts $769,000 in O&M expense in Test Year 2009 for its Catalina Gas operations.\(^9\) This total represents a 6 percent increase from the recorded/adjusted 2006 expenses of $727,000.\(^10\) Over the last five years, SCE’s O&M expenses have increased by 69 percent and are on an upward trend due to increased regulation, increased maintenance, testing, and repair of the system due to its advanced age, and increased staffing to handle the increased workload.\(^11\) The expenses requested in this 2009 GRC are conservative and based on recent recorded operating experience indicative of the current operating requirements of providing safe and reliable gas service to customers on Catalina Island.\(^12\)

DRA does not contest the majority of these required O&M expense increases over the last five years.\(^13\) However, DRA does recommend a total disallowance of $50,000 from SCE’s total O&M request due to differences in the methodology employed to arrive at a forecast amount in two of SCE’s O&M accounts.\(^14\) SCE’s forecast is reasonable and should be adopted without adjustment. DRA’s testimony does not take exception to the need for SCE to spend the requested O&M dollars – the difference is one of methodology. Whereas SCE’s methodology attempts to accurately predict the necessary spending levels for Test Year 2009 based upon actual conditions

\(^9\) See SCE-01 at p. 6.
\(^10\) See SCE-01 at p. 6.
\(^11\) See SCE-01 at p. 6.
\(^12\) The difficult nature of providing gas distribution service on Catalina includes: (1) underground propane distribution system is unique in California; (2) propane must be barged from the mainland; (3) construction material costs are high and difficult to predict since all materials must be bought on the mainland and barged over; (4) construction labor is difficult because most contractors and laborers are from the mainland; and (5) gas service is not the core business of Southern California Edison Company, which does not provide gas or water service anywhere else in its service territory.
\(^13\) See DRA-1 at pp. 17-19.
and need, DRA’s methodology would simply pick the lowest number from a range of different formulas. DRA’s requested disallowance recommendation is inadequate, does not accurately reflect actual conditions, and should be rejected.

2.1 Gas Production Accounts 844.2 and 847.1 (LPG Processing)

Account 844.2 includes the labor and material expenses incurred in operating and maintaining the gas production plant, which include maintaining the gas utility’s emergency procedures manual, regular inspections and testing of the gas production facilities, tracking and reporting the results of these inspections and tests to the Commission, and training for respective duties contained in the emergency procedures manual.15

Account 847.1 includes labor and material expenses incurred in the general supervision and direction of the maintenance of SCE’s LPG gas vaporization plant.16

In its testimony, DRA accepted SCE’s O&M expenses of $207,000 for account 844.2 and $83,000 for account 847.1 as “reasonable and appropriate” because in both cases the forecast expenses were less than DRA’s calculation of the five-year average for those accounts.17 SCE requests the Commission adopt the undisputed amounts for accounts 844.2 and 847.1 as reasonable.

2.2 Gas Distribution Account 874 (Gas Distribution Mains and Service Expenses)

Account 874 includes labor and materials expenses incurred from operating the gas distribution system mains and services.18 SCE requested test year O&M of $35 thousand for this account – $3,000 for labor and $32,000 for non-labor – primarily for necessary on-going consulting

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14 See DRA-1 at p. 18.
15 See SCE-01 at p. 10.
16 See SCE-01 at p. 13.
17 See DRA-1 at p. 22.
18 See SCE-01 at p. 15.
work reflected in the recent recorded years. DRA ignores the recorded increases to non-labor beginning in 2004, and, instead, applies a five-year average to justify its $18 thousand reduction. DRA’s reduction is excessive and inappropriate; thus, SCE requests that its entire $35 thousand forecast be authorized for this account.

There are good reasons for the recent increased costs in this account. Since 2004, SCE has implemented extensive training programs to account for the more stringent regulatory and legally mandated requirements to operate the gas distribution system. As described in SCE’s rebuttal testimony, during this period, SCE developed and implemented the following plans to comply with required gas distribution regulations:

1. Gas Meter Accuracy Reporting and Replacement Program;
2. Operator Qualification Program;
3. Contractor Qualification Program;
4. Pipeline Distribution System Security Plan;
5. Conduct Security Awareness Training/Drill;
6. Public Outreach Program;
7. Conduct Effectiveness Survey of Public Outreach Program;
8. Review proposed, existing, and new laws, regulations, and permits to determine impact to Catalina operations;
9. Distribution Pipeline System Integrity Management Program;
10. Conduct Emergency Response Plan Table Top Drill.

The development and implementation of these new programs are to address (1) technological advancements, (2) evolving safety requirements and (3) increased regulatory and

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19 See SCE-01 at pp. 15-16.
20 See DRA-1 at p. 22.
21 See SCE-01 at p. 16; SCE-02 at p. 4.
22 See SCE-02 at pp. 4-5.
compliance qualification training. These programs also include annual reviews for effectiveness and revision, as necessary, in addition to performing the activities mandated by regulation. Because Catalina requires the assistance of consultants to manage the programs even after they have been developed and implemented, it is necessary to continue funding these consultants in order to maintain these important safety and compliance programs. This central consultant model has proved effective for the Catalina gas operations and is required to maintain the system. SCE requests the Commission adopt SCE’s forecast of $35,000 for this account and reject DRA’s inadequate proposed cut.

### 2.3 Gas Distribution Account 887 (Gas Distribution Maintenance of Mains)

Account 887 includes expenses incurred maintaining distribution services and gas distribution mains. The account also includes payroll, vehicles, and other expenses related to receiving calls, researching, and locating underground facilities at customers’ request.

In its testimony, DRA accepted SCE’s forecast O&M expense of $91,000 for this account because $91,000 reflects a declining historical trend. In addition, as SCE noted in its testimony, due to one-time adjustments, the five-year average would have resulted in a forecast higher than necessary to meet SCE’s expenses in 2009 – a result that DRA agrees with.

### 2.4 Gas Distribution Accounts 893 and 902 (Meters)

Account 893 includes expenses incurred in the maintenance and relocation of existing gas meters and house regulators as well as the costs of testing, servicing, activating, and deactivating

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23 See SCE-02 at p. 5.
24 See SCE-02 at p. 5.
25 See SCE-01 at p. 17.
26 See SCE-01 at p. 17.
27 See DRA-1 at pp. 22-23.
28 See SCE-01 at p. 18.
29 See DRA-1 at p. 23.
customer meters. Account 902 includes the labor and non-labor expenses related to reading customers’ gas meters.

In its testimony, DRA accepted SCE’s O&M expenses of $6,000 for Account 893 and $8,000 for Account 902 because it was “reasonable and appropriate” for SCE to use a five-year average to forecast the expenses for both of these accounts. SCE requests the Commission adopt the undisputed amounts for accounts 844.2 and 847.1 as reasonable.

2.5 Gas Distribution Accounts 920/921 (Safety, Training)

Account 920/921 includes office supplies and labor expenses incurred with the general administration of the utility’s operations that are not directly assignable to other Catalina gas accounts. In addition, this account also includes costs associated with conducting safety-related training, supervision and management costs. For Test Year 2009, SCE forecast $339,000 for this account, $126 thousand for labor expense and $214 thousand for non-labor expense. In this case, the last year recorded methodology is the most appropriate methodology for forecasting test year 2009 labor expenses because SCE expects to perform the same type and level of activities that recorded to this account in 2006. For non-labor expenses, the three-year averaging methodology is most appropriate because the recent history is more representative than base year 2006 of what is expected to occur in the Test Year due to consulting work requirements. For example, since 2004, consultants have been hired to improve operations of the gas facilities and for maintenance and repair of the system.

30 See SCE-01 at p. 19.
31 See SCE-01 at p. 21.
32 See DRA-01 at p. 23.
33 See SCE-01 at p. 23.
34 See SCE-01 at p. 24.
35 See SCE-01 at p. 24.
DRA agrees with the three-year average approach for non-labor, but it goes a step further by believing that this same approach is appropriate for labor. DRA is incorrect. DRA ignores the recorded increases to labor beginning in 2005 and continuing through 2006, and, instead applies an average to justify its $30 thousand reduction. DRA’s approach to evaluating the appropriate expense levels for this account is wrong and would reduce test year labor expenses by 26 percent.

Moreover, DRA is wrong in its assertion that the “increased staffing levels” relates only to the hiring of one Superintendent back in 2005. In fact, although a new superintendent was hired, that single employee did not account for all of the increase. In order to meet the requirements of regulatory programs, SCE hired two administrative clerks and three additional operator mechanics to work on Catalina gas and water operations. Consequently, an apprentice program was started to train three individuals to become operator/mechanics since qualified personnel could not be found. These five individuals were hired in late 2005 and early 2006 with their labor expenses fully reflected in recorded 2006. For this reason alone, the Commission should reject DRA’s recommended average approach. SCE’s methodology for forecasting labor expense in this account accurately reflects current conditions and should be adopted.

2.6 Gas Distribution Accounts 488 and 495 (Other Operating Revenue)

SCE forecast approximately $1,000 in revenue per year from miscellaneous gas system establishment service charges to new customers (Account 488). SCE also forecast revenue of $56,000 annually from retail propane sales to individual customers for personal use on Catalina Island (Account 495). Both forecasts are based on a five-year average revenues (2002-2006).

36 See DRA-01 at pp. 23-24.
37 See DRA-01 at pp. 23-24.
38 See SCE-02 at p. 6.
39 See SCE-02 at pp. 6-7.
40 See SCE-01 at p. 25.
41 See SCE-01 at p. 25.
DRA did not challenge or otherwise address the forecasted amount of revenue for these accounts in its testimony. SCE therefore requests the Commission adopt these amounts as reasonable.

3. CAPITAL PROJECTS

SCE forecast $3.2 million in capital expenditures for projects estimated to close prior to the end of 2009. These capital expenditures are vital to ensuring that SCE continues to provide safe and reliable gas service to its customers on Catalina. For example, SCE will devote $1.750 million of these funds to replacing its aging and deteriorating infrastructure and the automation of the monitoring and control of the gas plant and distribution system.44 The gas distribution system, most of which is more than 40 years old, will be replaced during a long-term, systematic infrastructure replacement program that will carry through several rate case cycles. SCE will also install a Supervisory Control and Data Acquisition (SCADA) system that will automate the monitoring and control of the gas plant and distribution system.45 In addition, SCE requests $1.442 million in incremental capital expenditures related to scope changes to projects previously approved in SCE’s 2005 Catalina Gas GRC. These scope changes occurred on the Pebbly Beach Village Line Replacement and the Liquefied Petroleum Gas (LPG) Vaporization Plant Upgrade.46 SCE is only seeking recovery of the additional capital spend that is above Commission approved levels.

In its testimony, DRA proposes disallowing 91.1% of the $3.2 million in capital expenditures SCE requested in this proceeding.47 These massive disallowances are unjustified and jeopardize SCE’s ability to provide safe and reliable service to our gas customers on Catalina Island. In testimony and data request responses, SCE has fully demonstrated that the capital

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42 See SCE-01 at p. 25.
44 See SCE-01 at p. 26.
47 See DRA-01 at pp. 25-27.
projects, and the costs incurred to complete these projects, are reasonable, necessary, and prudent. Based on the record in this proceeding, the Commission should authorize 100% of our request.

3.1 LPG Vaporization Plant Upgrade

In SCE’s 2005 Catalina Gas GRC (D.04-12-018), SCE requested and the Commission approved $1.303 million for the LPG Vaporization Plant Upgrade project. In that proceeding, both the Office of Ratepayer Advocates (ORA) and SCE agreed that this upgrade was necessary and that no rate increase would be allowed to go into effect until the project was operational. This project was fully operational in February 2005 and the authorized rate increase took effect in March 2005. The total recorded cost for this project was $2.469 million, resulting in a $1.166 million increase above what the Commission authorized in the 2005 GRC.

As explained and supported in great detail in SCE’s direct testimony, SCE’s actual construction costs were $2.469 million because of required, unanticipated project scope changes. In its Application, SCE is requesting approval to include the additional $1.166 million in rates. DRA proposes disallowing $0.884 million of these costs. As shown in our direct testimony, these unanticipated scope changes were necessary to complete the construction of a safe, reliable vaporization plant.

DRA justifies its proposed disallowance on SCE’s inability to foresee all of the costs in the original project estimate developed back in 2003 for the last rate case, well before the project began construction. DRA ignores SCE’s justifications for the scope changes and focuses solely on the fact that costs overran authorized amounts in the last GRC. Because of this inability to pinpoint with accuracy its forecast, DRA argues that SCE should not be allowed to recover these necessary scope additions from ratepayers.

48 See SCE-01 at pp. 37-43.
49 See DRA-01 at p. 32; DRA does not contest $0.282 million of SCE’s request for the Gas Tank Purge, the Fire Water System Modifications, and the Gas Monitoring Systems.
50 See DRA-01 at pp. 32-35.
As explained in SCE’s direct testimony, in order to have a fully functioning gas plant in service, SCE needed to address unanticipated problems identified during operational testing of the completed gas plant. Management recognized the need to increase the scope of the LPG Vaporization Plant Upgrade to add component parts the plant required to be completely operational. Without the installation of the heat tracing, the electrical power source to the heat tracing, the alarm annunciator system, and the ball valve replacements, major gas supply interruptions would have taken place endangering both our gas customers and our employees.

The upgrades to the LPG Vaporization Plant were necessary to comply with current safety codes and standards. The existing vaporization system and supporting equipment did not meet the current codes and standards, such as the National Fire Protection Association (NFPA) standards. SCE could not stop “part way” through the project and reasonably expect to have a functioning propane gas system. SCE hired an outside consultant in the gas utility industry to design the new propane system. To our knowledge, SCE has the only propane gas distribution system in California. Typically, small, remote communities use natural gas from a pipeline distribution system or bottled propane delivered by tanker truck to serve customer demands.

SCE began testing the upgraded gas plant in September 2004, after the rate case briefs had been filed in the 2005 GRC. If SCE were to provide uninterrupted service to its gas customers, the heat tracing, electrical upgrades for the heat tracing, and ball valves needed to be installed in order for the plant to function. As a responsible utility, SCE could not jeopardize the safety of its gas customers by not installing heat tracing and replacing the ball valves, and despite DRA’s argument, this could not have been anticipated by SCE. As far as SCE could determine, the Catalina gas propane distribution system is unique in this industry, so the problems encountered on this project prior to its initial startup could not have been easily foreseen.

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51 See SCE-01 at pp. 37-43.
52 See SCE-02 at p. 10.
53 See SCE-02 at pp. 10-11.
Because the changes to the scope of the LPG Vaporization Plant project came to light after initial testing of the built components was completed, and because SCE could not have foreseen the need for upgrades in order for the finished plant to function, the Commission should accept SCE’s request for recovery of this capital expense as both necessary and reasonable.

3.2 Pebbly Beach Village Line Replacement Project

In the 2005 GRC, SCE requested $200,000 in capital expenditures to replace its gas distribution pipeline and services in Pebbly Beach Village.\(^{54}\) The Commission approved the project but authorized only $100,000 in capital expenditures based on SCE’s anticipation that it would coordinate and share construction costs with the Island Company. The Island Company had planned on installing a new fire flow line and replacing its sewer line in the same area and SCE had planned to coordinate and share construction costs with the Island Company. This gas distribution pipeline was constructed in the 1960s and because of its existing condition and its age, replacement was necessary. The total cost to complete this project is estimated at $375,000, resulting in a $275,000 increase above what was authorized by the Commission in the 2005 GRC.

Retrospectively, DRA asserts that, during the 2005 Rate Case proceeding, SCE misrepresented that it would share costs with the SCICo in a coordinated joint effort.\(^{55}\) However, at the time SCE made this representation, SCICo was still a willing participant in the project. SCE was in constant negotiations to embark in and share costs for a joint fire pipeline, sewage pipeline replacement, and gas pipeline replacement project with SCICo, who was ordered by the City of Avalon Fire Department to provide fire line piping along the Pebbly Beach Village Street.\(^{56}\)

Correspondence received from SCICo to SCE and the City of Avalon Fire Department indicated SCICo’s intentions to proceed with their commitment to embark on the pipeline

\(^{54}\) See SCE-01 at p. 33.

\(^{55}\) See DRA-01 at p. 30.

\(^{56}\) See SCE-02 at p. 13.
replacement project on Pebbly Beach. In a letter dated May 6, 2003 from SCICo, the Director of Real Estate Planning, Michael Whitby, stated “that the Island Company needed to install a fire line large enough to supply water for up to 35 housing units in Pebbly Beach Village road. ‘The intent of the long time frame was to allow SCE and SCICo to jointly remedy the water supply issue.’” Other correspondence from SCICo later that year stated that “Once we [SCICo] have the engineered plans and construction costs we can define the actual commitment in dollars.”57 Based on these assertions and commitment from SCICo to the project being represented to SCE, engineering studies and other preliminary work were prepared to proceed forward with the project.

After considerable delay waiting for SCICo to commit its assistance, SCE was compelled to proceed with completion of this project, without the contribution of SCICo, in order to meet our obligation to provide continuous delivery of safe and reliable gas and water service to the residents of this community. Put simply, had SCICo kept its obligations as anticipated when this project was first authorized, SCE would not have experienced the level of cost overruns that it did.

As a result of SCICo’s non-participation, SCE spent an additional $276,000 on costs to complete this project. These increased costs are justified even without participation of SCICo. The complexity of this project involved replacement of approximately 400 feet of gas pipeline, which included customer branch lines that required hand trenching through a blacktopped road, and the installation of steel road plates for resident access. In addition, the work needed to be accomplished while providing permanent residents of the Island safe access to their property.

Due to the pressing need to complete this project in the face of indefinite delays from SCICo, SCE had no choice but to construct the project without benefiting from the $100,000 share SCE believed SCICo was to provide when the project was approved in 2005. It is inappropriate to penalize SCE for costs that are incurred beyond its control. SCE requests the Commission consider

57 See SCE-02 at p. 14.
the circumstances that necessitated the added project costs and permit SCE to recover the actual costs of construction for this project in their entirety.

3.3 Infrastructure Replacement Project

In 2007, SCE began its Infrastructure Replacement Program to systematically replace the piping on its aging and deteriorating gas distribution system. The long-term project, which involves replacing up to 500 feet of pipe per year, will continue through several rate case cycles. The Infrastructure Replacement Program is a critical part of SCE’s commitment to continue to provide safe and reliable service to its gas customers on Catalina Island. SCE projects 2007-2009 capital expenditures of $0.905 million for this project. 58 SCE has spent approximately $150,000 to date on the Infrastructure/Pipeline Replacement Project.59

Nearly all of the gas distribution pipeline system on Catalina Island was installed over forty years ago, prior to SCE’s purchase of the gas system.60 SCE utilized a third party vendor to perform annual leak detection surveys. Indications of underground leaks, corrosion, and rusting have been evident in the inspections conducted by its third party vendor, and SCE has replaced or repaired sections of pipeline where significant deterioration has been found.61 As an on-going project, SCE’s capital expenditure request is essential to replacing the heavily deteriorated and aging infrastructure in order to provide safe and reliable gas to its customers.

DRA argues that the Infrastructure Pipeline Replacement is “unnecessary,” despite SCE’s testimony and extensive workpapers detailing the necessity for infrastructure replacement, and recommends that no dollars be allocated to this project over the next rate case cycle.62 In essence, DRA recommends that this project be scrapped entirely, and recommends by implication that SCE

58 See SCE-01 at p. 27.
59 See SCE-02 at p. 15.
60 See SCE-01 at p. 27.
61 See SCE-02 at p. 15.
62 See DRA-01 at pp. 37-38.
wait for parts of its aging infrastructure to fail before replacing them. SCE requests that the Commission reject DRA’s recommendation to scuttle this important project and adopt SCE’s capital forecast to allow it to systematically replace its aging gas infrastructure on Catalina.

3.4 SCADA Enhancement Project

SCE’s SCADA enhancement project will automate the monitoring and control of the gas plant and distribution system and capture maintenance and operations activities. The SCADA enhancement will provide the information and tools necessary to more effectively manage the gas system and help SCE comply with various federal and state regulatory reporting requirements. SCE forecasts $0.839 million in capital expenditures for this project through year-end 2009 when it is expected to be completed and in-service.63

SCADA, which will include the automated monitoring of critical gas measurements at various locations throughout SCE’s gas plant and distribution system, would provide constant, real-time information of the entire gas system to employees in the control room. SCADA will allow gas plant operators to pinpoint the location of a problem on the gas system more quickly and precisely. Currently, SCE does not have the ability to identify the precise location of a problem because there are only two points of measurement, one on each end of the system. In most instances, gas plant operators must rely on customer complaints or physical inspections of the pipeline to identify the location of a problem. The additional functionality SCADA provides will result in a decrease in the number, length, and extent of customer disruptions when abnormal conditions arise.64

SCE has incurred $150,000 in startup project costs related to the Supervisory Control and Data Acquisition (SCADA) System Upgrade Project, primarily on engineering studies and analysis. Even though DRA understands that the current state of the gas instrumentation on Catalina is

63 See SCE-01 at pp. 30-31.
64 See SCE-01 at p. 31.
antiquated, functionally obsolete, and manually read/recorded, nonetheless, DRA recommends that the Commission reject this project in its entirety.65

The installation of the SCADA system provides operator awareness of operational conditions, security, and safety of gas facilities and consumers, and affords operational and maintenance efficiency through automation, as demonstrated in SCE’s testimony and workpapers. The added functionality SCADA provides will ultimately result in a reduction to the number of customer disruptions and incrementally increase the safety, reliability, and consistency of gas operations on Catalina Island.66 Thus, SCE asks that the Commission adopt SCE’s capital forecast for its SCADA Enhancement Project and reject DRA’s recommendation to keep SCE and its gas distribution employees in the Stone Age of gas monitoring equipment.

4. UNDISPUTED TESTIMONY

The following subjects of SCE’s initial testimony contribute to SCE’s rate base and revenue requirement for gas service on Catalina Island. Although the specific values described below could change based upon the final adopted revenue requirement and amount of authorized capital expenditures, the calculation of each of the following was not contested by DRA’s testimony. SCE’s testimony should therefore be adopted by the Commission after including any adjustments found reasonable by the Commission.

4.1 Gas Sales Forecast

In its Opening Testimony in this proceeding, SCE forecasted a slight decline in gas sales in 2007 and again in 2008 as compared to 2006 recorded sales.67 Gas sales are then forecast to remain

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65 See DRA-01 at pp. 38-39.
66 See SCE-02 at pp. 11-12.
67 See SCE-01 at p. 3.
constant at 2008 levels for the remainder of the forecast period. Specifically, the gas sales forecast is summarized in the following table:

**Table 2-1**  
*Gas Sales Forecast*  
*(Therms)*

<table>
<thead>
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<th>Year</th>
<th>Residential</th>
<th>Commercial</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>282,484</td>
<td>378,901</td>
<td>661,385</td>
</tr>
<tr>
<td>2007</td>
<td>289,587</td>
<td>371,172</td>
<td>660,759</td>
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<tr>
<td>2008</td>
<td>285,012</td>
<td>367,494</td>
<td>652,506</td>
</tr>
<tr>
<td>2009</td>
<td>285,012</td>
<td>367,494</td>
<td>652,506</td>
</tr>
<tr>
<td>2010</td>
<td>285,012</td>
<td>367,494</td>
<td>652,506</td>
</tr>
<tr>
<td>2011</td>
<td>285,012</td>
<td>367,494</td>
<td>652,506</td>
</tr>
</tbody>
</table>

As explained in SCE’s Opening Testimony, the Catalina Island gas sales forecast is constructed by combining separate forecasts of residential and non-residential (mainly commercial customers) gas consumption. Each of these forecasts in turn consists of two parts: a customer forecast, which is based on the number of active service connections, and secondly, a forecast of monthly gas consumption per customer. After reviewing SCE’s testimony, DRA recommended that SCE’s customer estimates and gas sales be adopted.

### 4.2 Cost Escalation

As is customary in general rate cases, SCE estimated labor and non-labor escalation rates related to Catalina gas service and to develop the forecast of O&M and A&G expenses for the years

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68 See SCE-01 at pp. 3-5.
69 See SCE-01 at p. 5, Table II-1.
70 See SCE-01 at p. 3.
71 SCE forecast a constant level of residential gas customers at 1,206 and commercial customers of 119 for 2007 and beyond. See SCE-01 at pp. 4-5.
72 See DRA-01 at p. 9.
2002 through 2009.\textsuperscript{73} The labor and non-labor escalation rates are presented in Tables IX-13 and IX-14 in SCE’s initial testimony.\textsuperscript{74} DRA agrees that SCE’s labor and non-labor escalation methodology and results are reasonable.\textsuperscript{75}

4.3 Summary of Utility Plant

Section V of SCE’s initial testimony provides a summary of utility plant balances for recorded years 2006 and 2007 and forecast years 2008 and 2009. The plant balances are used in the rate base calculation. The weighted average plant balances are stated in Table V-8 of SCE’s initial testimony.\textsuperscript{76} DRA does not contest the methodology for calculating SCE’s recorded and forecast utility plant balances. Thus, after allowing for any adjustments found reasonable by the Commission, the Commission should adopt the figures described in Table V-8 of SCE-01.

4.4 Depreciation Expense and Accumulated Depreciation

SCE’s initial testimony, Section VI, presents SCE’s depreciation reserve for recorded years 2006 and 2007 and forecast years 2008 and 2009.\textsuperscript{77} The weighted average depreciation reserve is used in the rate base calculation.\textsuperscript{78} The historical and forecast weighted average depreciation reserve is described in Table VI-9 of SCE’s initial testimony.\textsuperscript{79} DRA does not contest the methodology for calculating SCE’s recorded and forecast weighted average depreciation reserve anywhere in its testimony. Thus, after allowing for any adjustments found reasonable by the Commission, the Commission should adopt the figures described in Table VI-9 of SCE-01.

\textsuperscript{73} See SCE-01 at p. 56.
\textsuperscript{74} See SCE-01 at pp. 56-57.
\textsuperscript{75} See DRA-1 at pp. 11, 15.
\textsuperscript{76} See SCE-01 at p. 44.
\textsuperscript{77} See SCE-01 at p. 47.
\textsuperscript{78} See SCE-01 at p. 48.
\textsuperscript{79} See SCE-01 at p. 48.
4.5  Rate Base

Section VII of SCE’s initial testimony presents SCE’s rate base for recorded year 2006 and 2007 and forecast years 2008-2009. Rate base represents the net investment value after depreciation of the properties SCE uses to provide service to the public. In addition, SCE’s return is determined based on the value of its rate base. Rate Base includes utility plant in service, working cash, depreciation reserve, and deferred taxes. All of these items were uncontested by DRA as described herein. Table VII-10 of SCE’s initial testimony provides a summary of weighted average rate base for the recorded and forecast years (2006-2009). Since DRA did not contest the methodology for calculating SCE’s rate base nor any of its components, the Commission should adopt the figures described in Table VII-10 of SCE-01 after allowing for any adjustments found reasonable by the Commission.

4.6  Taxes

SCE’s recorded and forecast taxes for years 2006 through 2009 are provided in Section VIII of SCE’s initial testimony. SCE’s summary of taxes is described in Table VIII-12, which include taxes on income, payroll taxes, and ad valorem taxes. Other tax items described in SCE’s testimony include the deferred income tax expense (Schedule M), the investment tax credit, changes in tax law, and the alternative minimum tax. None of these tax items has been contested by DRA or mentioned in DRA’s testimony. Thus, the Commission should adopt SCE’s tax testimony found

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80  See SCE-01 at p. 49.
81  See SCE-01 at p. 49.
82  See SCE-01 at pp. 49-51.
83  See, infra at Sections 4.3, 4.4, and 4.6. The working cash table of recorded and forecasted expenses is described in Table VII-11 of SCE-01 and is also uncontested by DRA.
84  See SCE-01 at p. 49.
85  See SCE-01 at pp. 52-55.
86  See SCE-01 at p. 52.
87  See SCE-01 at p. 54.
in Section VIII and in Table VIII-12 of SCE-01 after adjusting any of the figures as necessary to allow for any adjustments found reasonable by the Commission.

5. RESULTS OF OPERATIONS

Section X of SCE’s initial testimony presents SCE’s 2009 test year Results of Operations at present and proposed base rates for SCE’s Catalina gas operations. The Catalina Gas Operations base revenue requirement described in this section does not include fuel and transportation costs, which are recovered through the Gas Cost Adjustment Clause (GCAC) mechanism. That mechanism permits SCE to make semi-annual rate adjustments reflecting the change in LPG-related costs. When total rates are considered, including those costs recovered in the GCAC, SCE’s request represents a 27.1% increase in total gas rates.

If SCE incurs the operating expenses it forecasts in this application without receiving any rate increase, its rate of return on rate base will be -1.52% in 2009. SCE’s authorized rate of return on rate base is 8.75%. Accordingly, in order for SCE to cover its forecast costs of operations and to realize its authorized rate of return, SCE requires $1.654 million in base rate revenue in 2009, an increase of $751,000 over present rate revenues. SCE has not requested attrition year increases for 2010 or 2011, therefore the adopted 2009 revenue requirement will be included in the rate levels for those years as well.

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88 See SCE-01 at pp. 60-63.
89 See SCE-01 at p. 60.
90 See SCE-01 at p. 60, n.36.
91 See SCE-01 at p. 61, Table X-16.
92 See SCE-01 at p. 62, n.38.
93 See SCE-01 at p. 63, Table X-17.
94 See SCE-01 at p. 62.
6. RATE DESIGN

In its initial testimony, Section XI, SCE proposed a rate design scenario designed to recover SCE’s proposed revenue requirement. The rate design proposal was to take effect January 1, 2009, without a phase-in period, and would continue SCE’s CARE program for low income customers and its DE tariff, a discount for SCE employees. Starting with the allocation approved in SCE’s last Catalina Gas GRC (D.04-12-018), SCE calculated that, in order to maintain the same ratios between fixed and volumetric charged, 17% or $0.286 million of SCE’s total revenue requirement should be recovered through fixed meter charges on a $/meter/month basis. The remaining 83%, or $1.368 million, is proposed to be recovered through the energy (or volumetric) charges on a $/therm basis.

DRA recommends two changes to SCE’s rate design: (1) that the rate increase be phased-in over three years, and (2) that all of the rate increase be allocated to the energy or volumetric portion of the customer’s bill. SCE disagrees with both proposals. First, SCE believes that DRA’s testimony contains a significant error that permeates its rate design section and leads to the conclusion that the entire rate increase should be allocated to energy charges. DRA’s testimony states that SCE’s proposal is to allocate “83% [of the rate increase] to both customer charges and volumetric rates.” Table 6-1 repeats this error by calculating, incorrectly, an 83% “difference”

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95 See SCE-01 at p. 64.
96 Because SCE’s motion to establish a Memorandum Account to record the proposed rate increase during the Test Year 2009 prior to a Commission decision in this GRC was not adopted until January 29, 2009 (D.09-01-011), SCE is precluded from implementing its rate increase for the days in January prior to the opening of the Memorandum Account. Thus, SCE is now requesting that the rate increase take effect on January 29, 2009.
97 See SCE-01 at p. 64.
98 See SCE-01 at p. 66; SCE-02 at p. 18.
99 See SCE-01 at pp. 66-67; SCE-02 at p. 18.
100 See DRA-1 at p. 40.
101 See SCE-02 at p. 18.
102 See DRA-1 at p. 40 (emphasis added).
between DRA’s and SCE’s proposed fixed meter charges. Of course it makes no sense for SCE to allocate 83% of the increase to fixed charges and 83% to volumetric charges resulting in an allocation greater than 100%. In fact, SCE’s recommendation is to allocate 17% of the proposed increase to fixed charges and 83% (a majority) to volumetric charges.

SCE believes that DRA’s error has significantly influenced its recommendation to allocate 100% of the increase to volumetric charges. Rather than the 83% that DRA erroneously believes SCE has proposed allocating to fixed charges, SCE has requested only 17% be so allocated, a much smaller amount. And there is a reasonable basis for SCE’s allocation formula – it preserves the allocation ratio adopted in SCE’s last GRC (D.04-12-018). SCE believes its allocation request is equitable, in-line with Commission precedent, and continues to encourage conservation by allocating the majority of the increase (83%) to the volumetric portion of the bill. The Commission should adopt SCE’s allocation methodology as sound and reasonable and reject DRA’s request, which is founded on a mistaken interpretation of SCE’s request.

DRA also asks for a three-year phase-in of any rate increase without carrying charges. SCE opposes this request. As SCE explained in its rebuttal testimony, a rate phase-in is not necessary in this case because the increase is significantly smaller in percentage terms than the last increase for which a phase-in was ordered. However, “in the event [a phase-in] is adopted, SCE requests equitable treatment of any such phase-in. Specifically, in accordance with cost-of-service ratemaking principles, SCE requests that any adopted phase-in permit collection of the revenue shortfall over the last two years of the phase-in with interest.”

103 See DRA-1 at p. 41.
104 SCE brought this error to DRA’s attention and requested that DRA abandon its allocation argument. DRA did not respond to SCE’s request.
105 See DRA-1 at p. 40.
106 See SCE-02 at 18.
107 See SCE-02 at 18.
7. MEMORANDUM ACCOUNT

On July 27, 2007, SCE tendered to DRA its NOI to file a 2009 test year General Rate Case. The Commission’s Executive Director accepted SCE’s NOI for filing by letter dated November 6, 2007. Thereafter, DRA requested that SCE delay filing its Catalina Gas application so that DRA could focus its attention and resources on SCE’s 2009 electric GRC. Thus, SCE waited nearly a year until the electric GRC was nearly completed and filed its Catalina Gas Application on September 23, 2008.

In recognition of the delay in filing the application and the rapidly approaching test year, 2009, SCE brought an oral motion for a memorandum account at the November 20, 2008 prehearing conference seeking to record the difference between the revenue requirement at present rates and the revenue requirement ultimately adopted in the decision in this proceeding. Administrative Law Judge Robert Barnett granted SCE’s motion to establish a memorandum account, and the authorization for SCE’s memorandum account became final on January 29, 2009 when the Commission adopted D.09-01-011.

In this Catalina Gas GRC proceeding, it was anticipated at the time the NOI was filed that the Commission would issue a final decision prior to the beginning of the test year. With the delay, it became clear that would not happen. However, due to an objection from DRA, when this memorandum account was established in D.09-01-011, the Decision stated that mere establishment of the account did not predetermine the issue of whether all, or any portion, of the amounts included in the account are reasonably incurred by SCE and eligible for recovery from ratepayers.

The Commission has authorized memorandum accounts and allowed full recovery of amounts included therein to allow GRC decisions delayed past the start of the test year to be effective as if the decisions had not been delayed. Such memorandum accounts were implemented in the last GRC for each of the major California energy utilities. In D.02-12-073, the Commission authorized a memorandum account for recovery of Pacific Gas and Electric Company’s (PG&E) TY 2003 revenue requirement. In SCE’s last GRC, the Commission issued D.03-05-076, granting a
memorandum account to track the eventual decision that had been delayed in that proceeding. Finally, in SDG&E’s and Southern California Gas Company’s last consolidated GRC, A.02-12-027/A.02-12-028, the Commission issued D.03-12-057, which authorized a memorandum account to track the eventual outcome of the final decision (subsequently issued in December 2004) back to the start of the test year, January 1, 2004. In each of these cases, memorandum accounts were established when it was clear that a final decision would not be issued in a timely manner consistent with the Commission’s Rate Case Plan.

Due to the delay in initiating the Application in this proceeding at the request of DRA, and because that delay resulted in a delay in reaching a decision until well into the 2009 test year, SCE believes that it should be authorized to recover in rates the amount in its memorandum account back to the date of D.09-01-011, January 29, 2009. SCE requests that the Commission expressly permit such recovery from the memorandum account in its final decision in this proceeding.

8. CONCLUSION

For the factual, legal, and policy reasons discussed throughout this opening brief, SCE respectfully requests the Commission to issue an order:

1. Finding reasonable SCE’s O&M expense and capital expenditure estimates as shown in the Joint Comparison Exhibit and the evidence SCE presented.

2. Approving SCE’s requested revenue requirement of $1.654 million for test year 2009 and authorizing SCE to reflect the test year 2009 revenue requirement approved in this proceeding effective January 29, 2009, the date SCE’s memorandum account was authorized.

3. Finding reasonable SCE’s gas sales forecast and escalation rate estimates.

4. Approving SCE’s recovery of the amount recorded in its memorandum account established January 29, 2009 by D.09-01-011 to record the difference between the final, authorized revenue requirement from this proceeding and the amount of revenue received from present rates until the date of a final decision in this proceeding.

4. Directing SCE to file its next Catalina Gas GRC for a test year 2012 pursuant to the procedures set forth in the Rate Case Plan (D.89-01-040).
5. Granting such other substantive and procedural relief as the Commission deems appropriate.

Respectfully submitted,

JAMES M. LEHRER
ROBERT F. LeMOINE

/s/ ROBERT F. LeMOINE
By: Robert F. LeMoine

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April 24, 2009
CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission’s Rules of Practice and Procedure, I have this day served a true copy of the SOUTHERN CALIFORNIA EDISON COMPANY’S (U 338-E) OPENING BRIEF 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.

Executed this 24th day of April, 2009, at Rosemead, California.

_/s/ ALEJANDRA ARZOLA
Alejandra Arzola
PROJECT ANALYST
SOUTHERN CALIFORNIA EDISON COMPANY

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CALIFORNIA PUBLIC UTILITIES COMMISSION
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