

## **1. Opening Comments**

In support of Senate Bill (SB) 695, SCE is providing the following information to assist the Commission in preparing its annual report to the Governor and Legislature. Specifically, SB 695 requires:

“that by May 1, 2010, and by May 1 of each year thereafter, the commission also report to the Governor and Legislature with its recommendations for actions that can be undertaken during the upcoming year to limit cost and rate increases, consistent with the state’s energy and environmental goals, including the state’s goals for reduction in emissions of greenhouse gases. The bill would require the commission to annually require electrical and gas corporations to study and report to the commission on measures that they recommend be undertaken to limit costs and rate increases.”

The information provided includes SCE’s overall rate policy, a discussion of SCE management’s policies to control costs and control rate increases for customer’s and, a discussion of SCE’s policies and recommendations for limiting rate increases while meeting the State’s energy and environmental goals for reducing greenhouse gases.

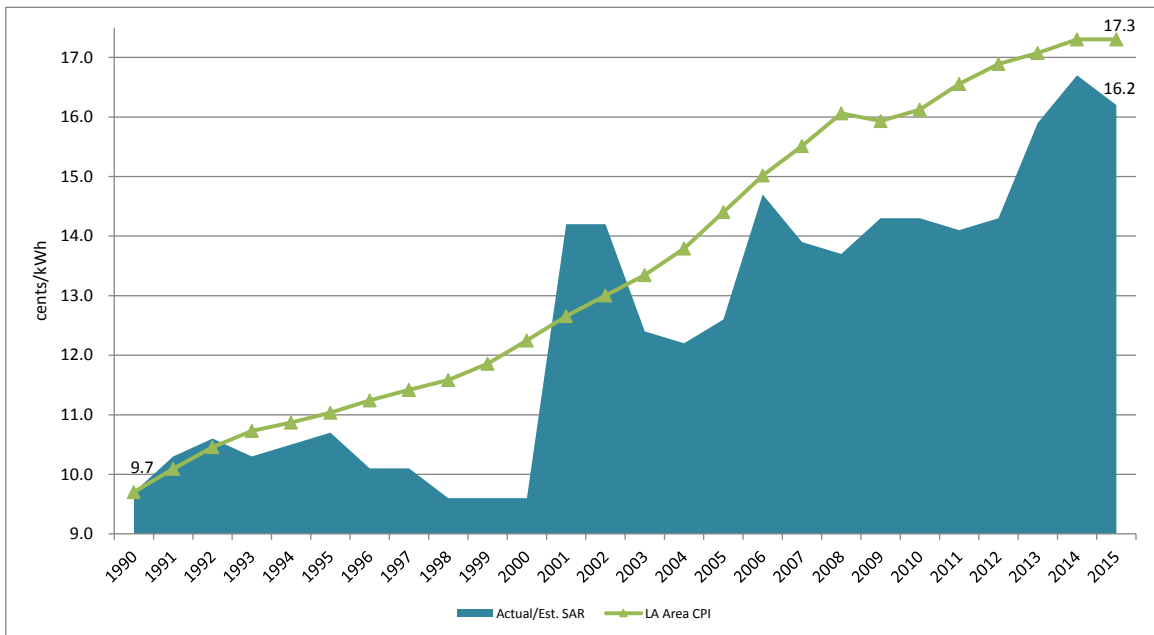
In addition, SCE has provided data contained in Appendix A to this Report that describes SCE’s revenue requirements and provides an outlook for pending rate changes from May 1, 2015 to April 30, 2016.

## **2. Overall Rate Policy**

SCE’s overall rate policy is to fully recover the costs of efficiently serving its customers in an equitable manner while considering public policy objectives. SCE designs its rates to meet the traditional design objectives (e.g., recovery of revenue

requirement, cost of service foundation and stable rates) while supporting the various public policy objectives established by the legislature and regulators. By recovering its authorized revenue requirement, SCE can properly maintain and rebuild its distribution system, provide power as needed, and meet customer service needs as they arise. Recovering these costs equitably from customers ensures that those customers who are more costly to serve pay appropriately higher rates. Rates that are equitable and cost-based also send the correct price signals to customers and prevent uneconomic decisions regarding energy usage.

Figure 1 below shows a comparison of SCE’s actual System Average Rate as compared to what the average rate would have been if it had changed commensurate with the Consumer Price Index.<sup>1</sup>



<sup>1</sup> CPI based on US Bureau of Labor Statistics for all urban consumers in LA-Riverside-Orange County, CA.

### **3. Management Control of Revenue Requirements**

SCE requests in CPUC and FERC General Rate Cases<sup>2</sup> funding to operate its generation, transmission and distribution businesses in order to provide safe, reliable, and affordable electric service to all customers in its service territory. Based on the funding authorized by the Commission, SCE has the ability to manage those core utility businesses. However, funding has not always been adequate to fulfill all infrastructure replacement requirements on the company's planned schedule.

Another portion of SCE's total revenue requirement is associated with its power procurement function. Based on a set of assumptions that reflect regulatory and legislative requirements, SCE requests funding to procure enough power to meet its customers' load. Although there are procurement cost components that are driven by market forces outside of SCE's control, such as natural gas prices, SCE has been given some authority by the CPUC to use hedging tools to reduce the variability in cost of power to its customers. A third category of costs are associated with policies driven by Commission and the Legislature for funding programs such as Demand Response, Energy Efficiency, Solar Initiatives, Self Generation and Low Income programs. In compliance with these policies, SCE makes initial requests for funding these programs but the final authorized funding amounts are determined by the Commission based on its policy objectives. Finally, there are costs included in the total revenue requirement that are fully outside of SCE's management control such as DWR Power and Bond Charge revenue requirements and other costs whose

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<sup>2</sup> SCE's FERC transmission revenue requirement is currently established through a formula rate mechanism.

magnitude are prescribed by the legislature or a regulatory agency (e.g., while the requirement in Assembly Bill (AB) 1890 to collect revenue for the California Energy Commission to fund its Renewable, and Research, Development and Demonstration programs expired at the end of 2011, the CPUC issued a decision that continues funding for RD&D programs through 2020.

It should be noted, that SCE is committed to fulfill its core mission of providing safe, reliable and affordable electricity to its customers through operating and service excellence across all business and functional areas.

**4. Utility's Policies and Recommendations for Limiting Costs and Rate Increases While Meeting State's Energy and Environmental Goals for Reducing Greenhouse Gases**

First, SCE believes that it is important for the State to understand what its environmental goals are so that they can be pursued most effectively and efficiently. Since the goals appear to be primarily focused on GHG reduction, then our policymakers must consider the fact that if businesses and residents leave the "clean" State of California, and move to a higher emitting State or country (almost anywhere else), then the net impact on the environment will be negative while the appearance of a cleaner California might belie this. Conversely, attracting businesses and people to California will have a clear net positive effect on GHG in almost all circumstances. Given the historical success California has enjoyed in becoming clean, and the current economic climate, our environmental policy should be more focused on maintaining our clean status and growing, rather than taking further potentially costly actions to "clean" beyond what our neighbors are doing.

California's environmental policies need to be coordinated to be effective. Simultaneously pursuing GHG reduction, local air emissions reductions, water use restrictions, and land use restrictions requires a comprehensive and coordinated process. Otherwise, we waste time, money, and resources resolving conflicts, and we risk the reliability and affordability of electricity. The State wants to mitigate the impact of once-through cooling on marine habitat, so we may need to build some new efficient gas generation facilities to maintain electric system reliability. But developers will struggle to license the new gas generation due to particulate emissions restrictions, even though the emissions meet the federal standards. There are not sufficient permits for particulate emissions because one agency's program for such was found through the courts to violate another California environmental law. However, the State wants to add more renewable power to displace fossil fuel generation, but siting renewable facilities encounters costs and delays due to land use restrictions or habitat impacts from the transmission needed to bring the generation to customers. But, even if successful in adding more renewable projects, the State will need additional conventional resources to integrate these projects. The costs associated with conflicting environmental policies are substantial, whether looking at customer costs, time, or the resources of those working in this space. The only solution is a more coordinated effort to establish consistent and comprehensive goals, and determine least cost and most efficient means to achieve these goals. Such is not the current process.

Generally, market solutions will tend to lead to lower cost solutions to meet policy goals. As such, the goals should be broadly defined, such as "reduction of

GHG to 1990 levels by 2020,” as opposed to mandates to procure specific technologies. Furthermore, the impacts on the ability to maintain a reliable electric grid should be part of the original debate in developing State policies, rather than an afterthought whose solutions either conflict with other State mandates, or receive broad opposition from parties who are not knowledgeable or concerned about maintaining a reliable grid.

Broader markets will lead to lower costs. As we develop and implement market solutions, we should seek to achieve broader market solutions wherever possible, if we want to minimize the rate impacts of achieving State environmental policy goals. This means allowing out of State resources to help California meet its goals if they are lower cost. This means allowing any GHG reductions means to be used, including broad use of offsets, as long as they can be appropriately verified.

Aligning incentives with desired outcomes will lead to greater success in reaching targets. California is the nation’s leaders in energy efficiency, due in no small part to its decoupling of utility revenues from electricity sales. This was the result of recognition that entities will always be resistant to acting against their own interests, and in this case fiduciary responsibilities. The converse of this example is to impose a mandate with serious financial consequences such that it provides an incentive to reach the goal at any cost. Such structures are not conducive to reaching State environmental goals at least cost.

Market design and rules matter. In the case of AB-32 cap & trade regulations, there are elements of the market design that could result in excessive costs of the program. One danger in relying on market solutions is that if the markets

are competitive, then low costs will result, but if they are subject to manipulation or generally are not competitive then high cost solutions are possible. This situation can be addressed by having effective rules and oversight. For example, if the goal of AB-32 is to put in place a GHG reduction program that can be an example for the rest of the nation or world to follow, then we must succeed in achieving GHG reduction goals without undue costs. One very visible measure of the cost of the program will be the GHG price that results from the cap & trade market structure. Currently, there is no limit (other than an ever increasing floor price) on the range of prices that can result from that market. Yet we know that if the price rises to too great a level, the program will not be viewed as an example to be followed, but - like California's electricity market that failed - an example to be avoided. As such, it only makes sense to design this market so as to not allow prices to rise to unreasonable levels. While the California Air Resources Board (CARB) has put in several mitigation measures in place, (such as reserve auctions and CARB's ability to borrow from future auctions) ultimately there is no limit on market prices. And in turn, no guarantee of rate impacts mitigation or that the program will not "blow up".

To minimize the rate impact of a cap & trade system SCE and the other IOUs advocated in Rulemaking (R.) 11-03-012 that cap & trade related revenues be returned to the utility's customers in form of lower rates and are not spent on additional state-or Commission-mandated programs. However, the Commission issued a decision in R.11-03-012 that primarily returns the majority of cap & trade revenue to residential customers and excludes many businesses including universities, and hospitals.

Finally, achieving environmental goals without undue rate impacts requires flexibility: the flexibility to relax time constraints on achieving goals if doing so prevents undue cost implications; the flexibility to change rules when we learn there were unintended and adverse consequences of the rules we originally imposed; the flexibility to change to incorporate new ideas that will help achieve our environmental and cost goals, even if those ideas arise after our programs are already in place; the flexibility to adapt California's programs to National programs as they emerge.



## APPENDIX A

### 1. Description of Rate Components and Revenue Requirements

SCE recovers its revenue requirements through the following retail rate components: Generation, Cost Responsibility Surcharge (CRS), New System Generation, Distribution, Public Purpose Programs, Nuclear Decommissioning and Federal Energy Regulatory Commission (FERC) jurisdictional Transmission. In addition, SCE is authorized to include on customer bills the DWR Power Charge and Bond Charge on behalf of the California Department of Water Resources (DWR).

a. **Generation** – Through the Generation rate component, SCE recovers the costs of its generation portfolio which include the cost of SCE's Utility Owned Generation (UOG) consisting of the fuel, base O&M and capital-related revenue requirements associated with its nuclear, coal, gas, and hydro plants. In addition, SCE recovers all of its purchased power costs required to meet its load not met by its UOG.<sup>3</sup> The purchased power costs include the costs of Qualifying Facilities (QFs), and all other bilateral contracts that SCE has entered into since 2003 when the company was authorized to resume the power procurement function and make purchases and sales through the wholesale markets. The impact of renewable contracts entered into to meet the Renewables Portfolio Standard and Greenhouse Gas costs will be reflected in generation rates.

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<sup>3</sup> By the end of 2011, all of the DWR purchased power contracts that were allocated to SCE's bundled service customers expired. Therefore, beginning in 2012, SCE is supplying 100% of its bundled service customers' generation requirements.

b. **Cost Responsibility Surcharge** – Through the CRS, SCE recovers from customers that have elected to purchase their generation service from other providers (e.g. Direct Access (DA) customers), the above market costs of the combined SCE and DWR generation portfolios. The revenue generated from the CRS is credited back to SCE’s bundled service customers so that they remain indifferent to the departure of those customers, and are not burdened with paying for the above-market costs of the procurement SCE had planned and incurred to serve the departed customers.

c. **New System Generation** – Through the New System Generation (NSG) rate component, SCE recovers the costs of those “new generation” assets that the Commission has required SCE to procure in order to maintain system reliability for the benefit of all customers. The NSG revenue requirement includes the contracted procurement costs less the value of the energy produced. The net cost, or capacity cost, is recovered from all customers who benefit from the additional system capacity provided by the new generation, including DA and Community Choice Aggregation (CCA) customers.

d. **Distribution** – Through the Distribution rate component, SCE primarily recovers its base distribution O&M costs and its capital-related revenue requirement. In addition, the Commission has authorized SCE to recover its Edison SmartConnect revenue requirement, Demand Response program funding, California Solar Initiative program funding and some Energy Efficiency incentives through the Distribution rate component. The Commission has authorized SCE to provide the California Alternate

Rate for Energy (CARE) discount to the income-qualified customers through the Distribution rate component. As a result of the Commission's decision in the GHG Revenue Rulemaking (R.11-03-012), SCE will return a portion of the proceeds that result from the cap-and-trade market through the distribution rate component to residential and certain small business customers.<sup>4</sup>

e. **Public Purpose Programs Charge (PPPC)** – Prior to 2012, SCE recovered the legislatively mandated Public Goods Charge funding for the California Energy Commission administered Research Development and Demonstration and Renewable programs, plus a portion of the SCE- administered Energy Efficiency programs through the PPPC. The funding for these three programs expired on December 31, 2011 as mandated by P.U Code 399. The Commission issued a decision in December 2011 that continued this funding in 2012 through 2020 using the name Electric Program Investment Charge. In addition, through the PPPC rate component SCE recovers additional program funding authorized by the Commission for Procurement Energy Efficiency, and Low-Income programs. The Commission has authorized SCE to recover the costs of the CARE program including the discount provided to CARE-eligible customers from all non-CARE customers through the PPPC.

f. **Nuclear Decommissioning** – Through the Nuclear Decommissioning rate component, SCE recovers the customers' portion of the Nuclear Decommission Trust

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<sup>4</sup> The remainder of the proceeds will be returned to residential customers through a semi-annual Climate Credit (i.e. a credit included on customer's bills) and to certain large customers defined as Energy Intensive Trade Exposed through an annual bill credit.

funding authorized by the Commission to be used to decommission SCE's share of the San Onofre and Palo Verde Nuclear Generating Stations. In addition, SCE recovers costs associated with the storage of spent nuclear fuel through this rate component.

g. **FERC-Jurisdictional Transmission** – SCE's FERC-jurisdictional transmission rate is comprised of five components: 1) Base Transmission which recovers the O&M and capital-related revenue requirement associated with transmission assets under ISO operational control and subject to FERC's jurisdiction; 2) flow-through to customers of transmission revenues generated through wholesale customers' use of the transmission system; 3) Reliability Services costs related to contracts signed by the California Independent System Operator (CAISO) with certain generators needed to maintain system reliability; and 4) Transmission Access Charge which reflects the net contribution by SCE's customers to the transmission revenue requirements of all participating transmission owners in the CAISO system.

As SCE moves forward to meet the State's renewable goals, it must construct new transmission lines to bring the renewable generation from out-lying areas to the load centers. The construction of additional transmission facilities will increase SCE's FERC-jurisdictional Transmission rates.

h. **DWR Power Charge and Bond Charge** – In early 2001, as the result of the energy crisis and AB1X, DWR entered into long term power contracts that were necessary to meet the state's Investor Owned Utilities' (IOUs') net short requirements. The Commission authorized SCE to recover on behalf of DWR, the

revenue requirement associated with these contracts through the DWR Power Charge.

As mentioned above, all of the remaining DWR contracts that had been allocated to SCE's bundled service customers expired as of December 31, 2011. In addition, in order to recover the costs DWR incurred in early 2001 to purchase energy on behalf of IOUs' customers from dysfunctional wholesale markets which were initially financed by the State's General Fund, the Commission authorized SCE to bill the DWR Bond Charge. All of the revenues associated with the DWR Power and Bond Charges are collected by SCE and passed on to DWR.

Since 2001, DWR was required to maintain high levels of operating reserves such that DWR would have enough cash on hand to fulfill its contractual obligations in case power prices skyrocketed. As the power contracts are expiring, DWR no longer is required to maintain this level of reserves and is returning them to customers. As a result of returning the operating reserves to bundled service customers, the Commission-allocated DWR Power Charge Revenue Requirement to SCE's bundled service customers in 2015 is a negative \$126 million. In other words, on behalf of DWR, SCE will refund \$126 million to its bundled service customers in 2015 through a negative (i.e. or credit) DWR Power Charge. The DWR Bond Charge will remain at approximately \$0.005/kWh in 2015.

**2. Summary of Revenue Requirements by Rate Component**

- a. Total System Revenue Requirements and Bundled System Average Rate for Bundled Service customers estimated as of January 1, 2015:

Rate Component	Total System		Bundled SAR c/kWh
	\$ Millions	%	
Generation	6,427	51.4%	8.8
New System Generation	729	5.8%	0.9
Distribution	3,849	30.8%	4.8
Public Purpose Program	321	2.6%	0.4
Nuclear Decommissioning	24	0.2%	0.0
FERC Transmission	886	7.1%	1.1
DWR Power and Bond	277	2.2%	0.3
Total	<u>12,513</u>	<u>100.0%</u>	<u>16.2</u>

**3. Sales Forecasts**

Pending before the Commission is SCE's 2015 total sales forecast of 84,582 GWhs in A.14-06-011 (SCE's 2015 ERRRA Forecast Proceeding). This represents a decrease from recorded 2014 sales of approximately 3.2%.

Southern California Edison Company  
 SB 695 Report To Energy Division  
 Year: 2015

**2015 Outlook from May 1, 2015 to April 30, 2016**

<u>Filing Name</u>	<u>Proceeding Reference</u>	<u>Filing Date</u>	<u>Requested/ Expected Implementation Date</u>	<u>Requested Dollar Amount (\$millions)</u>		<u>Description</u>	<u>Impacted Rate Component</u>
				<u>2015 RRQ</u>	<u>2016 RRQ</u>		
GRC	A.13-11-003	11/01/13	6/01/15	5,789	6,075	2015 GRC Increase in O&M and capital revenue requirement.	Generation, Distribution, and New System Generation
2015 ERRRA Forecast (Excludes GHG Costs and Revenues)	A.14-06-010	6/11/14	4/01/15	5,777	-	Recovery of estimated fuel and purchased power costs	All Rate Components
2016 ERRRA Forecast	2016 N/A	5/01/15	01/01/16	N/A	TBD	Recovery of estimated fuel and purchased power costs	Generation
2015 GHG Costs and Revenue Return	D.15-02-005	6/11/14	3/01/15	(561) Revenues 453 Costs	TBD	Return of GHG Allowance Revenue (Some volumetrically and some to residential customers only through Climate Dividend)	Distribution and credit on bills Generation for Costs
Access to Nuclear Decommissioning Trust Fund	(Advice Letter)	11/18/13	6/1/15	(300)	-	Access to the Trust Fund to recover SONGS O&M Costs	Generation
FERC Formula Rate Change	N/A (Advice Letter)	Nov. 2015	01/01/16	910	TBD	Base Transmission Revenue	Transmission
FERC Transmission Balancing Accounts	N/A (Advice Letter)	May (TACBAA) and Oct. 2015 (RSBAA and TRBAA)	6/01/15 and 1/01/16	(23)	TBD	Balancing Accounts	Transmission
Charge Ready	A.14.10.014	10/30/2014	April 2015	3	4	Phase 1 only	Distribution
DWR – Power Charge		1/1/16		(\$126)	TBD	Return of reserves	Generation