BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA

Order Instituting Rulemaking to Implement
Portions of AB 117 Concerning Community
Choice Aggregation. Rulemaking 03-10-003
(October 2, 2003)

COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U-338-E) IN
RESPONSE TO ADMINISTRATIVE LAW JUDGE’S RULING SETTING FORTH
BOND REQUIREMENT PHASE OF THE PROCEEDING

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I. INTRODUCTION

Southern California Edison Company (SCE) hereby responds to the questions on bond requirements for Community Choice Aggregators (CCAs) set forth in the May 27, 2008 Administrative Law Judge Ruling issued in this proceeding. The Ruling seeks comments from parties on how to calculate the re-entry fees that CCAs are required to bond or insure when registering with the Commission.

As the Ruling acknowledges, California law requires CCAs and ESPs to bond or insure re-entry fees to protect the utility’s bundled service customers from the liabilities of a CCA in a sudden failure that results in a mass involuntary return of CCA customers to utility procurement service. The Legislature, in enacting Assembly Bill (AB) 117, directed the Commission to determine what re-entry fees are necessary and sufficient to protect bundled service customers from CCA liabilities in an involuntary return of CCA customers to utility service. SCE is pleased that the Commission is finally ready to undertake this responsibility and appreciates the opportunity to submit its comments on how this should be accomplished.

In setting the re-entry fees, it is important to note that the Legislature did not direct the Commission to promote CCAs, as the Ruling suggests. In fact, AB 117 itself does not mandate

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1. See Section 394.25(e) of the California Public Utilities Code.
2. See Ruling at p. 6.
the promotion of CCAs, but rather authorizes the formation of CCAs. The plain language of AB 117 makes clear that it provides customers the right, and local governments the opportunity, to engage in CCA: “[c]ustomers shall be entitled to aggregate their electric loads as members of their local community with community choice aggregators.” Further, “a community choice aggregator is hereby authorized to aggregate the electrical load of interested electricity consumers within it boundaries. . . “ Plainly stated, the State through AB 117 does not pursue a vision to promote CCAs but rather provides a right and opportunity to form CCAs.

While CCAs may be formed under AB 117, there is no preference for CCAs stated in the law. As stated in AB 117: “nothing in this section shall be construed as . . . restrict[ing] the ability of retail electricity customers to obtain or receive service from any authorized electric service provider in a manner consistent with law.” In other words, customers are free to elect, or decline, CCA service. There is no policy preference for promotion of CCAs in AB 117.

It is important to keep these distinctions in mind when setting the re-entry fees to be bonded by CCAs. While the Legislature in AB 117 stated no preference for CCAs nor mandated the promotion thereof, it clearly and unambiguously required that bundled service customers be protected from CCA liabilities. Accordingly, contrary to the statements in the Ruling, under no circumstances should bundled service customers not be indemnified from the costs associated with a CCA failure. The bond charge is not an impediment to CCA development but rather a legal obligation of CCA formation. CCAs should be financially viable entities capable of discharging their liabilities, including bonding the re-entry fees to cover the liabilities arising from the involuntary return of their customers to bundled utility service.

SCE’s responses to each of the questions posed in the Ruling are set forth below.

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3 Section 366.2(a)(1).
4 See Section 366.2(c)(1).
5 See Section 394.25(e) quoted in Section II.B.1 infra; see also Section 366.2(d)(1): “it is further the intent of the Legislature to prevent any shifting of recoverable costs between customers.”
6 The troubling language is on page 6 of the Ruling: “we do not want the bond requirement to serve as an impediment to the development of CCAs. As such, there is a possibility that any bond levels established may be insufficient to indemnify bundled ratepayers from the costs associated with the failure of the CCA.”
II.

TO WHAT EXTENT SHOULD THE CCA BOND REQUIREMENTS BE SIMILAR TO THE BOND REQUIREMENTS FOR ESPS?

A. Short Answer

Under California law, the bond requirements for CCAs and ESPs are the same. The law does not distinguish between CCAs and ESPs for purposes of requiring a bond, but rather implicitly recognizes that CCAs and ESPs provide the same type of service and present the same kind of risk of cost shifting onto utility bundled service customers. CCAs and ESPs are required to mitigate those risks by posting a bond (or providing evidence of insurance or self-insurance) sufficient to prevent cost shifting onto bundled service customers in the event of an involuntary return (i.e., not at the request of the customer)\(^2\) of CCA customers or ESP customers to bundled utility service.

The Commission’s existing bond requirements for CCAs and ESPs do not meet the requirements of California law. As such, the Commission’s currently-adopted method for calculating an ESP bond cannot be used to determine the CCA bond. Rather, the Commission’s method for calculating ESP bonds must be modified to comply with California law, as the CCA bond must also do.

Because the bond requirement for CCAs and ESPs under California law is intended to mitigate the same kind of risk to utility bundled service customers, the method for calculating the bond amount (or insurance or self-insurance amounts) for CCAs and ESPs should be the same, although inputs to the calculation may vary for CCAs and ESPs depending on size of the load to be served and any other relevant factors.

\(^2\) SCE uses the term “involuntary return” to mean the return of CCA customers to utility procurement service not at election of the customers but rather as a result of CCA service termination.
B. Discussion

1. AB 117 Requires Bundled Service Customer Indifference to Involuntary Return of CCA or ESP Customers

Pursuant to the consumer protection provisions of AB 117, in registering with the Commission both CCAs and ESPs are required to provide evidence of insurance, self-insurance or a bond sufficient to prevent cost shifting onto bundled service customers in the event of an involuntary return of CCA customers or ESP customers to utility procurement service. Specifically, California Public Utilities Code Section 394.25(e) provides:

“If a customer of an electric service provider or a community choice aggregator is involuntarily returned to service provided by an electrical corporation, any reentry fee imposed on that customer that the commission deems is necessary to avoid imposing costs on other customers of the electric corporation shall be the obligation of the electric service provider or a community choice aggregator . . . . As a condition of its registration, an electric service provider or a community choice aggregator shall post a bond or demonstrate insurance sufficient to cover those reentry fees. In the event that an electric service provider becomes insolvent and is unable to discharge its obligation to pay reentry fees, the fees shall be allocated to the returning customers.”

This statute protects utility bundled service customers from the costs associated with an involuntary return of CCA or ESP customers to utility service by (i) requiring the Commission to determine the amount of re-entry fees needed to ensure bundled service customer indifference in the event of involuntary returns of CCA or ESP customers to utility service.

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8 SCE interprets the term “involuntary return” contained in Section 394.25(e) to mean the return of CCA customers to utility procurement service not at election of the customers but rather as result of CCA service termination.
utility procurement service; and (ii) obligating the CCA or ESP to bond or insure such re-
entry fees as a condition of its registration.

Only in the event an ESP is insolvent and unable to meets its obligation to pay the
re-entry fees does the statute permit the re-entry fees to be allocated to the returning ESP
customers. It is unclear why the statute omits the CCAs from this insolvency provision.
It is possible the Legislature envisioned that CCA programs would benefit from the
creditworthiness of the cities and/or counties that create such programs, and would
therefore be less likely to become insolvent and unable to discharge the re-entry fee
obligation resulting in such fees being imposed on the customers they involuntarily return
to bundled utility service. Particularly given the Commission’s recent determination that
the utilities’ tariffs cannot require joint and several liability from CCA cities and
counties,2 it cannot be concluded that CCAs that voluntarily decide not to require joint
and several liability from their city and county members are any less likely to become
insolvent and unable to discharge the re-entry fee obligation than are ESPs. As such, to
ensure bundled service customer indifference - which is undeniably the intent of the
statute -- the re-entry fees must also be allocated to involuntarily returned customers of a
CCA in the event the bond amount is insufficient and such CCA is insolvent and unable
to discharge its re-entry fee obligation. Nothing in AB 117 precludes such allocation.

2. Existing Commission-Adopted Bond Amounts Do Not Meet AB 117’s
Requirements

The bond requirements currently adopted by the Commission for CCAs and ESPs
do not meet the requirements of Section 394.25(e). In particular, the Commission has not
yet established the re-entry fees which, in the absence of the insurance or bond required
by Section 394.25(e), would have to be imposed on the returning CCA or ESP customers

2 See Decision 08-04-056.
to protect the utility bundled service customers from the costs associated with their involuntary return to utility procurement service.

The existing $100,000 ESP bond amount was never established to meet the requirements of Section 394.25(e). It was established prior to AB 117 as a means for ESPs to prove financial viability to the satisfaction of the Commission at that time. Once AB 117 was enacted, the Commission expressed uncertainty as to whether this amount was sufficient to cover the re-entry fees required in Section 394.25(e). In Decision (D.)03-12-015, the Commission asked for further comments on the issue. Numerous parties, including SCE, filed comments indicating that it was difficult to address the issue without an adopted means of calculating the re-entry fees. The Utility Reform Network (TURN) appropriately captured the importance of the issue:

“TURN firmly believes that this IS an extremely important issue. This Commission must not forget that during the darkest days of the energy crisis in the winter of 2000-2001 a number of ESPs “dumped” their customers back onto bundled service, sometimes without even notifying the customers of what was happening. And those involuntary returns of customers forced the utilities, and ultimately the State, to purchase significant additional quantities of spot market power at the very time that the cost of that power was at its highest. . . [T]here is a real and important consumer protection issue at stake . . . and this proceeding provides the perfect time and place to ensure that result. The critical statutory language at issue here can be found in Section 394.25(e) . . . the first task at hand must be to clearly delineate what is meant by the term “reentry fee.”

Unfortunately, the re-entry fee issue was left unresolved, and was later moved to the Department of Water Resources (DWR) Revenue Requirement proceeding (R.06-07-010), where it remains pending today.

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10 Comments of TURN, filed February 2, 2004 in A.00-11-038 et al., at pp. 1-2.
Likewise, in adopting the interim $100,000 bond for San Joaquin Valley Power Authority (SJVPA)’s CCA program, the Commission did not determine the re-entry fees but rather determined SJVPA’s interim bond amount based on the Commission’s ESP bond requirements, which, as explained above, do not meet the requirements of Section 394.25(e).

Accordingly, as TURN pointed out in 2004, to effectuate AB 117’s requirements for CCA and ESP bonds, the Commission must determine what costs must be included in the re-entry fees to ensure bundled service customer indifference in the event of involuntary returns of CCA or ESP customers to bundled utility service; how to forecast those costs to establish the bond requirement during registration; and how to determine actual damages (or re-entry fees) when an involuntary return occurs.

As SCE discusses further in Section IV below, a re-entry fee is needed to ensure bundled service customer indifference because utility bundled service customers will be exposed to incremental costs in the most likely involuntary return scenarios, but particularly in the event of a mass involuntary return of CCA or ESP customers that occurs without sufficient notice to the utility. Accordingly, the focus of the Commission’s efforts should be on how to forecast those incremental costs for purposes of obtaining a bond or insurance from the CCA or ESP during the registration process, and how to determine the actual incremental costs for purposes of making the utility and its bundled service customers whole once an involuntary return of CCA or ESP customers has occurred.

3. **Re-entry Fees for Establishing CCA and ESP Bond Amounts Should be Determined Using the Same Method**

AB 117’s bond requirement for CCAs and ESPs is intended to mitigate the same kind of risk of cost shifting to utility bundled service customers. The kind of incremental costs to which bundled service customers would be exposed in an involuntary return of
customers to utility procurement service does not vary based solely on whether the customers are returned by a CCA or ESP. Accordingly, the method for forecasting those incremental costs for purposes of setting CCA and ESP bonds (or insurance or self-insurance) should be the same. Moreover, the method for determining actual incremental costs once an involuntary return of CCA or ESP customers has occurred should be the same. However, the amount of bond or insurance required from a CCA or ESP during the registration process may vary depending on the size of the load they intend to serve and any other relevant factors. Likewise, the actual damages caused by an involuntary return of CCA or ESP customers may vary depending on the state of the market at the time of the return and any other relevant factors (e.g., whether notice of the return was provided to the utility).

In Section IV below, SCE proposes methods for (i) forecasting the incremental costs to which bundled service customers would be exposed in an involuntary return of customers by a CCA or ESP to be used in determining the bond amount; and (ii) determining actual incremental costs (or re-entry fee) once an involuntary return of CCA or ESP customers has occurred.

III.

HOW SHOULD THE RE-ENTRY FEE BE DEFINED? WHAT COSTS SHOULD BE INCLUDED IN THE RE-ENTRY FEE?

Consistent with Section 394.25(e), the re-entry fee should be defined as broadly as necessary to ensure bundled service customer indifference to an involuntary return of CCA or ESP customers to utility procurement service. More particularly, it should be defined to include all of the incremental costs (i.e., costs above cost levels recovered in bundled service rates) to which bundled service customers would be exposed in the event of a sudden mass involuntary return of CCA or ESP customers to utility procurement service.
In the absence of sufficient re-entry fees and a bond to cover them, bundled service customers will be exposed to incremental costs in the following categories in the event of an involuntary return of CCA or ESP customers:

- Administrative;
- Energy procurement;
- Resource Adequacy Requirements (RAR);
- Renewable Portfolio Standards (RPS);¹¹
- Carbon emission reduction compliance costs (starting in 2012);¹²
- Any other costs required or permitted by the Commission to be incurred by the utility in discharging its obligation to serve.

These incremental costs can be reasonably forecast by the utility and should be included in the re-entry fee to be bonded or insured by the CCA or ESP during registration. SCE describes each of these incremental cost components in Section IV below, and discusses how these incremental costs can be reasonably forecast for purposes of determining the re-entry fee to be bonded or insured by the CCA or ESP.

IV.
 HOW SHOULD THE RE-ENTRY FEES BE CALCULATED? WHAT RISK FACTORS SHOULD BE CONSIDERED IN DETERMINING THE CCA’S APPROPRIATE BOND LEVEL?

A. Short Answer

The question of how the re-entry fees should be calculated involves (i) forecasting the incremental costs to be included in the re-entry fee for purposes of securing a CCA bond (or

¹¹ Pursuant to AB 57 and Senate Bill (SB) 1078.
¹² Pursuant to AB 32.
insurance or self-insurance) during the registration process; and (ii) determining the actual incremental costs (or re-entry fee) once an involuntary return of CCA customers has occurred.\textsuperscript{13}

For forecasting the incremental costs for purposes of securing the CCA bond during registration, SCE proposes to:

- For administrative costs, use a proxy of $1.49 per customer, which is the existing Commission-approved re-entry fee for voluntary return of CCA customers.

- For incremental energy procurement costs, forecast the cost of the energy that would have to be added to SCE’s bundled service portfolio to serve the CCA customers for a one-year period after an involuntary return by calculating a one-year forward looking TEVaR (Time to Expiration Value at Risk)\textsuperscript{14} energy cost at the 95th percentile for an unhedged portfolio (in $/MWh), which represents the 95\textsuperscript{th} percentile cost increases for an unhedged portfolio over a one-year period, and compare that to the cost increases over the same one-year period for SCE’s hedged bundled service portfolio at 95\textsuperscript{th} percentile conditions. The difference (in $/MWh) is the forecast incremental energy procurement costs to serve involuntarily returned CCA customers.\textsuperscript{15}

- For incremental RAR costs, use a proxy of the RAR penalty adopted by the Commission in D.06-06-064 (up to $120/kW-year), and assume that RA capacity can

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\textsuperscript{13} SCE’s discussion in Sections IV through VIII herein focuses on calculating re-entry fees for CCAs because the Ruling’s questions focus on CCAs. However, SCE’s discussion is fully applicable to calculating re-entry fees for ESPs for the reasons set forth in Section II, infra.

\textsuperscript{14} TEVaR is the metric SCE calculates using Monte Carlo simulation for monthly risk reporting to the Commission.

\textsuperscript{15} The Commission should recognize that the cost impact on bundled customers of a mass return of CCA customers can extend well beyond one-year since the utilities make longer-term commitments on behalf of bundled customers – e.g., gas and power hedges of five-year’s duration, renewables contracts with typical durations of twenty years, etc. For example, if a utility hedges its power costs by signing 5-year contracts at a fixed-price of $60/MWh and CCA customers return one year into the contracts when the forward price for power is $80/MWh, the expected cost impact of the return on bundled customers is four years. This is because the forward price for power of $80/MWh is the current price for hedging power for the returning CCA load and is also the “expected” spot price for purchasing power on the spot market for this load. Adding this $80/MWh power into the bundled portfolio with hedges at $60/MWh will raise the average price of power from the bundled portfolio for four years, thus impacting bundled customers for four years. SCE has chosen one year as the period for determining the CCA bond because the Commission previously established a one-year notice requirement for involuntarily returned CCA customers. However, SCE would not oppose a longer period for determining the CCA bond if the Commission deemed this additional protection for bundled customers appropriate.
be purchased at an incremental cost of up to $80/kW-year under extreme market conditions above the cost of RA capacity for the bundled portfolio, which is assumed to be $40/kW-year.\textsuperscript{16}

- For incremental RPS costs, use a proxy of the 95\textsuperscript{th} percentile of the premium for renewable energy minus the average (expected premium) as derived from data provided by the United States Department of Energy (US DOE) Green Power Estimates or other similar publicly available data. This average expected premium is assumed to be the cost premium for RPS energy in the bundled portfolio. For determining incremental RPS costs, it should be assumed that the same percentage of RPS is purchased for returning CCA customers as has been purchased for the bundled portfolio.

- For carbon emission reduction compliance costs, SCE does not propose a method for forecasting them assuming that they will not begin until 2012. However, these costs should be considered in bond calculations (including true-ups) starting in 2012. SCE reserves the right to seek, at an appropriate time in the future, a determination of how to include them in the bond requirement.

The bond amount would be determined by summing up the forecast incremental costs:

\[
\text{Bond Amount} = [\text{Incremental Administrative Costs}] + [\text{Incremental Energy Procurement Costs}] + [\text{Incremental RAR Costs}] + [\text{Incremental RPS Costs}].
\]

SCE recommends that the bond amount be trued up annually, as market conditions can change considerably over the course of a year and can either reduce the bond requirement or increase it.

For determining the actual incremental costs (or re-entry fees) once an involuntary return of CCA customers has occurred, SCE proposes to:

\textsuperscript{16} Instead of using proxies for RA capacity and RPS costs in the calculation for the bundled portfolio, actual utility costs for RA capacity and RPS costs could be used to the extent the utility has not yet purchased sufficient RA capacity and RPS to meet the respective requirements.
- For administrative costs, track the actual incremental time and materials and recover their costs from the CCA bond.

- For incremental procurement (energy, RAR and RPS) costs, if SCE did not receive the one-year advanced notice from the CCA required under Rule 23,\textsuperscript{17} then SCE will place the returned CCA customers on Bundled Portfolio Service (BPS), and forecast the average cost of power (including to meet RAR and RPS requirements) that will have to be added to SCE’s bundled portfolio to serve the CCA customers under then-current market conditions for the first year after their return. SCE will compare this average cost of power for the returning CCA customers to the projected average cost of power to serve bundled customers for this same time period, given the composition of the bundled portfolio. If the projected average cost of power for the CCA portfolio exceeds the projected average cost of power for the bundled portfolio, then the difference in rates will be multiplied by the volume (in MWh) of returning CCA load and added to the incremental administrative costs (as determined above) to establish the total amount of the re-entry fee. SCE will recover the full amount of the re-entry fee from the CCA bond upon the CCA customers’ return. To the extent the CCA bond is insufficient to cover the re-entry fee, SCE will determine the uncovered portion and charge it to returning CCA customers either on a one-time basis or over some reasonable period not to exceed three years (the applicable BPS commitment period).\textsuperscript{18}

B. Discussion

The question of how the re-entry fees should be calculated involves two issues:

\textsuperscript{17} See Section S.1 of Rule 23, requiring “[t]he CCA shall provide at least one (1) year advanced notice to the Commission and SCE of the CCA’s intention to discontinue its CCA Service.” As indicated in footnote 15, supra, mass returned CCA customers can have a significant impact on bundled customers because owned and contracted resources and power and gas hedges often have remaining lives/terms much longer than one year. SCE would not oppose a longer period for determining the CCA bond if the Commission deemed this additional protection for bundled customers appropriate.

\textsuperscript{18} SCE would take reasonable steps to try to recover the uncovered amount from the CCA, so that the re-entry could be fully or partially credited backed to the returned customers.
• Forecasting the incremental costs to be included in the re-entry fee for purposes of securing a CCA bond (or insurance or self-insurance) during the registration process; and

• Determining the actual incremental costs (or re-entry fee) once an involuntary return of CCA customers has occurred.

The methods for forecasting the bond and determining the actual incremental costs may be the same for some cost components and different for others. SCE discusses these issues below with respect to each cost component.

1. Incremental Administrative Costs

SCE expects to incur incremental administrative costs (on a time and material basis) for removing involuntarily returned customers from CCA service and returning them en masse to utility procurement service. The incremental costs would include (but not necessarily be limited to):

• Meter reading: SCE will need to read all CCA customer meters to return them to utility service.19

• Billing: SCE will likely need to generate two bills in the same month for returning CCA customers with consolidated bills: one final CCA service bill; and a mid-cycle bill for SCE’s services.20

• Similar to the costs incurred to mass enroll an entire city into the CCA’s program, SCE will incur processing costs to return all the CCA customers to bundled service en masse.

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19 Under Rule 23, a CCA's accounts can be terminated on their next respective scheduled meter read dates (SRD) or immediately. If the accounts are returned on their SRDs, then there would be no additional meter reading or billing costs but there would be other processing costs. If the accounts are returned immediately without taking into account the applicable CCASR processing times (i.e., all accounts returned on a specific date), then SCE could incur significant incremental meter reading and billing costs.
• Additional resource needs. In a mass involuntary return, SCE will likely need additional resources to complete the return of CCA customers to the utility’s procurement service.

a) **Forecasting the Bond Amount for Incremental Administrative Costs**

To forecast the incremental administrative costs for purposes of securing a CCA bond (or insurance or self-insurance) during the registration process, SCE proposes to use the Commission-approved re-entry fee for a voluntary return (i.e., at customer’s election) of a CCA customer\(^\text{21}\) as the proxy for forecasting SCE’s incremental time and material costs in the event of an involuntary return of CCA customers. This re-entry fee was envisioned to capture the incremental administrative cost to SCE in a voluntary return (i.e., at the customer’s election) of a customer account on an individual basis (not a mass return), and therefore may under-estimate the actual incremental administrative costs to SCE in a mass involuntary return. However, SCE believes this fee is the best available proxy for forecasting the incremental administrative costs in an involuntary return of CCA customers because it is intended to capture the cost to SCE to administer the return of a customer to utility procurement service.

**Assumptions for the forecast calculation:**

- Use the re-entry fee in Schedule CCA-SF of $1.49 per customer (or any future amount approved by the Commission).

- Use the number of customers to whom CCA intends to offer service unless a collaborative load forecast has already been established.

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\(^{20}\) To be able to determine the usage that applies to each bill requires a meter read. If SCE has to obtain the actual meter reads for all the CCA accounts on a specific date, then there will be significant labor costs associated with accounts under 200 kW under existing meter reading processes.

\(^{21}\) The re-entry fee amount is set forth in SCE’s Schedule CCA-SF.
Calculation:
- Incremental administrative costs = $1.49 \times \text{[number of customers]}.

b) Determining Actual Incremental Administrative Costs

To determine the actual incremental administrative costs once an involuntary return of CCA customers has occurred, SCE proposes to track its actual incremental time and materials and recover their costs against the bond posted by the applicable CCA.

2. Incremental Procurement Costs – Energy, Resource Adequacy Requirements (RAR) and Renewable Portfolio Standards (RPS)

In the event of an involuntary return of CCA customers of which SCE has insufficient notice (i.e., at least one year per Rule 23), SCE anticipates incurring incremental procurement costs (energy, RAR, RPS) to serve the returned CCA customers. This is because SCE engages in hedging/longer-term contracting on behalf of its bundled service customers for energy, RAR and RPS to reasonably mitigate market price volatility and meet the Commission’s requirements for RAR and RPS. If SCE procured all of its customers’ procurement needs from the spot market, there would be no impact to SCE or its bundled service customers in an involuntary return of CCA customers, even without any notice. However, hedging/longer-term contracting on behalf of bundled service customers creates a potential impact when CCA customers are returned to utility procurement service under higher-price market conditions. SCE must then procure in the forward and spot market to serve those returned customers at higher prices than the average prices in the bundled portfolio. This procurement at higher prices raises the average price of power in the bundled portfolio and would impact bundled costs.

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22 See footnote 17, supra, regarding the one-year notice requirement. See also discussion in footnote 15, supra.
customers if they are not made whole by the CCA, the CCA’s bond, and/or the returning CCA customers.

For example, if prices for power increase from $100 per megawatt-hour (MWh) to $150/MWh in total, but SCE is 50% hedged, bundled service customers will see a cost increase to $125/MWh. However, an involuntary return of CCA customers will cause SCE to procure incremental power at the $150/MWh level. As a result, the per-MWh cost of the bundled service portfolio will rise above the $125/MWh that, but for the involuntary return, would otherwise have resulted from the rise in power prices.

Consequently, to protect bundled service customers (as required by AB 117), either (i) the returned customers must be charged at the $150/MWh rate, or (ii) if the returned customers are charged the bundled rate of $125/MWh (in this example), the CCA must make up the difference through the bond.

In SCE’s view, AB 117 mandates the latter option: that CCAs – and not the customers involuntarily returned to bundled utility service by the CCA – be liable for the incremental procurement costs (i.e., the costs above cost levels recovered in bundled service rates) that arise as a result of such involuntary return. AB 117 is clear that the bond is the CCA’s obligation, and it must be sufficient to cover the costs that would otherwise need to be passed to involuntarily returned customers to protect bundled service customers. Moreover, as a fundamental matter of fairness, those customers who are returned to utility service through no fault of their own but rather through the fault of the CCA should not be made liable for the damages that result from the CCA’s failure.

Accordingly, SCE proposes a method for forecasting the incremental procurement costs (energy, RAR and RPS) for purposes of setting the CCA bond amount. In SCE’s view, the method should reasonably seek to establish a bond amount sufficient to insulate bundled service customers and involuntarily returned CCA customers 95 percent of the time on a forecast basis (i.e., with a 95 percent confidence level).
SCE also proposes a method for determining the actual incremental procurement costs (energy, RAR and RPS) in the event of an involuntary return of CCA customers without sufficient notice.

a) Forecasting the Bond Amount for Incremental Procurement (Energy, RAR, and RPS) Costs

SCE proposes to forecast each procurement cost component (energy, RAR, and RPS) separately as set forth below.

(1) Energy

To forecast incremental energy costs for purposes of establishing the CCA bond, SCE proposes to forecast the cost of the energy that would have to be added to SCE’s bundled portfolio to serve the CCA customers for a one-year period after an involuntary return. To do so, SCE would first calculate the maximum 12-month forward looking TEVaR (Time to Expiration Value at Risk) energy cost at the 95th percentile for an unhedged portfolio (in $/MWh), with each 12-month rolling period starting at Month 1 through Month 12 of the forecast period. The maximum 12-month forward looking 95th percentile TEVaR for the unhedged portfolio represents the 95th percentile of forecast rate increases to serve the returning CCA customers from an unhedged portfolio for one year irrespective of the month in which the customers return during the forecast period. The distribution of energy procurement costs will be simulated using a Monte Carlo approach.

Insofar as a future period is being considered in establishing the bond amount, it should be recognized that SCE will add new contracts and hedges to

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23 TEVaR is the metric SCE calculates using Monte Carlo simulation for monthly risk reporting to the Commission.
meet any unmet RAR and RPS requirements and to hedge bundled customer exposure as appropriate. Thus, in addition to existing hedges, SCE will assume that other hedges are added to the bundled portfolio such that the Commission’s Consumer Risk Tolerance is met. The Commission’s guidance to IOUs is that under 95th percentile conditions, bundled customer cost increases due to energy should be limited to a CRT of one-cent per kWh over the next twelve months. That is, the run-up in bundled customer rates attributable to energy prices is limited to the CRT 95 percent of the time. This assumption limits (95 percent of the time) the increase in the energy component of bundled rates to $10/MWh. Obviously, the increase in energy rates in the assumed returning CCA customer portfolio is not so limited, because this portfolio is unhedged.

Assumptions for the calculation:

- Use historical usage (sales) data for the load of the customers the CCA intends to offer service to unless a collaborative load forecast has already been established.

- Forecast 12 independent incremental costs covering a rolling 12-month period of time starting at Month 1 through Month 12 of the calendar year following CCA service commencement.

- Assume that power prices are the only risk factor.

- Assume that the bundled service portfolio is hedged to the Consumer Risk Tolerance (CRT) of 1 cent per kWh under 95th percentile conditions per Commission hedging guidance for energy. That is, the run-up in bundled service customer rates attributable to energy prices is limited to the CRT 95 percent of the time.

- Assume that changes in other energy-related procurement costs, such as the California Independent System Operator (CAISO) Grid Management Charge, are *de minimis.*
Calculation:
- Forecast incremental energy costs ($/MWh) = [forecast average energy cost for an unhedged portfolio (in $/MWh) at 95th percentile conditions] – [forecast average cost for IOU bundled portfolio, with existing contracts and hedges, at 95th percentile conditions assuming new hedges are added as necessary to limit energy rate increases to $10/MWh per the CRT].

(2) RAR

To forecast incremental RAR costs for purposes of establishing the CCA bond, SCE proposes to use as a proxy the penalty (in $/kW-year) for RAR deficiency adopted by the Commission in D.06-06-064. Specifically, in D.06-06-064, the Commission adopted an RAR penalty of up to three times the cost of new entry (CONE), set at $40 per kilowatt (kW)-year, on the amount of RAR deficiency (in addition to backstop procurement costs) for a load serving entity that fails to meet its system RAR procurement obligation and has not been granted a waiver. This is a reasonable proxy because it represents SCE’s exposure (excluding backstop procurement costs) in the event RA capacity cannot be procured to meet RAR for the returned CCA customers. Since the total penalty levied can be up to three times the CONE (or $120/kW-year), SCE assumes that RA capacity can be purchased at an incremental cost of up to $80/kW-year under stress-case market conditions, compared to a proxy of $40/kW-year assumed for RAR costs for the bundled portfolio.

Assumptions for the calculation:
- RA capacity can be purchased at an incremental cost of up to $80/ kW-year under stress-case market conditions compared to a proxy of $40/kW-year for the bundled portfolio.
• Use the historical kW demand of customers the CCA intends to offer service to unless a collaborative load forecast has already been established.

• RA Capacity to be purchased will be 115% of customers’ peak demand.

• Annual kWh sales are converted to coincident peak demand kW based on load studies utilized in SCE’s most recent rate design proceeding.

• Calculation:

• Incremental RAR costs = [cumulative peak demand (in kW) for CCA customers] times [$80/kW-yr]*115%.

(3) **RPS**

To forecast incremental RPS costs for purposes of establishing the CCA bond, SCE proposes to use as a proxy the 95th percentile of the premium minus the average of the premium (in $/MWh) for renewable energy as derived from data provided by the U.S. Department of Energy (DOE) Green Power Estimates or other similar publicly available data.\(^{24}\) The U.S. DOE data provides a reasonable proxy because it is based on recent national (or regional), non-confidential data, whereas utility-specific costs of meeting RPS would be confidential. While premiums for renewable resources in California are higher than the national average, the national data will provide a reasonable approximation of the premium to procure RPS for involuntarily returned CCA customers.

**Assumptions for the calculation:**

• Use historical usage (sales) data for the load of the customers the CCA intends to offer service to unless a collaborative load forecast with agreed upon opt-out rates has already been established.

• The premium will be applied to the same % of the returning customers’ energy usage as SCE has in its current energy portfolio to meet the RPS.

• The RPS premium embedded in the bundled portfolio is the national average, whereas the RPS premium for returning CCA customers under “stress case” conditions is the 95th percentile for the nation.

Calculation:

• Incremental RPS costs = [Annual sales (in MWh) to the CCA customers] times [applicable RPS %] times [95th percentile of the premium minus the average of the premium (in $/MWh) for renewable energy].

b) Determining Actual Incremental Procurement (Energy, RAR, and RPS) Costs

To determine the actual incremental procurement (energy, RAR, and RPS) costs once an involuntary return of CCA customers has occurred for which SCE did not receive sufficient notice (i.e., at least one year), SCE proposes to place returned CCA customers on BPS, and determine the average cost of power procurement contracts that will have to be added to SCE’s bundled service portfolio under then-current market conditions to serve the CCA customers for a one-year period after the involuntary return. SCE will compare this procurement cost to the average cost of power from the bundled service portfolio for this same time period. If the average cost of the new power

\[ \text{Incremental RPS costs} = \text{Annual sales (in MWh) to the CCA customers} \times \text{applicable RPS \%} \times \text{95th percentile of the premium minus the average of the premium (in $/MWh) for renewable energy).} \]

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25 See Section S.1 of Rule 23, requiring “[t]he CCA shall provide at least one (1) year advanced notice to the Commission and SCE of the CCA’s intention to discontinue its CCA Service.” See discussion in footnote 15 supra regarding the likelihood that bundled service customer exposure to incremental costs would continue past one year.

26 See discussion in footnote 15 supra.
procurement for returning CCA customers is higher, SCE will multiply the difference in average procurement costs of the two portfolios (in dollars per MWh) times the load of the returning CCA customers. SCE proposes to recover the full amount of any such incremental costs (plus incremental administrative costs) from the CCA bond upon the CCA customers’ return. To the extent the CCA bond is insufficient to cover these costs, SCE will determine the re-entry fees for the uncovered portion, and charges those fees to returning CCA customers either on a one-time basis or over some reasonable period not to exceed three years (the BPS commitment period). SCE would take reasonable steps to try to recover the uncovered amount from the CCA, so that the re-entry could be fully or partially credited backed to the returned customers.

Placing returned CCA customers directly on BPS may require a modification to Rule 23. Rule 23 requires that when CCA customers are returned to utility service as a result of service termination by the CCA, these CCA customers “shall be returned to BPS [Bundled Portfolio Service] subject to the terms of Section L [the switching rules], but are not subject to Transitional Bundled Service as defined in Schedule PC-TBS.” (Rule 23, Section S.4). However, Rule 23 also requires a one-year advanced notice from the CCA. (Section S.1). When a one-year advanced notice is not received, then the CCA is subject to Section T, Involuntary Service Charges, of the Rule, which requires that customers are placed on BPS subject to the switching rules (Section L). Those switching rules state customers for whom SCE has not received a six-month advanced notice of return would be subject to Transitional Bundled Service. However, the switching rules expressly reference customers “electing” to return to BPS.27

In short, SCE finds Rule 23 ambiguous as to whether customers that are involuntarily returned to utility service through no fault of their own, but rather through the fault of a CCA that elects to terminate service and fails to comply with the provisions

27 See Section L.1 (Positive Elections); L.2.b (discussing customers “requesting to return” to Bundled Service).
of Rule 23 for advanced notice, are subject to Transitional Bundled Service. SCE submits that these customers should not be penalized by being subject to Transitional Bundled Service. They, like those customers who are returned pursuant to a one-year advanced notice, should be placed directly on BPS, and should be made subject to re-entry fees only in the event the CCA bond is not sufficient to cover the actual incremental costs of the involuntary return.

3. **Calculation and True-Up of the Bond Amount**

The bond amount will be determined by summing up the forecast incremental costs using the methods discussed above: Bond Amount = [Incremental Administrative Costs] + [Incremental Energy Procurement Costs] + [Incremental RAR Costs] + [Incremental RPS Premium Costs].

SCE recommends that the CCA bond amount be trued up annually, as market conditions can change considerably over the course of a year and can either reduce the bond requirement or increase it.

4. **Risk Factors**

In determining the bond amount, the risk that a CCA will involuntarily return its customers to utility procurement without notice during stressed market conditions must be considered. While the utility’s tariffs require a CCA to provide a one-year advanced notice of such a return, nothing prohibits a CCA from dumping its customers back onto the default provider – the utility – if market conditions become such that the CCA is no longer able to serve its customers.

CCAs, like ESPs, are not required to engage in long-term hedging/contracting like the utilities. As such, they may pursue shorter-term procurement strategies to serve their loads. Shorter-term procurement strategies will expose a CCA’s portfolio to greater market volatility. In a stressed market, energy and capacity prices (including for RA capacity and RPS) could become so high as to make it impossible for a CCA to procure
sufficient resources on credit. It may not be just a matter of the CCA raising its rates to cover the high costs, because the CCA would have some lag time in collecting from its customers. As such, during the lag time, the CCA could be required to continue to buy at high prices without having sufficient cash flow to meet the higher costs. To continue to procure power appropriately under stress-case market conditions is difficult and would require substantial credit, which a CCA may not have. Once credit lines run out and cash dries up, the only option a CCA may have is to terminate service and immediately return its customers to utility service.

This scenario is very realistic. California saw ESPs dump their customers back onto the utilities during the energy crisis in 2000-01, and Texas is seeing ESPs dump their customers onto the provider of last resort today. The Commission must keep this very real possibility in mind when setting the bond amount for CCAs. The bond amount must be sufficient to protect the bundled service customers from the liabilities of a CCA that are likely to arise in a stressed market, when the risk becomes so high that a CCA will be unable to sustain retail service and will opt to return its customers to utility service with no notice.

A CCA’s ownership of generation facilities or length of its power contracts may mitigate the risk of sudden service termination in a stressed market. However, having long-term contracts “in the money” during a stressed market may also create a financial incentive for a CCA to terminate CCA service, return its customers to utility service, and sell the long-term contract for a higher price, as at least one ESP was accused of doing during the California energy crisis.\textsuperscript{28} Nothing would prohibit a CCA from terminating CCA service in order to cash in on a valuable long-term contract in a stressed market.

\textsuperscript{28} See March 13, 2001 San Francisco Chronicle article “Colleges Sue Enron For Pulling Power Plug,” discussing the lawsuit of the University of California and California State University against Enron Energy Systems, Inc. for allegedly breaking power contracts with the universities to sell the power at higher prices on the spot market.
V. SHOULD THE CCA BOND AMOUNT BE ESTABLISHED AS TO DIFFERENT CATEGORIES OF CCAS OR AS TO THE RANGE OF LOAD SERVED BY THE CCA?

The bond (or insurance or self-insurance) for all CCAs should be calculated using the same method. Differences in load served will be accounted for in the inputs to the calculation described above (which should be trued-up annually), such that CCAs with larger loads may have higher bond amounts than CCAs with smaller loads, depending also upon market conditions at the time the bond amount is set.

As for other differences between CCAs, such as creditworthiness or ownership of generation or other assets, these differences can be taken into account by the surety company in issuing the bond or insurance. A surety company will account for creditworthiness and collateral in pricing the bond or insurance policy. For example, a CCA with investment grade credit may be able to obtain a bond at a cost of 1% of the face value, whereas a CCA without investment grade credit might pay a much higher percentage of the face value of the bond. Likewise, a CCA which has access to the credit of its member cities and/or counties (through joint and several liability and/or asset pledges or guarantees) will be able to obtain a bond at less cost than a CCA that does not have the benefit of the credit of its member cities and/or counties.

Accordingly, these differences should be accounted for in the pricing of the bond (or insurance) by the surety company, but should not be accounted for in determining the amount of the bond (or insurance) needed to meet the requirements of AB 117.
VI.

HOW SHOULD PENALTIES FOR FAILING TO MEET OPERATIONAL DEADLINES BE ESTABLISHED? SHOULD THIS BE A FIXED AMOUNT OR SHOULD IT VARY BY CLASS OF CCA? IF VARIABLE, WHAT FACTORS SHOULD BE CONSIDERED?

A. Short Answer

In accordance with Rule 23.2, the penalties should vary depending on the nature of the failure (duration, size of load, etc.) and the damages it causes to the utility. Rule 23.2 provides that the CCA shall be liable for all incremental costs incurred by SCE as a result of the CCA’s failure to meet service commencement date(s) in a Binding Notice of Intent or other binding commitment. SCE must make a showing to the Commission of such incremental costs, and the potential penalty to the CCA shall “not exceed the would-be transferred load that SCE must continue to serve times the difference between SCE’s incremental per kWh cost of acquiring the energy and capacity to serve the load not served by the CCA, and the average cost of SCE’s procurement portfolio.” (Rule 23.2, Section A.4).

Given that the penalties to a CCA for failing to meet its binding commitments (including operational deadlines) will be determined by the Commission in a separate proceeding initiated by an SCE filing, the Commission does not need to mandate at this time certain methods or certain factors to be considered in that determination. Rather, SCE should be permitted to use any reasonable methods and consider any relevant factors to demonstrate to the Commission its incremental costs as a result of a CCA failing to meet an established deadline. The Commission should at that time determine the reasonableness of SCE’s method(s), the relevance of the factors, and any other considerations that appropriately bear on the imposition of the penalty on the CCA.

B. Discussion

When a CCA enters into a Binding Notice of Intent or other binding commitment (collectively herein, “BNI”) to serve load as of a certain date, consistent with Rule 23.2 (CCA
Open Season) SCE will cease any long-term procurement planning for such load as of the effective date of the BNI.\textsuperscript{29} The CCA will be bound under the BNI and Rule 23.2 to accept SCE’s transfer of customers that have not opted-out of the CCA program for power supply services on the date specified in the BNI, subject to any permitted adjustments to the service commencement date.\textsuperscript{30}

Rule 23.2 directs SCE and the CCA to work together to develop a load forecast for the CCA for the year it commences service, including appropriate forecast opt-out rates. As such, the load the CCA is responsible for serving as of the date in the BNI should be well known to both the CCA and SCE prior to the service commencement date.

If the CCA fails to begin serving the load as of the service commencement date in the BNI, or fails to offer service in good faith to all classes of customers stated in the BNI, Rules 23.2 provides that “the CCA will be required to reimburse SCE, upon demonstration in a filing with the Commission, for any incremental costs associated with utility procurement . . . resource adequacy penalties, or any other utility costs that are incurred as a result of CCA’s default.” The exception is if the CCA’s failure resulted from SCE’s failure to meet its commitments to the CCA under the tariffs and/or Service Agreement.

Upon a CCA’s failure to meet a binding commitment, SCE must make a filing with the Commission detailing the incremental costs it incurred as a result of the failure. The Commission will then determine the applicable penalty to the CCA. In accordance with Rule 23.2, the penalty to the CCA may not exceed “the would-be transferred load that SCE must continue to serve times the difference between SCE’s incremental per kWh cost of acquiring the energy and capacity to serve the load not served by the CCA, and the average cost of SCE’s procurement

\footnotesize{ \textsuperscript{29} Rule 23.2 provides, “[t]he BNI shall be self-executing, in that SCE may rely on such notice to modify its procurement activities without further action by the Commission. Participating CCAs will be exempt from any CRS [Cost Responsibility Surcharges] related to SCE procurement contracts and generation assets acquired after the BNI is submitted. SCE will assume liability going forward for those utility procurement and generation obligations assumed after the Participating CCA has provided its BNI.”

\textsuperscript{30} See Section B of Rule 23.2, as interpreted in D.08-02-013, permitting adjustment to service commencement date(s).}
portfolio,” and will be calculated on a per-day basis for every date that the CCA deviates from the date provided in its BNI. (Section A.4).

Given that the penalties to a CCA for failing to meet its BNI (including operational deadlines) will be determined by the Commission in a separate proceeding initiated by an SCE filing, in SCE’s view the Commission should not mandate at this time certain methods or certain factors to be considered in the penalty determination. Rather, SCE should be permitted to use any reasonable methods and consider any relevant facts to demonstrate to the Commission its incremental costs as a result of the CCA’s failure to meet its BNI. Having all of the facts of the failure available to it at that time, the Commission will be able to better judge the reasonableness of SCE’s method(s), the relevance of the factors, and any other considerations that appropriately bear on the imposition of the CCA penalty.

VII.
WHAT OTHER MECHANISMS SHOULD BE USED IN ADDITION TO OR IN PLACE OF THE BOND REQUIREMENT TO ENSURE THAT COSTS RESULTING FROM THE FAILURE OF A CCA ARE NOT UNFAIRLY SHIFTED ONTO BUNDLED RATEPAYERS?

With respect to an involuntary return of CCA customers, AB 117 requires a bond or insurance or self insurance as the mechanism to protect bundled service customers (and returned CCA customers) from the liabilities resulting from a CCA failure. As discussed in Section V above, the bond (or insurance) requirement for all CCAs should be calculated using the same method. Under SCE’s proposal, that method would account for differences in number of customers to be served and their load, as well as the forecast incremental costs to SCE to serve that load for one year upon an involuntary return of which SCE receives insufficient advanced notice. Other differences, such as a CCA’s creditworthiness or assets, will be accounted for by the surety company in pricing and issuing the CCA bond or insurance. These differences should not be accounted for by the utility in determining the bond amount needed to protect bundled service customers from an involuntary return of CCA customers.
Should the bond or insurance be insufficient to fully cover the incremental costs caused by a CCA’s involuntary return of its customers to utility service, then the uncovered portion should be covered by the returned customers through a re-entry fee. This is the only way to protect the bundled service customers from such costs. SCE would take reasonable steps to try to recover the uncovered amount from the CCA, so that the re-entry could be fully or partially credited backed to the returned customers. However, by no means should the re-entry fee for returning customers be used in lieu of a CCA bond because it would be contrary to AB 117. It would also be fundamentally unfair to require the CCA customers to be primarily liable for damages that arise through no fault of their own but rather through the fault of the CCA.

Outside of an involuntary return of CCA customers, the CCA tariffs provide for other means of protecting the bundled service customers from the liabilities of the CCA. For example:

- As discussed in Section VI above, pursuant to Rule 23.2, penalties shall be imposed on the CCA for the incremental costs to SCE caused by the CCA’s failure to meet its binding commitments.

- Rule 23 allows SCE to obtain a security deposit to cover the CCA’s obligations under the CCA Service Agreement. (Section V.1) Unless a CCA has investment grade credit, SCE seeks a security deposit equal to two months’ of service fees owed by a CCA under the CCA Service Agreement.

- Rule 23 recognizes that SCE is in no way liable to the CCA customers for CCA service. (Section B.6. B.17).

- Rules 23 recognizes SCE’s right to recover from the CCA liabilities arising from CCA service termination. (Sections S.7 and T.2).

31 Section 394.25(e) is clear that the bond is the CCA’s obligation, and it must be sufficient to cover the costs that would otherwise need to be passed to involuntarily returned customers to protect the bundled service customers.
- Rule 23 allows SCE to withhold and offset CCA customer payment remittances for CCA liabilities arising out of SCE’s termination of service to the CCA for cause. (Section T.2).

However, by far, bundled service customers’ greatest exposure to CCA liabilities arises from the risk of an immediate service termination by the CCA and involuntary return of CCA customers to utility procurement service without notice. Accordingly, in SCE’s view, once the means for obtaining a CCA bond (or insurance) sufficient to protect bundled service customers from such involuntary return is in place, the bond along with the other protections afforded in the tariffs will provide reasonable protections to bundled service customers against the risks posed by CCAs.

**VIII.**

**IS IT NECESSARY TO ADJUST SJVPA’S INTERIM BOND?**

Yes. The interim bond amount of $100,000 is wholly insufficient to cover SCE’s bundled service customers in the event of an immediate service termination by SJVPA and an involuntary return of its customers to SCE’s procurement service without sufficient advanced notice. Indeed, the existing $100,000 bond would not even cover SCE’s expected incremental administrative costs in such an involuntary return, much less other more significant incremental costs (*i.e.*, energy procurement, RAR, and RPS costs.)

Under the method SCE proposes herein to establish CCA and ESP bonds, SJVPA’s bond for SCE is estimated at $34.1 million under today’s market conditions. Details of this estimate for illustrative purposes are set forth in Attachment A hereto. The actual SJVPA bond amount should be calculated once a final Commission decision on CCA bonds has been issued. To the extent SJVPA has a good credit rating, a $34 million bond should cost about 1% of its face value -- or $340,000 -- per year. To the extent SJVPA does not have a good credit rating, then the bond will likely cost more to carry, but SJVPA can consider offering additional protections to the surety company, like joint and several liability from its member cities and counties, guarantees, a pledge of assets as collateral, *etc.*
In any event, SJVPA should post the appropriate amount of bond and be expected to appropriately price its electricity power supply service to cover the cost of the bond, so that bundled service customers are indemnified from the liabilities of the SJVPA CCA. Indeed, the law requires this.

IX.

CONCLUSION

SCE appreciates the opportunity to submit these comments.

Respectfully submitted,

JENNIFER TSAO SHIGEKAWA
JANET S. COMBS

/s/ Janet S. Combs
By: Janet S. Combs

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July 14, 2008
Attachment A
SJVPA Estimated Bond Amount – For Illustrative Purposes Only

Estimated Incremental Energy Costs – TEVAR Calculations:

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<td>Jun 09 - May 10</td>
<td>$7,684</td>
<td>$6,353</td>
<td>82,916,766</td>
<td>$92.67</td>
<td>$76.62</td>
</tr>
</tbody>
</table>

- The maximum expected cost to returning customers is $98.08/MWh. For illustrative purposes, assume that the bundled cost is also $98.08/MWh. The bundled customers are hedged to the CRT of $10/MWh, therefore the maximum cost to the bundled customers is $108.08/MWh.
- The returning CCA customers are not hedged, therefore the maximum cost to returning customers is $174.7/MWh. (98.08 + maximum 95%'tile TEVaR over the next 12 months).
- Hence the bond requirement for Energy is calculated as $174.7 – $108.08 = $66.62/MWh
- Note: When the actual SJVPA bond amount is to be established, SCE will perform actual calculations to determine bundled cost and bundled hedged value.

70 MW CCA Potential Bond Scenarios:

<table>
<thead>
<tr>
<th>Load Factor</th>
<th>Energy @ $66.62 MWh</th>
<th>RAR @ $80 KW-yr</th>
<th>RPS @ $21.70 MWh</th>
<th>Total Bond Amount $</th>
<th>Bond $/MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>$40,851,384</td>
<td>$5,600,000</td>
<td>$2,661,288</td>
<td>$49,112,672</td>
<td>$56.06</td>
</tr>
<tr>
<td>Residential</td>
<td>0.55</td>
<td>$22,468,261</td>
<td>$5,600,000</td>
<td>$29,531,970</td>
<td>$61.30</td>
</tr>
<tr>
<td>Commercial</td>
<td>0.65</td>
<td>$26,553,400</td>
<td>$5,600,000</td>
<td>$33,883,237</td>
<td>$59.51</td>
</tr>
<tr>
<td>Industrial</td>
<td>0.75</td>
<td>$30,638,538</td>
<td>$5,600,000</td>
<td>$38,234,504</td>
<td>$58.20</td>
</tr>
<tr>
<td>SJV CCA</td>
<td>0.648</td>
<td>$26,471,697</td>
<td>$5,600,000</td>
<td>$33,796,211</td>
<td>$59.54</td>
</tr>
</tbody>
</table>

- Based on the above illustrative calculations for a 70 MW CCA. The SJVPA CCA bond amount under current market conditions is estimated at $34 million + Incremental Administrative Costs.

Estimated Incremental Administrative Costs:

$1.49 x 76,000 customers = $113,240.
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 **COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U-338-E) IN RESPONSE TO ADMINISTRATIVE LAW JUDGE’S RULING SETTING FORTH BOND REQUIREMENT PHASE OF THE PROCEEDING** on all parties identified on the attached service list(s).

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 **14th day of July 2008**, at Rosemead, California.

/s/ Alejandra Arzola
Alejandra Arzola
Project Analyst
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California  91770