Exhibit Number	:	
Commissioner	:	C.W. Wood
Adm. Law Judge	:	M.S. Wetzel
Witnesses	:	Various

CALIFORNIA PUBLIC UTILITIES COMMISSION

ORA

Office of Ratepayer Advocates

REPORT ON THE RESULTS OF EXAMINATION

FOR

SOUTHERN CALIFORNIA EDISON COMPANY'S

GENERAL RATE CASE

Test Year 2003

Application No. 02-05-004

San Francisco, California
October 17, 2002

Memorandum

This report was prepared by the Office of Ratepayer Advocates' Energy Cost of Service Branch in connection with Southern California Edison's Application 02-05-004, filed May 3, 2002.

Linda J. Woods, Public Utilities Regulatory Analyst V, was the Auditor-in-Charge and is responsible for the overall direction of this report. Ms. Woods was assisted by Donna-Fay Bower, Beverly F. Hill, and Kevin S. Nakamura, Public Utility Financial Examiners.

Glossary of Acronyms

Acronym	Definition
A.	Application
AB	Assembly Bill
A&G	Administrative and General
ACE	Awards to Celebrate Excellence
AOR	Area of Responsibility
ATR	Affiliate Transactions Rules
CARS	Corporate Accounting and Reporting System
D.	Decision
DRA	Division of Ratepayer Advocates
ECS	Edison Carrier Solutions
EDAM	Exclusion Distribution Adjustment Mechanism
EIC	Executive Incentive Compensation
EIX	Edison International
EME	Edison Mission Energy
EOC	Edison on Call
EPRI	Electric Power Research Institute
ERAM	Electric Revenue Adjustment Mechanism
EV	Electric Vehicle
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
GRC	General Rate Case
LEV	Low Emission Vehicle
MIP	Management Incentive Program
O&M	Operating and Maintenance
OOR	Other Operating Revenues
ORA	Office of Ratepayer Advocates
PBR	Performance Based Ratemaking
PHFFU	Plant Held for Future Use
PROACT	Account for Recovery of Procurement Related Obligations
PROACT	Policies and Rules on Affiliate Company Transactions
RD&D	Research, Development and Demonstration
SCE	Southern California Edison
T&D	Transmission and Distribution
TMG	The Mission Group
USOA	Uniform System of Accounts
Y2K	Year 2000

Table Of Contents

Chapter 1

Purpose, Scope, and Recommendations

Purpose

1. The purpose of this report is to present to the California Public Utilities Commission (Commission) and other interested parties the results of the Office of Ratepayer Advocates (ORA) audit of the financial and accounting records of Southern California Edison Company (SCE). This audit was performed in response to SCE's Application (A.) 02-05-004, filed with the Commission on May 3, 2002, for authority to increase its revenue requirement by $286 million.

Scope

2. SCE's financial and accounting records were last examined by ORA's predecessor, the Division of Ratepayer Advocates (DRA), in connection with A.93-12-025, filed December 27, 1993. ORA's current examination covered the years 1997 through 2000. ORA focused primarily on the 2000 calendar year recorded revenues and expenses because SCE used 2000 recorded data to derive a majority of its cost components before forecasting and estimating the utility operating revenues and expenses for the proposed 2003 test year.

3. In determining the scope of the examination, ORA took into consideration the fact that SCE's accounting records are audited annually by independent Certified Public Accountants, SCE's internal auditors, and by various other state and federal auditors. ORA reviewed SCE's internal audit reports to determine the scope of the audits conducted and the nature of any exceptions.

4. ORA directed its attention primarily towards determining SCE's compliance with prior Commission decisions and reviewing selected areas of SCE's financial and accounting records for compliance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) and Generally Accepted Accounting Principles (GAAP). In the audit of SCE's financial and accounting records, ORA's procedures included, but were not limited to, reviewing SCE's application and workpapers; reviewing prior Commission decisions; reviewing prior Commission reports and workpapers; examining independent auditor's workpapers; examining

internal audit reports and workpapers; reviewing Board of Director's meeting minutes; and reviewing SCE's internal controls, assets, owners equity and liabilities, revenues, operating expenses, and affiliated relationships.

Recommendations

5. ORA makes the following recommendations:

a) Reduce Account 923 Outside Services by $407,071 for costs associated with SCE's potential bankruptcy filling. (see Chapter 3)

b) Reduce Account 923 Outside Services by $150,000 for settlement costs of a discrimination suit. (see Chapter 3)

c) Reduce Account 923 Outside Services by $62,629 for nonrecurring litigation costs associated with SCE's lawsuit against the California Public Utilities Commission Commissioners. (see Chapter 3)

d) Reduce Account 920 Administrative and General Salaries by $1,057,109 for reimbursable expenses that should have been borne by shareholders based on an error rate of 11.69%. (see Chapter 3)

e) Reduce Account 920 Administrative and General Salaries by $41,089 for reimbursable expenses. (see Chapter 3)

f) Reduce Account 926 Pensions and Benefits by $433,000 for "Awards to Celebrate Excellence" (ACE) awards. (see Chapter 3)

g) Reduce Account 930 Miscellaneous General Expenses by $133,250 to normalize Board of Directors meetings and retainer fees. (see Chapter 3)

h) Reduce various Operating and Maintenance and Administrative and General accounts by $5,589,361 for 1999 and $4,245,774 for 2000 for Spot Bonuses. (see Chapter 3)

i) Reduce Account 500 by $1,351,000; Account 588 by $943,000; Account 905 by $822,000; and Account 920 by $4,199,000 for Management Incentive Program (MIP) Tier 1 and Tier 2 to be consistent with Commission policy that MIP is included in Result Sharing at 50%. (see Chapter 3)

j) Reduce Account 920 by $356,177 for retention bonuses related to the Y2K project. (see Chapter 3)

k) Reduce Account 101 by $191,788 for retention bonuses related to the Y2K project. (see Chapter 3)

l) SCE make a one time adjustment for $272,890 to reflect SCE's affiliates share of Executive Incentive Compensation of shared officers. (see Chapter 3)

m) Reduce Accounts 920/921 by $8,635,000 for 1998, $5,264,000 for 1999, and $1,238,823 for 2000 for the nonrecurring costs associated with Y2K. (see Chapter 3)

n) Reduce Account 926 Pensions and Benefits by $167,000 for 1998, $443,000 for 1999, and $14,000 for 2000 for the nonrecurring costs associated with Y2K. (see Chapter 3)

o) Reduce Account 923 Outside Services by $15,797 for costs that should have been paid by Edison International. (See Chapter 3)

p) SCE amend its request for Account 923 Outside Services by $50,000 for 1999 and $100,074 for costs that should have been paid by Edison International. (see Chapter 3)

q) Reduce Account 923 Outside Services by $112,388 for nonrecurring costs. (see Chapter 3)

r) Remove $3.812 million in low emission vehicle expenses from the general rate case and move the expenses to PROACT or to a separate application. (see Chapter 4)

s) Exclude $372,000 of nonrecurring Y2K expenditures from base year 2000. (see Chapter 4)

t) SCE segregate and track by separate function numbers overhead activities related to Edison Carrier Solutions to follow the Commission's cost tracking rules adopted in D.98-12-083. (see Chapter 5)

u) Exclude all expenses and credits reported in Accounts 901 and 903 related to Edison Select and its Edison on Call service from the recorded-adjusted test year amount. (see Chapter 5)

v) SCE regard Edison Mission Energy (EME) and its subsidiaries as an energy marketing affiliate and restrict utility personnel from performing temporary or intermittent assignments or rotating to EME and its subsidiaries. (see Chapter 5)

Chapter 2

Utility Plant

Purpose

1. This chapter presents ORA's results of its review of SCE's plant accounts. ORA reviewed Federal Energy Regulatory Commission (FERC) accounts: 101 – Electric Plant in Service; 105 – Electric Plant Held for Future Use; 106 – Completed Construction Not Classified; and 107 – Construction Work in Progress.

Scope

2. ORA's review included, but was not limited to, SCE's testimony and workpapers in this proceeding, Board of Director's meeting minutes, internal audit reports and workpapers, Edison System of Manuals (ESM), plant accounting procedures, capital budgeting procedures, physical verification of certain plant additions, work orders, selected accounting transactions and source documentation, and discussions with SCE personnel.

Discussion

Plant Held for Future Use

3. ORA's practice is to critically review items held in account 105 – Electric Plant Held for Future Use (PHFFU). While SCE's FERC Form 1 shows PHFFU in the amount of $292,453 for base year 2000, SCE has removed that amount from its rate case showing (see SCE-8, pg. 150).

Accounting for Meter Retirements

4. During its review ORA noted that SCE's response to Master Data Request question XIX.19 showed that SCE had retired $9.6 million of vintage year 2000 metering equipment during 2000. SCE explained that it discovered toward the end of 2001 that it was using a LIFO (Last In First Out) method for meter retirements and that during the last quarter of 2001 SCE changed to a FIFO (First In First Out) method. Further inquiries of SCE revealed that the change in methodology did not

impact Plant in Service, net plant in rate base or depreciation. SCE uses an average unit cost when retiring this equipment.

Chapter 3

Administration and General Expenses

1. This chapter presents the results of ORA's examination of SCE's Administrative and General (A&G) expenses. ORA's examination of A&G expenses was focused on the years 2000 and 2001.

Summary

2. ORA's examination has resulted in the recommendation of various adjustments for bankruptcy, litigation, reimbursable expenses, Awards To Celebrate Excellence, Board of Directors Meetings, Spot Bonuses, Management Incentive Program Tier 1 and Tier 2, Retention Bonuses, Affiliates share of Executive Incentive Compensation, Y2K expenses, Expenses that should have been borne by Edison International, and Non-recurring costs. The following table provides a breakdown by year of the adjustments that ORA is recommending:

Account	1998	1999	2000
Executive Incentive Compensation			$ 272,890
Retention Bonuses - Capitalized			$ 191,788
Spot Bonuses (Various)		$ 5,589,361	$ 4,245,744
500 Opr. Spvr. & Engineering			$ 1,351,000
588 Misc. Distribution Exp.			$ 943,000
905 Misc. Customer Exp.			$ 822,000
920 Admin. & Gen. Salaries	$8,635,000	$ 5,264,000	$ 6,892,199
923 Outside Services		$ 50,000	$ 847,959
926 Pensions & Benefits	$ 167,000	$ 443,000	$ 447,000
930 Misc. General Exp.			$ 133,250
	$8,802,000	$ 11,346,361	$ 16,146,830

Discussion

3. ORA's examination included but was not limited to reviewing the external auditors workpapers, internal auditors reports, SCE's Board of Director Minutes, performing a four year fluctuation analysis of recorded A&G expenses, auditing a sample of various A&G accounts for 2000, and 2001, and reviewing responses to ORA's data requests. ORA data requested explanations for the 2000 and 2001 fluctuations in A&G expenses that had a variance of plus or minus 25% and

$1,000,000. SCE was able to explain the fluctuations to ORA's satisfaction. ORA reviewed the monthly account activity for the A&G accounts for 2000 and 2001 and selected months that appeared to be abnormal. The following sections discuss ORA's findings, conclusions, and recommendations where exceptions were found.

Bankruptcy

4. During 2000 SCE was on the verge of filing bankruptcy. ORA data requested a break down of costs incurred in 2000 and 2001 relating to the potential bankruptcy filing, including outside services and in-house costs. SCE did not track its in-house costs and therefore only provided ORA with expenses incurred by outside services. In 2000 SCE incurred $407,071 in legal fees for outside services relating to its potential bankruptcy filing. ORA questions SCE decision not to track in-house costs incurred on the potential bankruptcy filing. Generally, attorney's hours are billable to their client. Therefore, at a minimum, SCE's in-house attorneys should have been tracking their time spent on the bankruptcy issue. In addition, other SCE employees were most likely involved in the potential bankruptcy and spent time working on it instead of working on the normal day to day utility operation. SCE's decision not to track in-house costs associated with the potential bankruptcy appears to be a violation of internal control. ORA is unable to quantify the in-house costs incurred by SCE for its potential bankruptcy filing. In 2001, SCE incurred $8,828,746 in outside services relating to its potential bankruptcy. Again SCE did not track in-house costs associated with the potential bankruptcy filing. The 2000 costs have not been excluded from Account 923 before forecasting for the test year 2003. SCE did not file for bankruptcy and therefore this cost should be treated as a non-recurring expense. It is inappropriate for ratepayers to pay for special non-recurring costs. ORA recommends that $407,071 be removed as a non-recurring cost from Account 923 Outside Services.

Litigation

5. In 2000, SCE incurred $150,000 to settle a discrimination case filed by two employees. When a discrimination case either results in a judgment against the

utility or the utility chooses to settle such a case, the costs incurred by the utility should not be borne by the ratepayers. The FERC Release 12 addresses this very issue. Employment practices that are found to be discriminatory by judicial or administrative decree or that were the result of a compromise settlement should be classified a non-operating expense. All charges to utility operating expense accounts must be just and reasonable. Settlement of a discrimination suit is not just and reasonable costs to be included in SCE's operation expenses. ORA recommends that Account 923 Outside Services be reduced by $150,000 for settlement of a discrimination suit before forecasting for the test year 2003.

6. In 2000 SCE began a lawsuit against the Commissioners[1], of the California Public Utilities Commission, incurring $62,629 in legal costs. In 2001, SCE incurred additional costs in the amount of $1,702,898. SCE and the Commissioners reached a settlement. This lawsuit was due to a specific event; the energy crisis that caused SCE's credit worthiness to decline and it is not expected or anticipated to happen in the future. The $62,629 of costs incurred in 2000 has not been removed from Account 923 Outside Services before forecasting for the test year 2003. Therefore, this cost should be removed from Account 923 before forecasting for the test year 2003. ORA recommends that Account 923 Outside Services be reduced by the $62,629 in legal costs for SCE's lawsuit against the Commissioners.

Reimbursable Expenses

7. SCE is required to file with the Commission its General Order 77K listing the compensation it pays its employees in excess of $75,000. Part of the compensation includes reimbursable expenses. ORA reviewed SCE's 2000 77K filing, which included approximately 2,600 employees. Total reimbursable expenses were $11,329,850. In preparation for its general rate case filing, SCE made a review of the reimbursable expenses exceeding $25,000. The total number of employees reviewed was 53, which equated to reimbursed expenses of $2,286,998. Of the 53 employees SCE found that $267,092 was not appropriate to be funded by ratepayers. These expenses included:

[1] Federal Filed Rate Doctrine Case No. 00-12056-RSWL (Mcx)

- Fundraising/charitable activities
- Civic/political activities
- Tickets and fees for sporting events/golf
- Expenses for spouses
- Country club dues
- Corporate image enhancement
- Flowers (other than employee recognition)
- Non employee recognition events (i.e. Christmas, employee contributions)

8. ORA reviewed SCE's support for the $267,092 of reimbursable expenses that SCE deemed should be borne by the shareholders. Of the $267,092, SCE subsequently adjusted Account 920 Administrative and General Salaries for $226,253 but excluded for unjustifiable reasons $40,839. In reviewing SCE's support for reimbursable expenses ORA took notice of a $250 airline ticket upgrade for an attorney who took a flight from California to Washington D. C. on March 22, 2000 to attend a lawyers meeting. This attorney upgraded his airline ticket in order to have "additional space so that he could work during the approximately 5-6 hour flight." This same attorney made a prior trip from California to Washington D.C. on March 8 for an El Paso GRC but didn't need the additional space to work on the flight. This is an inconsistent treatment of airline costs and should not be borne by SCE's ratepayers. ORA recommends that the ticket upgrade should be removed for ratemaking purposes. In addition, ORA believes that the $40,839 in reimbursable expenses that SCE has not adjusted out of Account 920 should be removed before forecasting for the test year 2003. Therefore, ORA recommends that Account 920 be reduced by $41,089 in reimbursable expenses for the year 2000 before forecasting for the test year.

9. ORA has calculated the error rate of SCE's sample of reimbursable expenses to be 11.69%. ORA based its calculation on the $267,092 of the $2,286,998 of reimbursable expenses SCE deemed should have been borne by the shareholders. In addition, ORA believes this 11.69% of error on the sample is an indication that the total reimbursable expenses contain expenses that should not be borne by ratepayers. The 11.69% error rate should be applied to the remaining reimbursable expenses. Therefore, the remaining reimbursable expenses that were not reviewed net to $9,042,852. Applying the 11.69% error rate to this results in an additional

adjustment of $1,057,109 of reimbursable expenses that should not be borne by ratepayers. Accordingly, ORA recommends that Account 920 be reduced by an additional $1,057,109 for reimbursable expenses.

Internal Audit Reports

10. SCE's Internal Audit Department performed 124 audits in 2000 and 164 audits in 2001. The ORA auditor reviewing A&G accounts reviewed 23 and 35 of SCE's internal audit reports for the year 2000 and 2001, respectively. One of the internal audit reports ORA reviewed was a report on SCE's "Awards To Celebrate Excellence" (ACE). SCE began this program in 1998 in which certain employees may participate. Employees may nominate other employees to receive an ACE award for their contributions to SCE. In response to data request Audit DR 6-DFB, SCE provided the program overview of ACE awards. Some of the types of contributions that an employee may be recognized to receive the ACE award are:

- Being a positive, enthusiastic, and productive member of a project team that exceeds its goals;
- Giving exceptional input during meetings and helping the group surpass its objectives;
- Covering another job assignment when someone else is unavailable in order to ensure that customer needs are met;
- Pitching in to help out-especially when "it's not my job" –so a goal can be met; and
- Helping employees build their skills beyond their professional development goals.

11. The receiving of the ACE award is discretionary and does not appear to have any correlation to providing a service or benefit to ratepayers. The ratepayers already compensate SCE's employees through salaries and benefits and should not be asked to pay for awards that provide no benefits to them and are discretionary in nature. The types of contributions indicated are the types of things that an employee should be doing to be a productive employee. Therefore, ORA recommends that Account 926 be reduced by $433,000 for ACE awards.

Board of Directors Meetings

12. In its testimony, SCE indicated that it holds seven Board of Directors meetings a year. In the year 2000, SCE held eleven Board of Directors meetings. The Board of Directors received compensation for attending these meetings as well as retainer fees amounting to $385,500. Since SCE specifically stated that it only holds seven Board of Directors meetings a year, the ratepayers should not be asked to pay for additional Board of Directors meetings and compensation. The additional Board of Directors meetings were most likely held because of the energy crisis that began during the latter part of 2000. In order to normalize Board of Director meetings ORA recommends that $64,500 for the four additional Board of Directors meetings be removed from Account 930 for ratemaking purposes. In addition, to normalize retainer fees paid to Board of Directors, ORA further recommends that $68,750 for retainer fees paid to the Board of Directors be removed from Account 930 for ratemaking purposes. Therefore, Account 930 should be reduced by a total of $133,250 before forecasting for the test year 2003.

Bonuses

13. In 2000 SCE paid out $31,223,642 in bonuses under several programs. These bonus programs included Spot Bonuses, Management Incentive Program Tier 1 and Tier 2, Retention, Moving and Mileage, Hiring, and Executive Incentive Compensation.

Spot Bonuses

14. During 1999 and 2000 SCE paid $5,589,361 and $4,245,774, respectively, in Spot Bonuses. SCE describes Spot Bonuses as lump-sum awards that may be paid at any time by managers to recognize outstanding performance by an individual or team. Spot Bonuses are awarded at the business unit’s discretion and all employees are eligible to receive the spot bonus because their management felt they should be recognized for outstanding performance.

15. In response to Audit DR 61-DFB, SCE states, "SCE's compensation philosophy is to appropriately recognize employees who contribute to the company's business goals through a combination of base pay, variable pay, incentive pay and recognition awards. Spot bonus is a form of variable pay and it allows employees to be recognized "on-the-spot" for outstanding performance towards achieving our business goals that are centered around customer satisfaction, operational safety and system reliability. Because spot bonuses are normal and on-going costs of doing business we have included spot bonuses in our recorded labor costs and test-year forecast."

16. In 1999 and 2000, SCE paid $5,589,361 and $4,245,774 in Spot Bonuses to approximately 3,293 and 2,452 employees, respectively. SCE has stated in response to data request DR-ORA-182 Question 2, that "The spot bonus program is informal and as such, there are no criteria for how often an employee can be selected for a spot bonus award and there is no minimum or maximum bonus amount." SCE further states in response to data request Audit DR 78 – DFB Question 2, "The spot bonus program is designed to immediately recognize individual or team performance. The program is informal and as such, the basis for awarding as well as the calculation of awards is at the business unit's discretion. The spot bonus program does not have a specific formula to calculate awards. All SCE employees are eligible to receive a spot bonus."[2]

17. The discretionary way that SCE makes Spot Bonuses is evident that in 1999 approximately 1,978 employees received a total of $1,624,260 for one Spot Bonus payment ranging from $25 to $17,325. While an employee received two Spot Bonuses for a total of $18,756 and another employee received 25 Spot bonuses for a total of $26,754. In 2000 approximately 1,604 employees received a total of $1,787,565 for one Spot Bonus payment ranging from $30 to $25,500. At least eight employees received one Spot Bonus payment of $10,000. Four employees received a $14,000, $20,000, $25,000, and $25,500 for one Spot Bonus payment. Two other employees received three Spot Bonuses payments in the amount of $278 and $63,038, respectively.

[2] Data request Audit DR 61- DFB.

18. Based on SCE's own description of Spot Bonuses, ORA believes that they should not be borne by ratepayers. The nature of the program implies that the bonuses are associated with corporate goals and objectives. Ratepayers are already providing for the employees wages and benefits and should not pay additional money for employees to do their required jobs. Spot bonuses are awarded at the discretion of the business unit management who feel that an individual employee or a team should be recognized for "outstanding performance." Outstanding performance in a corporation is typically associated with meeting corporate objectives that ultimately benefit shareholders. There is no criteria for how many nor the minimum or maximum of the amount of Spot Bonuses that can be awarded. In 1999 approximately 21% (707 out of 3,293) of SCE employees who received Spot Bonuses were manager. The managers received 45% ($2,534,537 out of $5,589,361) of the total Spot Bonuses paid in 1999. While in 2000, 23% (559 out of 2,452) of SCE's employees were managers who received 35% ($1,484,505 out of $4,245,774) of the total Spot Bonuses paid. The Spot Bonuses are awarded at management's discretion, yet management received between 53-45% of the total Spot Bonuses paid out to SCE's employees. Spot Bonuses allow management to reward itself for providing support for the corporate goals and objectives for the benefit of the shareholder. Therefore, ratepayers should not pay for awards that are made at the discretion of management to meet its corporate objectives that increase shareholder value. ORA recommends that the entire $5,589,361 and $4,245,774 be removed from 1999 and 2000 recorded for ratemaking purposes.

MIP Tier 1 and MIP Tier 2

19. During its review of the compensation portion of SCE's 2000 General Order 77 K, ORA discovered that SCE paid $5,784,259 and $8,842,926 in Management Incentive Program (MIP) Tier 1 and Tier 2 bonuses, respectively. In response to Audit DR 78-DFB, SCE provided that MIP is intended to:

- Attract, retain, and reward key contributors by providing a market-competitive variable pay opportunity link to performance

- Focus efforts on the successful achievement of business unit goals and SCE operating income targets – the same measurements in the Results Sharing program
- Provide a flexible plan that enables individual business units to reward individual and team performance meaningfully.

20. SCE offers employees in selected management and senior level professional positions an opportunity to participate in MIP. The selected management and senior professional positions are: Tier 1 includes Manager 3, Attorney 3 and 4, Strategic Planning Manager 3, and Mgr. Projects/Products 3. Tier 2 includes Manager 2, Attorney 2, Mgr. Projects/Products 2, Consulting Engineer 4, and Strategic Planning Manager 2. MIP awards are a percentage of pay, for Tier 1 the Target Award is 20% while the maximum award is 30%. For Tier 2 the Target Award is 15% and maximum of 22.5%. ORA also noted that approximately 286 of SCE managers received Spot Bonuses in 2000 as well as MIP Tier 1 or Tier 2 Bonuses.

21. The MIP Tier 1 and Tier 2 are based on the Business Unit Performance and SCE Performance. The description for Business Unit Performance is measured by a maximum of five goals. Up to four of the goals will be set and weighed independently by each business unit. The final goal is based on meeting the department's budget and financial targets. The description for SCE Performance is "Financial performance is the SCE measure. It reflects many of the ways that employees contribute to results and translates SCE's day-to-day performance into financial results. It also reflects success in the competitive marketplace and recouping energy procurement costs. Based on SCE's financial performance as assessed at year-end, a modifier is applied to the business unit award."[3] Considering the fact that SCE's financial health was questionable in 2000 and was on the verge of bankruptcy, ORA assumes that the last component of MIP was probably not reached and would be more to the benefit of the shareholders and not the ratepayers.

22. In 2000, SCE recorded MIPs in the Account 500 (Generation) $2,701,000, Account 588 (Miscellaneous Distribution Expenses) $1,885,000, Account 905 (Miscellaneous Customer Accounts Expenses) $1,643,000, and Account 920 (A&G

[3] Data request Audit DR 61 – DFB, Questions 5 and 6.

Salaries) $8,398,000. At a minimum, 50% of MIP Tier 1 and Tier 2 should be removed for ratemaking purposes. For a more detailed analysis see ORA's report Results of Operation chapter on Administrative and General Expenses – Human Resources. ORA recommends that Account 500 (Generation) be reduced by $1,351,000, Account 588 (Miscellaneous Distribution Expenses) be reduced by $943,000, Account 905 (Miscellaneous Customer Accounts Expenses) by reduced by $822,000, and Account 920 (A&G Salaries) be reduced by $4,199,000 for 50% of MIP Tier 1 and Tier 2 before forecasting for the test year 2003.

<u>Retention Bonuses</u>

23. SCE paid $547,965 in Retention Bonuses in 2000 to six employees who were involved in the Y2K project. SCE claims that the loss of leadership would greatly have impacted the Y2K project. Y2K is a non-recurring cost that should not be included in SCE's expenses for test year forecasting purposes. Y2K is a one time cost that is not expected to occur again. SCE has split the retention bonuses between expense and capital on a 65%/35% basis. Account 920 was charged with $356,177 and Account 101 Plant In Service was charged with $191,788 for Y2K retention bonuses. ORA recommends that Account 920 be reduced by $356,177 and Account 101 be reduced by $191,788 for Retention Bonuses related to Y2K project.

<u>Executive Incentive Compensation</u>

24. During 2000, SCE accrued $9,290,000 for Executive Incentive Compensation (EIC). SCE paid EIC in 2000 in the amount of $11,650,250 to its executive officers that were earned in 1999. ORA obtained a breakdown of the accounting entries SCE makes to record the accrual of EIC expense, the EIC pay out, and the billing of affiliates for shared officers. During Year 1, SCE accrues on a monthly basis with a debit to Account 920 Administrative and General Salaries and a credit to Bonuses Payable. During Year 2 the debit is to Bonuses Payable, credit to Tax Withholding Liabilities and Cash. To record the allocation of shared officers to affiliates SCE's debits Receivable from Affiliates and credits Account 920 Administrative and General Salaries. Then to record the payable to the ratepayers, SCE debits Account

407.XXX Provision for Regulatory Adjustment Clauses and credits Account 182/254 PROACT/PBREDAM Balancing Account.

25. In 2000, SCE failed to bill the affiliates for the allocation of its shared officers portion of EIC. SCE indicated that shared officers allocated time from January to June was 75% - 25% split between utility and affiliate operations, respectively. For the period July through December the shared officers time was allocated on a 70% - 30% split between utility and affiliate operations. ORA calculated that the shared officers EIC totaled $2,793,650. Using a weighted average of 28% and applying it to the $2,793,650 in EIC for shared officers, ORA concludes that SCE should have billed its affiliates for approximately $272,890. ORA recommends this one time adjustment of $272,890 now to insure that ratepayers are compensated for SCE's shared officers.

Y2K Expenses

26. In order to make its accounting Y2K compliant, SCE expensed $16,118,000[4] between 1998 and 2000. Y2K costs are a non recurring event and costs associated with assuring SCE's system was in Y2K compliance should be removed from Accounts 920, 921, and 926 before forecasting for the test year 2003. ORA recommends that the 1998 costs of $8,635,000, 1999 costs of $5,264,000, and the 2000 costs of $1,238,823[5] should be removed from Account 920/921 for Y2K costs. ORA further recommends that the 1998 costs of $167,000, 1999 costs of $443,000, and 2000 costs of $14,000 should be removed from Account 926 Pensions and Benefits for 1998 through 2000 for Y2K costs.

Account 923 Outside Services

27. ORA prepared a summary table of the monthly charges to Account 923 Outside Services by sub accounts for the year 2000. The total recorded Outside Services expenses for the year was $21,386,761. ORA selected the month of January and December 2000 as an audit sample selection to verify to source

---

[4] Includes $356,177 in Y2K costs related to Retention Bonuses, which ORA has discussed in a prior section of this report.

documents. SCE's recorded expenses for January totaled ($459,180). ORA selected ($351,515) of the expenses to review and verify to source documents and payments. This sample selection represents approximately 76.55% of the recorded expenses for January 2000.

28. ORA reviewed the payment SCE made to Strategic Compensation Associates (SCA) in the amount of $58,570. The SCA invoice was addressed to Edison International (EIX) and paid for by SCE. ORA questioned the reason SCE was paying for services provided to EIX. In response to Audit DR 58 DFB Question 4, SCE indicated that the services were performed in November by SCA for executive compensation and benefit design for SCE and other EIX companies. SCE should have only been charged for 72.91% or $42,703 of these costs. Therefore, EIX should have been charged $15,797. ORA recommends that Account 923 Outside Services be reduced by $15,797 for services that should have been charged to EIX before forecasting for the test year.

29. ORA reviewed the payment made to Irwin M. Stelzer Associates, Inc. in the amount of $50,020. The payment authorization indicated this payment was for professional services January 1 through June 30, 2000. ORA questioned the type of professional services and in response to Audit DR 58 DFB Question 6, SCE indicated that the payment was for one-half of an annual retainer and other miscellaneous expenses for economic consulting services. Upon further review, SCE has determined that the costs were incurred for EIX and should not have been paid by SCE. A total of $150,074 ($50,000 in 1999 and $100,074 in 2000) was paid to Irwin Stelzer Associates, Inc. ORA recommends that SCE amend its Account 923 request in the 2003 general rate case to remove $50,000 in 1999 and $100,074 in 2000 for these costs that should have been paid for by EIX. Based on ORA's finding and recommendation, SCE has agreed to remove these charges from its books and transfer them to EIX. In addition, SCE has agreed to amend its Account 923 request either through rebuttal testimony or during the general rate case hearings to exclude these expenses from test year 2003.

30. ORA reviewed a payment made to IBM Corporation in the amount of $112,388. The payment was for services that SCE received for professional

---

[5] Excludes $356,177 for Retention Bonuses.

services to assist in the development of an e-business Strategy that set the tactical and strategic direction and overall vision for the Information Technology Business Unit. This service included the development of an e-business working Web Application Prototype. The e-business strategy was developed and implemented to enhance the value for ratepayers of SCE's accessibility through web-enabled means. This service was performed only once and is a non-recurring expense that should be removed from Account 923 before forecasting for the test year 2003. ORA recommends that Account 923 Outside Services be reduced by $112,388 for non recurring costs associated with development of SCE's e-business.

<u>Recommendations</u>

31. ORA's recommendations related to SCE's 1998, 1999, and 2000 recorded costs prior to forecasting for the test year 2003. ORA makes the following recommendations:

1. That Account 923 Outside Services be reduced by $407,071 for costs incurred in 2000 associated with SCE's potential bankruptcy filling. In addition ORA takes notice of the $8,828,746 costs incurred in 2001;
2. That Account 923 Outside Services be reduced by $150,000 for settlement costs of a discrimination suit as this not a cost to be borne by the ratepayers;
3. That Account 923 Outside Services be reduced by $62,629 for non recurring litigation costs associate with SCE's lawsuit against the Commissioners. In addition ORA takes notice of the $1,702,898 costs incurred in 2001;
4. That Account 920 Administrative and General Salaries be reduced by $41,089 for reimbursable expenses that should have been borne by the shareholders;
5. That Account 920 Administrative and General Salaries be reduced by $1,057,109 for reimbursable expenses that should have been borne by the shareholders based on an error rate of 11.69%;
6. That Account 926 Pensions and Benefits be reduced by $433,000 for ACE awards that should not be borne by ratepayers;
7. That Account 930 Miscellaneous General Expenses be reduced by $133,250 to normalize Board of Directors Meetings and Retainer Fees;

8. That various O&M and A&G Accounts be reduced by $5,589,361 and $4,245,774 for 1999 and 2000, respectively for Spot Bonuses that should not be borne by ratepayers;

9. That Account 500 be reduced by $1,351,000, Account 588 be reduced by $943,000, Account 905 be reduced by $822,000, and Account 920 be reduced by $4,199,000 for MIP Tier 1 and Tier 2;

10. That Account 920 be reduced by $356,177 for Retention Bonuses paid to six employees involved in the Y2K project;

11. That Account 101 be reduced by $191,788 for Retention Bonuses paid to six employees involved in the Y2K project;

12. That SCE make a one time adjustment of $272,890 to reflect SCE's affiliates share of EIC of shared officers;

13. That Account 920/921 should be reduced by $8,635,000 for 1998, $5,264,000 for 1999, and $1,238,823 for 2000 for the non recurring costs associated with Y2K;

14. That Account 926 Pensions and Benefits should be reduced by $167,000 for 1998, $443,000 for 1999, and $14,000 for 2000 for the non-recurring costs associated with the Y2K project;

15. That Account 923 Outside Services be reduced by $15,797 for costs that should have been paid by EIX;

16. That SCE amend its request for Account 923 Outside Services by $50,000 for 1999 and $100,074 for costs that should have been paid by EIX; and,

17. That Account 923 Outside Services should be reduced by $112,388 for non-recurring costs.

Chapter 4

Operating and Maintenance Expenses

Purpose

1. The purpose of this chapter is to present the ORA's results of its examination of SCE's financial and accounting records related to operating and maintenance (O&M) expense. ORA focused on SCE's O&M expenses in the base year 2000 in the following areas:

- Generation
- Transmission and Distribution (T&D)
- Customer Services expenses

ORA also reviewed Customer Services/Information accounts for the base year 2000.

Scope

2. Audit procedures performed included, but were not limited to:

- Statistical sampling,
- Review of internal and external audit reports,
- Data requests,
- Physical verification of transmission and distribution equipment, and
- Interviewing SCE personnel.

Findings

Electric Transportation - Low Emission Vehicles

3. ORA reviewed SCE's recorded Low Emission Vehicles (LEV) expenses recorded in account number 588.500. SCE's recorded balance for year-end 2000 for non-labor and labor are $2.257 million and $1.555 million, respectively totaling $3.812 million.

4. The Commission authorized SCE $26 million in expenses and $18.5 million in capital for Research, Development and Demonstration (RD&D) of LEV in D.95-11-

035, dated November 21, 1995.[6] The Commission authorized SCE $6.036 million expenses for RD&D of Electric Vehicles, commencing 1996 and ending in 2001. On June 3, 1992 a resolution initiated guidelines for this one-way balancing account which states, " that these expenditures from the authorized research and development are to be accrued in the one-way balancing account with the ending balance to be returned to ratepayers within 90 days after the end of the rate cycle via the Electric Revenue Adjustment Mechanism (ERAM) Balancing Account."[7] Major expenses in this RD&D one-way balancing account are Electric Power Research Institute (EPRI) dues, special studies, and equipment testing. Any unspent funds would be returned to ratepayers at the end of the six-year period. The enactment of Assembly Bill 1890 eliminated the triennial reasonableness review process through the Energy Costs Adjustment Clause application.

5. To be consistent with Commission guidelines for triennial reasonableness review, electric vehicles account should not be considered in this general rate application. The electric vehicle account number 588.500 for $3.812 million should be removed from this application. ORA recommends that this RD&D account be moved to the Procurement-Related Obligations Account (PROACT) or have SCE file a separate application.

<u>Y2K Expense</u>

6. During the 1990's companies began to prepare for the turn of the century. Computer experts recognized that computer programs needed to be rewritten to avoid problems as the calendar changed from December 31, 1999 to January 1, 2000. This problem came to be known as Y2K (year 2000). Y2K was an international computer problem. The end of the century is a one-time event and will not occur for another 100 years. It is the practice in regulatory accounting to exclude non-recurring expenditures from rate base. SCE incurred expenses for Y2K are one-time specific to the base year 2000 and for computer systems shut down due to Y2K.

7. SCE incurred expenses that are one-time specific to the base year 2000 for computer systems shut down due to Y2K. ORA proposes to exclude these one-time

[6] Per D.95-11-035, p. 10, dated November 21, 1995.

expenditures from the base year since these costs are not normal business expenses suitable for forecasting for test year purposes. ORA proposes to exclude Y2K expenditures from the base year since these costs are not normal business expenses suitable for forecasting for test year purposes.

8. These one-time expenditures are listed in Table 4-1 below:

Table 4-1

Recorded Y2K - O&M Expenses for 2000

($ thousands)

Account Number	Description	Total
506	Mohave	16
528	Palo Verde	33
186	Deferred Debit/	218
535	Hydro	2
541	Hydro	4
588	Hydro	95
903	Customer Service	4
	TOTAL	**372**

Recommendations

9. ORA recommends that $3.812 million in LEV account should be removed from this application to be consistent with the Commission's guidelines for annual reasonableness review. ORA recommends that this account be moved to the Procurement-Related Obligations Account (PROACT) or that SCE file a separate application.

10. ORA proposes to exclude $372,000 Y2K expenditures from the base year since these costs are not normal business expenses suitable for forecasting for test year purposes.

[7] See Resolution E-3275, dated June 3, 1992.

Chapter 5

Subsidiary/Affiliate Transactions

Introduction

1. This chapter contains ORA's analysis and recommendations regarding SCE's subsidiary/affiliate transactions. The Commission adopted the Affiliate Transaction Rules in D.97-12-088. In the decision, the Commission adopted rules governing the relationship between California's energy utilities and their affiliates. The Rules addressed nondiscrimination, disclosure and information, and separation standards. The Rules also addressed to what extent a utility should be required to have its non-regulated or potentially competitive activities conducted by its affiliate. Since the Commission issued D.97-12-088, several petitions for modification to the Rules have been granted.

2. For purposes of an electric utility such as SCE, the Affiliate Transaction Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity.[8] The names and brief descriptions of SCE affiliates are located in Appendix A of this chapter.

3. ORA's objective in reviewing and analyzing SCE's affiliate/subsidiary transactions is to determine SCE's compliance with the Commission's rules governing affiliate transaction and relationships and to determine the reasonableness and ratemaking implications of inter-company transactions insofar as they affect SCE's ratepayers.

Summary

4. ORA first reviewed SCE's compliance with the Affiliate Transactions Rules. ORA's review included, but was not limited to, Commission decisions related to the Affiliate Transactions Rules, independent Affiliate Transactions Audit reports, SCE Annual Reports, internal audits of SCE affiliate transactions, and numerous data request responses from SCE. Based on ORA's review, it appears that SCE is in

[8] D.97-12-088 Rule II.B (partial)

general compliance with the Affiliate Transaction Rules. Furthermore, it also appears SCE has a strong commitment to make every effort to comply with the Rules.

5. ORA also reviewed areas with ratemaking implications of inter-company transactions insofar as they affect SCE's ratepayers. Staff concentrated efforts in the following areas: Edison O&M Services property transfers, allocation factors, Edison Carrier Solutions, Edison Select, inter-company transfer of funds, employee transfer fees and temporary/intermittent employee transfer fees.

Review Of Subsidiary/Affiliate Transactions

Edison O&M Property Transfers

6. On August 11, 1999, SCE filed Application A.99-08-030 pursuant to Public Utilities Code Section 851 requesting approval of its plan to move certain generation-related employees and assets from SCE to a new non-utility affiliate, Edison O&M Services. SCE requested that the Commission grant it a limited exemption from certain Affiliate Transaction Rules. Among other requests, SCE sought authorization to transfer O&M-related tools, equipment, and computer hardware to Edison O&M Services at their independently appraised value rather than by an "open competitive bidding process" required by Affiliate Transaction Rule III.B.

7. A Joint Recommendation was filed by ORA, the Coalition of California Utility Employees (CCUE), and SCE on December 13, 1999. The Joint Recommendation clarified and settled certain aspects of SCE's proposal and among other things, recommended that "O&M-related tools, equipment, and computer hardware be transferred to Edison O&M Services at their independently-appraised value." On July 20, 2000, the Commission issued D.00-07-047, approving the Joint Recommendation. Edison O&M Services began operations on January 1, 2001, and assets were transferred, and employees moved, from SCE to the affiliate on that date.

8. SCE response to Northstar Consulting Group 2001 Affiliate Transactions Audit Data Request Set ATA-Y2001-01 Question 15 follows:

> "Due to unforeseen changes in the California energy market, management determined that certain functions which had been moved to Edison O&M Services (EOMS) at the beginning of 2001 were required at the utility to restore SCE's capability to perform functions essential to continued generation ownership. As a result, assets related to those functions including tools and work equipment, lab and test equipment, personal computer equipment, office furniture and vehicles were returned to SCE in mid-2001. The accounting entries for this transaction took place in December, 2001. The non-vehicle assets had a fair market value of $1,316,900 at the time they were returned to SCE and the two vehicles had a combined book value of $39,956. These were both payables to EOMS. EOMS was charged an additional $15,015 to adjust the fair market value of a vehicle that was transferred in January, 2001."

9. In response to July 9, 2002 Audit Data Request 6-KSN Question 1:

> "When originally sold to Edison O&M Services, the non-vehicle assets being returned to SCE had a market value of $1,400,703. As of January 1, 2001, these assets had a net book value of $718,309. Edison O&M Services was required to pay SCE the fair market value. This resulted in a gain to SCE in the amount of $682,394. SCE is returning these assets at the same net book value of $718,309, less depreciation taken by Edison O&M Services from January 1,2001 to July 31, 2001 of $83,803, or a total of $634,506. In addition, SCE is reversing the previous gain on sale of $682,394 and returning that amount to Edison O&M Services, for a total of $1,316,900. In essence, SCE is returning the original market value of $1,400,703, less depreciation taken by Edison O&M Services of $83,803, for a total of $1,316,900."

10. SCE also informed ORA that:

> "Regarding the two vehicles returned to the utility, SCE paid Edison O&M Services the net book value as of August 1, 2001, or a total of $39,956. When added to the non-utility asset net book value of $634,506, as shown above, the total net book value of assets becomes $674,462 as reported in the response to 3-KSN Question 4."

11. During ORA's analysis of property transfers between SCE and Edison O&M Services, staff reviewed the accounting transactions on the original transfer of assets and the return of assets between SCE and Edison O&M Services. The documents reviewed by ORA included the accounting transactions reported in SCE's Corporate Accounting and Reporting System (CARS). It appears the assets were properly accounted for when originally transferred and returned to SCE. It also appears that the assets were correctly priced when returned to SCE. When the assets were returned to SCE, the assets were priced at fair market value according to Affiliate Transaction Rule V.H.6. According to Affiliate Transaction Rule V.H.6, transfers from an affiliate to the utility of goods and services produced, purchased or

developed for sale by the affiliate will be priced at the lower of fully loaded cost or fair market value.[9]

Allocation Factors

12. According to SCE's 2001 Affiliate Transaction Rules (ATR) Manual:

> "Certain Southern California Edison departments and divisions provide services that benefit SCE and all of its affiliates where it is impractical or unreliable to identify actual time and costs spent for each affiliate. All hours and costs spent performing services, including hours spent performing services for SCE, are aggregated and are then allocated to SCE and its affiliates through one of several allocation formulas."

13. The following methods are outlined in the 2001 ATR Manual:

> The Multi-Factor Allocation Formula – the most widely used allocation formula at SCE – takes several variables into consideration in order to allocate costs among Edison International companies. It is used to allocate the costs of all Time-Identified shared support and many Automatically Allocated Shared Support functions.
>
> The multi-factor method is used to allocate the cost of certain shared support services provided by SCE personnel. It is based on a formula using each Edison International company's proportionate share of the following factors:
>
> - Operating Revenues
> - Operating Expenses excluding income taxes and cost of sales
>
> Note: Southern California Edison's cost of sales includes fuel, purchased power, and the provision for regulatory adjustment clause.
>
> - Total Assets
> - Number of employees, including equivalent employees of Class B Affiliates receiving Directly Charged Services from SCE
>
> The formula is a composite based on equal weighting of each factor.
>
> The Equity Investment and Advances Allocation Method is based on the equity of each Edison International Company. This method is used to allocate costs for Southern California Edison employees in the following divisions/departments:
>
> - Shareholder Services
> - Investor Relations
> - Corporate Governance
> - Controller's
>
> > The rates are the ratios between the equity of each Edison International Company and the total equity of all Edison International companies. The amounts include the total equity recorded on each Edison International Company's balance sheet, excluding any amount recorded as advances and investment in subsidiaries, for Edison International and The Mission Group.
>
> The Number of Employees allocation rates are based on the total regular or equivalent number of regular employees working for each Edison International Company and are the same rates used in calculating the Multi-Factor allocation rates.

---

[9] D.97-12-088

14. Review of SCE's allocation formula required ORA to request copies of the monthly allocation rates, a detailed breakdown of the calculation used to derive the rates, and all source documents used to derive the rates. Upon review, it was determined that SCE changed the method of calculation for the Multi-Factor and the Number of Employee formulas several times from 1999 through 2001. It was also determined that SCE excluded cost of sales from the calculation of the Multi-Factor Allocation formula.

15. From January through September 1999, SCE included one utility subsidiary, SCE Funding, LLC in the calculation of the Multi-Factor and Number of Employee Allocation Formulas. Then during the months of October 1999 through March 2000, two utility subsidiaries, SCE Funding, LLC and Edison Material Supply were included in the calculation of the Multi-Factor and Number of Employee Allocation Formulas. Between April 2000 and December 2001, three utility subsidiaries, SCE Funding, LLC, Edison Material Supply and Energy Services Inc. (ESI) were included in the calculation.

16. In Audit Data Request 13-KSN Question 1, ORA requested clarification regarding subsidiaries used to calculate the above Allocation Formulas. In response, SCE stated that:

> "The multifactor allocation formula is comprised of each company's operating revenue, operating expenses (less cost of sales, income taxes, and minority interest), assets, and number of employees. Each company's proportionate share is based on the equal weighting of its contribution to the consolidated financial statements as a whole. SCE Funding, LLC, Edison Material Supply, and ESI are all utility subsidiaries represented on SCE's consolidating worksheets. To consistently and correctly calculate the multifactor and the proportional share allocation formulas each company must be included in the calculations."

17. In response to the exclusion of cost of sales from the multi-factor allocation formula, SCE contends that:

> "The cost of fuel sales are excluded from the multifactor calculation because the majority of fuel costs only relate to SCE, and are so large and volatile that excluding them could drastically distort this allocation formula. With respect to taxes, there is a tax-sharing agreement between EIX and its subsidiaries. Income taxes are excluded because of this agreement. Income taxes are considered inter-company charges, and are eliminated in the consolidation process."

18. Based on the documents received from SCE and information on the methodology used by SCE when calculating the allocation factors, ORA concludes

that SCE's allocations formulas and calculations used to allocate costs of certain shared support services appear reasonable.

Edison Carrier Solutions

19. On December 17, 1998, the Commission in Decision D.98-12-083, authorized SCE to enter into the business of providing telecommunication services for third parties. In this decision, SCE was granted certificate of public convenience and necessity (CPCN) #6096 and the Commission authorized SCE to operate as a facilities-based competitive local carrier (CLC).

20. To ensure that electric ratepayers do not cross subsidize SCE's telecommunications services, SCE established a division, Edison Carrier Solutions (ECS). ECS established its own series of functions to record its activities separate from the utility activities. Revenues and expenses of ECS are recorded to function numbers which point to trial balance account 417.570 and Federal Energy Regulatory Commission (FERC) Account 417 "Revenues and Expenses from Non-utility operations."

21. According to SCE, revenues and expenses for ECS are excluded from the GRC and handled by a different ratemaking mechanism. ECS utilizes the utility assets to provide its services and is subject to the gross revenue sharing mechanism adopted in D.99-09-070. According to the gross revenue sharing mechanism adopted in D.99-09-070, revenues from non-tariffed products and services (NTP&S), including telecommunication services, are shared between ratepayers and shareholders. Thus, ECS revenue is recorded below the line and is shared between SCE's ratepayers and shareholders 10%/90% for active and 30%/70% for passive activities. All expenses recorded by ECS for these activities are incremental expenses and are recorded below the line and assumed by the shareholders.

22. ECS also uses clearing account 184, which is a generic account in which expenses for construction overheads, district overheads, department overheads, and tool overheads are recorded prior to allocation to FERC Operation and Maintenance (O&M), Capital and Administrative and General (A&G) accounts. In

documents provided by SCE in response to Audit Data Request 11-KSN Question 1, SCE indicated "all functions in the clearing account 184 will be transferred as Overhead to all other functions work orders with ECS activities." The activities are recorded in the following FERC Accounts and functions:

FERC 930.2	Function 8150
FERC 930.2	Function 8099
FERC 935	Function 8191
FERC 935	Function 8192
FERC 935	Function 8193
FERC 566	Function 8021
FERC 566	Function 8019
FERC 566	Function 0834
FERC 566	Function 8032

23. Based on review of additional information obtained and workpapers provided in the 2003 GRC, it appears that revenues and incremental expenditures related to ECS are excluded from the 2003 GRC. However, ORA recommends that overhead expenses related to ECS be assigned its own specific function titles and numbers. For example, FERC Account 566 "Miscellaneous Transmission Expenses" Function 8019 "Safety Meeting and First-Aid Instruction – Transmission" is defined in the 2003 GRC as "cost of labor, materials used, and expenses (except automotive expenses) incurred by all bargaining-unit employees attending utility safety or first-aid meetings, demonstration of firefighting equipment meetings, and accident-investigation meetings when related to transmission line activities with the Grid Operations & Maintenance regions." Under such definition, it appears safety meetings and first-aid instruction are related to transmission line activities with Grid Operations & Maintenance, which are not related to ECS. Therefore, ORA recommends SCE further segregate overhead activities and that overhead activities directly related to ECS be tracked by separate function titles and numbers. Separating overhead expenditures related to the telecommunications services business unit would more closely follow the cost tracking rules for SCE's telecommunications service adopted in D.98-12-083 Appendix C.

Edison Select

24. Edison Select is a subsidiary of Edison Enterprises, which provides consumer products and services for the retail mass market, some of which are considered to

be electricity-related for the purpose of the Affiliate Transactions Rules, such as inside electrical wiring warranty services.

25. In response to Master Data Request Question XVIII.32:

> "SCE began providing billing and collection services on behalf of its affiliate, Edison Select and its Edison On Call (EOC) service prior to Commission issuance of D.97-12-088. SCE identified its provision of this service in its required compliance filing and the Commission has permitted the service to continue. On June 28, 2001, Edison International announce the sale of Edison Select, which includes the EOC business line. This sale is anticipated to close in mid-August, whereupon SCE will no longer be performing any billing and collection services for an affiliate. Nevertheless, up until this sale, SCE has provided this billing service to Edison Select presenting the (EOC) monthly charge as a line item on the SCE bill statement. Edison Select has been charged a monthly fee per account for this service." In Audit Data Request 5-KSN Question 1, SCE states "Edison Select and its subsidiaries were sold in August 2001 and is no longer an affiliate of SCE."

26. During review of Edison Select and its Edison On Call Service, ORA submitted several requests for documents pertaining to the revenues and expenses reported in SCE's Test Year 2003 GRC for Edison Select and its Edison On Call Service. Based on information obtained from SCE, expenses related to Edison On Call are reported in FERC accounts 901 and 903, Function numbers 5344 and 5347. According to SCE's testimony/workpapers, Function numbers 5344 and 5347 for FERC Accounts 901 and 903 are defined as follows:

Function 5344 **Edison On Call (EOC) Payment Processing**
Includes payroll and other expenses incurred in the support and processing of payments received from Edison On Call (EOC) customers.

Function 5347 **Edison On Call (EOC) Support**
Includes payroll and other expenses incurred in the support and processing of Edison On Call (EOC) activities.

27. In SCE's Test Year 2003 GRC testimony/workpapers, SCE reports the following Recorded/Adjusted expense amounts for FERC accounts 901 and 903, Functions 5344 and 5347:

FERC Account: 901 Supervision
Activity: Business Unit Management & Support - 901

		$(000)		
	Function	**1998**	**1999**	**2000**
Expense	5344	9	4	42
Expense	5347	324	403	390
Totals		$ 333	$ 407	$ 432

FERC Account: 903
Activity: Accounting/Misc/Corrections - 903

		$(000)		
	Function	**1998**	**1999**	**2000**
Expense	5344	-	-	-
Totals		$ -	$ -	$ -

28. Reimbursements or payments to SCE from Edison Select for its Edison On Call Service are recorded in FERC accounts 901 and 903, Function numbers 5333 and 5334. According to SCE's 2003 GRC, Function numbers 5333 and 5334 for FERC Accounts 901 and 903 are defined as follows:

Function 5333 **Edison On Call (EOC) Activities-EIX/Non-Utility-Credit**

Includes charges associated with identifiable corporate support and directly requested services provided to a non-utility or utility affiliate for the support of Edison On Call (EOC) activities by the Distribution Business Unit (DBU).

Function 5334 **Edison On Call (EOC) Activities-EIX/Non-Utility-Credit**

Includes charges associated with identifiable corporate support and directly requested services provided to a non-utility or utility affiliate for the support of Edison On Call (EOC) activities by the Distribution Business Unit (DBU).

29. In SCE's Test Year 2003 GRC testimony/workpapers, SCE reports the following Recorded/Adjusted credit amounts for FERC accounts 901 and 903, Functions 5333 and 5334:

FERC Account: 901 Supervision
Activity: Business Unit Management & Support - 901

		$(000)		
	Function	**1998**	**1999**	**2000**
Credits	5333	(432)	(575)	(119)
Credits	5334	(12)	(7)	-
		$ (444)	$ (582)	$ (119)

FERC Account: 903
Activity: Accounting/Misc/Corrections - 903

		$(000)		
	Function	**1998**	**1999**	**2000**
Credits	5334	-	-	-
		$ -	$ -	$ -

30. ORA's review of documents obtained from SCE relating to Edison Select and its Edison On Call Service supports the conclusion that all accounts relating to Edison Select and its Edison On Call Service be excluded from the test year 2003 GRC of SCE. Since Edison Select was sold in August 2001, ORA recommends expenses reported in FERC Accounts 901 and 903, Functions 5344 and 5347 be excluded from the GRC. In addition, ORA recommends that credits/reimbursements for FERC Accounts 901 and 903, Functions 5333 and 5334 be excluded from the 2003 GRC.

Inter-Company Transfers Of Funds

31. ORA reviewed inter-company transfers of funds between SCE and each affiliate for the years 1998, 1999 and 2000. Specifically, ORA reviewed the transfer of funds to and from Edison International for income taxes, dividends, capital contributions, and services in support of Edison International (EIX) and The Mission Group (TMG).

32. For the transfer of funds to/from Edison International for income taxes, dividends, and capital contributions, staff analyzed the transfer amounts provided in Master Data Request Question XVIII.47. During analysis, ORA sought to determine whether the amounts provided in response to Master Data Request Question XVIII.47 were reasonable and justifiable. In order to verify the amounts for income taxes, dividends, and capital contributions, ORA requested and obtained internal documents supporting the purpose for which the funds were transferred, the source of the funds, and the amounts transferred. Based on ORA's analysis of internal documents, it appears that funds transferred to/from Edison International for income taxes, dividends and capital contributions properly support the amounts provided in Master Data Request Question XVIII.47.

33. ORA also reviewed the transfer of funds for services in support of Edison International (EIX) and The Mission Group (TMG). SCE provided a list of payments to/from Edison International to SCE for services in support of EIX and TMG in response to Master Data Request Question XVIII.47. For the years 1998, 1999, and 2000, ORA reconciled the amounts provided in response to Master Data Request Question XVIII.47 to monthly invoices, Edison International Cash Voucher Requests, and the general ledger details. ORA determined that payments for services rendered to Edison International by SCE are recorded in account 195.301. Payments for services rendered by SCE to its affiliate companies are recorded in account 195.302. After reviewing supporting documents obtained from SCE, it appears the amounts provided in Master Data Request Question XVIII.47 for transfers of funds for services in support of Edison International and The Mission Group are properly presented and accounted for.

Employee Transfer Fees

Rule V.G.2.C

34. Rule V.G.2.c was originally adopted in D.97-12-088 and modified in D.98-08-035. According to Rule V.G.2.c:

> "When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 25% of the employee's base annual compensation, unless the utility can demonstrate that

> some lesser percentage (equal to at least 15%) is appropriate for the class of employee included. In the limited case where a rank-and-file (non-executive) employee's position is eliminated as a result of electric industry restructuring, a utility may demonstrate that no fee or a lesser percentage than 15% is appropriate. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment, on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision will not apply to clerical workers. Nor will it apply to the initial transfer of employees to the utility's holding company to perform corporate support functions or to a separate affiliate performing corporate support functions, provided that that transfer is made during the initial period of these rules or pursuant to a section 851 application or other Commission proceeding. However, the rule will apply to any subsequent transfers or assignments between a utility and its affiliates of all covered employees at a later time."

35. ORA reviewed several areas during analysis of Affiliate Transaction Rule V.G.2.c. The areas staff focused on included (1) application of the transfer fee, (2) calculation of the transfer fee, (3) accounting for the transfer fee and (4) implication of the transfer fee in the 2003 GRC.

36. ORA reviewed employee movements from SCE to affiliates during the years 1998 through 2001. Based on documents provided by SCE, it appears SCE is requiring that a transfer fee be paid by the affiliate for SCE employees transferring to an affiliate according to Rule V.G.2.c.

37. ORA also conducted analysis of the calculation of the employee transfer fees for the years 1999 and 2000. The process employed by SCE follows the direction set forth by the Commission in Resolution E-3539.

38. SCE response to Audit Data Request 3-KSN Question 1a-b follows:

> Compensation is broken down into the following categories:
> C1. Base Pay
> C2. Bonus /Incentives
> C3. Lump Sum Payment in lieu of pay increases or in addition to them.
> C4. Stock Options
>
> For category #C1, we use the employee's base rate of pay the day prior to the transfer and annualizes it.
>
> For category #C2, we use the most recent bonus or incentive, but would look back no more than 12 months to get that amount. (For instance, lets say bonuses were paid annually in March of each year. The employee transfers in February 1999. We would use the March 1998 bonus. If the employee's last bonus was in March 1997 or the employee had not been with the company long enough to receive a bonus, we would not use an amount for the bonus.)
>
> For category #C3, we use the most recent lump sum payment provided either in lieu of a pay increase or in addition to one. If one had not been paid in the last 12 months, no amount would be used.

For category #C4, we use the value of the most recent options granted whether or not the employee has chosen to exercise those options. If no options were granted in the last 12-month period, no amount would be applied.

The dollars from categories C1, C2, C3, and C4 are added together and the 25% is applied to that dollar amount.

When looking at the benefits, we have broken them down into two categories:
B1. Pay-related Benefits
B2. Benefits having no direct relationship to what an employee is paid

For category #B1, we apply a percentage (reflects the cost of the benefit as a percentage of base pay) to the annualized base rate of pay the employee makes the day prior to the transfer. We took this approach rather than looking back over the last 12-month period since the current rate is readily available. This percentage includes the cost for items such as Retirements, 401(k), Employee Life Insurance, AD&D, Business Travel Accident Insurance, and Long Term Disability.

For category #B2, we develop an annual “flat dollar amount” to take into account the benefits that are generally not dependent on an employee’s pay. In the case of the health care plans, we also look at the enrollment statistics for January 1 of the current year. This category includes items such as Corporate Rehabilitation, Electric Service Discount, Employee Recognition, Medical, Dental, Vision, and PBOPs.

The number generated in #B1 is then added to the dollar amount in #B2 and the 25% is applied to it.

39. To verify that the transfer fees were calculated properly, ORA reviewed “Interoffice Memorandum Transfer Affiliate” documents for the years 1999, 2000 and 2001. For the years reviewed, it appears SCE is appropriately calculating the employee transfer fees required by the Commission in Resolution E-3539.

40. Next, ORA reviewed the accounting procedures for the employee transfer fees. In response to Audit Data Request 3-KSN Question 1e, SCE states that:

“After the Human Resources Department calculates the transfer fees, the information is sent to the Controller’s. The Controller’s Department then charges the fee to the Affiliate by debiting the Inter-company Receivable (146.XXX) and crediting Miscellaneous Revenues, Function 9725, which translates to a sub-account of 456.900. Funds accumulated in this function are then credited to the ratepayers.”

41. During review of the accounting procedures, ORA verified that the amounts calculated for employee transfer fees were properly recorded in sub-account 456.900 Miscellaneous Electric Revenues. To verify the accounting transactions, staff reviewed the general ledger trial balance for the years 1998, 1999, 2000 and 2001 and the Function Detail Report for the years 1999 and 2000. Based on ORA’s review, it appears SCE properly accounted for the employee transfer fees in account 456.900.

42. Finally, ORA reviewed the amounts reported in the 2003 GRC for account 456.900. The employee transfer is included in the 2003 GRC pertaining to the Exhibit relating to Other Operating Revenues (OOR). OOR are revenues received by SCE from transactions not directly associated with the sale of electric energy and are recorded in FERC Accounts 450 through 456. OOR is subtracted from total operating costs to determine the test year revenue requirements because it reduces the revenue that needs to be collected through rates.

43. The amounts recorded in the 2003 GRC are presented in Exhibit No. SCE 8/Results of Operations/Chapter VI. Documents provided by SCE in support of the amounts reported in the 2003 GRC revealed that account 456.900 properly excludes amounts pertaining the employee transfer fees. Since revenues for employee transfer fees are returned to customers directly through the operation of a memorandum account established to track the program, they are excluded from the GRC.

44. Supporting documents received from SCE and compared to the amounts reported in SCE's Test Year 2003 GRC for FERC Account 456.900 in Exhibit No. SCE 8/Results of Operations/Chapter VI/Other Operating Revenue demonstrate that the transfer fees are correctly excluded from FERC Account 456.900 in the revenue estimates for the 2003 GRC.

Temporary/Intermittent Employee Assignments.
Rule V.G.2.e

45. According to Affiliate Transaction Rule V.G.2.e established in D.97-12-088 and later modified in D.98-08-035:

> "A utility shall not make temporary or intermittent assignments, or rotations to its energy marketing affiliates. Utility employees not involved in marketing may be used on a temporary basis (less than 30% of an employee's chargeable time to any calendar year) by affiliates not engaged in energy marketing only if:
> i) All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at the greater of fully loaded costs plus 10% of direct labor cost, or fair market value. When the affiliate obtains the services of an executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value;
> ii) Utility needs for utility employees always take priority over any affiliate requests;

> iii) No more than 5% of full time equivalent utility employees may be on loan at a given time;
> iv) Utility employees agree, in writing, that they will abide by these Affiliate Transactions Rules; and
> v) Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers."

46. According to SCE's 2001 Affiliate Transaction Rules (ATR) Manual, the term "energy marketing affiliate" is defined as:

> "An affiliate that actively brokers commodity electricity on a competitive basis in California's regional market. Energy Marketing Affiliates include, but are not limited to, Energy Service Providers."

47. SCE's 2001 ATR Manual also states the following:

> "The provisions of D.98-08-035 apply only to Class A Affiliates. Class B Affiliates, however, may also request services from Southern California Edison personnel. SCE will voluntarily apply the provisions of Rule V.G.2.e to temporary assignments of SCE employees to Class B affiliates – except for the provisions of Rule V.G.2.e.i. and the restrictions on use of employees involved in marketing."
>
> Class A Affiliates are
>
> "Those affiliates of SCE subject to the Affiliate Transaction Rulemakings and Investigation (the ATRI Rules). Class A affiliates are sometimes referred to as "Covered " affiliates.
>
> Class B Affiliates are
>
> "Those affiliates of SCE not subject to the ATRI Rules. Class B affiliates are sometimes referred to as "Non-Covered" affiliates.
>
> "For purposes of Rule V.G.2.e., SCE's energy marketing affiliates include: Edison Source, Edison Mission Marketing and Trading, CL Power Sales Six, Coalinga Cogeneration Company, Harbor Cogeneration Company, Kern River Cogeneration Company, March Point Cogeneration Company, Mid-Set Cogeneration Company, Midway-Sunset Cogeneration Company, Nevada Sun-Peak Limited Partnership, Saguaro Power Company, Salinas River Cogeneration Company, Sargent Canyon Cogeneration Company, Sunrise Power Company, Sycamore Cogeneration Company, and Watson Cogeneration Company. Although the output of several of these affiliates is fully committed under contract (i.e., they may not be actively brokering commodity electricity at present), SCE will regard them as energy marketing affiliates for the purposes of this Rule. Temporary, intermittent or rotational assignments will not be made to energy marketing affiliates."

48. SCE considers Edison Mission Energy (EME) a "Class A" Affiliate, but not an "energy marketing affiliate." According the SCE's 2001 ATR Manual, EME is defined as:

> "A Delaware corporation, subsidiaries of which develop, own, and/or operate electrical power generation projects. EME itself does not own any portion of such generation facilities or provide services relating to the use of electricity.

- All subsidiaries of EME listed in Volume 1 (pages 23-205) of SCE's Annual Report on Subsidiary, Affiliate, and Holding Company Transactions, filed May 1, 1998, as well as those subsidiaries created between January 1, 1998 and the date of this Modified Compliance Plan and posted on the World Wide Web and reported to the Commission pursuant to Rule VI.B, including: Edison Mission Energy Services B.V.; Edison Mission Operation and Maintenance Services B.V.; Edison Mission Marketing & Trading, Inc. (EMMT); EME Homer City Generation L.P.; Mission Energy Westside, Inc.; Chestnut Ridge Energy Company; Edison Mission Energy Fuel Services, Inc.; Contact Energy Limited; Edison First Power Limited; Midwest Generation, LLC; EcoElectrica, LP; Italian Vento Power Corporation; IASB Energy s.r.l.; CPC Cogeneration LLC; Tri-Energy Company Limited; EME Fuel Services LLC; CL Power Sales 1,2,6,7,8,9,10 and CP Power Sales 12; Perth Power Partnership; CBK Power Company Limited; Kalayaan Power Management Corporation; and Sunrise Power Company LLC.

  EME's subsidiaries noted above develop, own, and/or operate electrical power generation projects. Subsidiaries of Edison Mission Energy that do not engage in these activities are considered Class B affiliates."

49. Based on information obtained from SCE for the years 1999 through 2001, it appears that no SCE personnel performed temporary or intermittent assignments for SCE designated energy marketing affiliates. However, based on SCE definition of EME, ORA considers EME an energy marketing affiliate and temporary assignments of SCE personnel should no longer be allowed. Edison Mission Energy develops, owns and operates power plants through its subsidiaries within and outside of California, and provides energy in competitive marketplaces. To assume that EME never markets its energy products is an unreasonable assumption. ORA also believes that when the Commission adopted D.98-08-035 Rule V.G.2.e., its intent was to prevent utilities from allowing temporary or intermittent assignments, or rotations of utility personnel to any and all affiliates associated with energy marketing. Therefore, ORA recommends that SCE consider EME an energy marketing affiliate and restrict utility personnel from performing temporary or intermittent assignments, or rotations to EME and all of its subsidiaries.

50. During its analysis, ORA also reviewed the labor mark-up fees to determine whether the fees were properly accounted for SCE's Test Year 2003 GRC. Based on information obtained from SCE through data requests, accounts 454.601 (Function 9715) Facility Cost SCEcorp – Non-utility, 454.602 (Function 9720) Facility Cost - Utility, 456.901 (Function 9730) Labor Markup SCEcorp- Non-utility and 456.910 (Function 9735) Labor Markup – Utility are used to track employee temporary/intermittent assignment fees.

51. ORA reconciled amounts reported in the 2003 GRC to SCE's general ledger detail and monthly detail reports for the years 1998, 1999 and 2000. For FERC

accounts 454.601 Function 9715 and FERC account 456.901 Function 9730, the amounts are properly excluded from the 2003 GRC. These revenues are being removed from the GRC since they are returned to ratepayers on a recorded basis through the operation of the Performance Based Ratemaking (PBR) Exclusion Distribution Adjustment Mechanism (PBR EDAM).

Recommendations

52. ORA makes the following recommendations:

a) Overhead activities related to ECS should be further segregated and tracked by separate function titles and numbers. In doing so, overhead expenditures related to ECS would more closely follow the cost tracking rules adopted in D.98-12-083 Appendix C.

b) All expenses and credits reported in FERC Accounts 901 and 903 related to Edison Select and its Edison On Call Service should be excluded from SCE's Test Year 2003 GRC.

c) SCE should regard EME and its subsidiaries as an energy marketing affiliate and restrict utility personnel from performing temporary or intermittent assignments, or rotations to EME and its subsidiaries.

APPENDIX A
Affiliates of Southern California Edison

The following definitions are located in the 2000 and 2001 Annual Report of Southern California Edison Company on Subsidiary, Affiliate, and Holding Company Transactions:

Class A Affiliates

- Edison Mission Energy (EME) – A Delaware corporation, subsidiaries which develop, own, and/or operated electrical power generation projects. EME itself does not own any portion of such generation facilities or provide services relating to the use of electricity.

    - Subsidiaries of EME include:
      Edison Mission Energy Services B.V.; Edison Mission Operation and Maintenance Services B.V.; Edison Mission Marketing & Trading, Inc. (EMMT); EME Homer City Generation L.P.; Mission Energy Westside, Inc.; Chestnut Ridge Energy Company; Edison Mission Energy Fuel Services, Inc.; Contact Energy Limited; Edison First Power Limited; Midwest Generation, LLC; EcoElectrica, LP; Italian Vento Power Corporation; ISAB Energy s.r.l.; CPC Cogeneration LLC; Tri-Energy Company Limited; EME Fuel Services LLC; eight CL Power Sales LLCs; Perth Power Partnership; CBK Power Company Limited; Kalayaan Power Management Corporation; and Sunrise Power Company LLC.
      EME's subsidiaries noted above develop, own, and/or operate electrical power generation projects. Subsidiaries of Edison Mission Energy that do not engage in these activities are considered Class B affiliates.

- Edison O&M Services – Provides operation and maintenance services for electric generating facilities owned by utility companies and independent power producers.

- Edison Source – A subsidiary of Edison Enterprises which, through its own subsidiary Edison Source Norvik, provided research and development consulting and testing of electric vehicle battery charge units. Other operations previously reported for Edison Source have been discontinued and/or sold.

- Edison Capital – Although Edison Capital and its subsidiaries are considered Class B affiliates, the following Edison Capital subsidiaries are considered Class A affiliates:

    - Storm Lake Power Partners I LLC; Lakota Ridge LLC; Shaokatan Hills LLC; and Woodstock Hills LLC – These entities are wind-driven electric generation facilities in Iowa and Minnesota.
    - Cade, Edeser, Electropaz and Empresa de Luz y Fuerza Electrica de Orura S.A. ("Elfeo") – A foreign utility company which provides electric distribution in Bolivia.

- Edison Select – A subsidiary of Edison Enterprises, provides consumer products and services for the retail mass market, some of which are considered to be electricity-related for the purposes of the Affiliate Transaction Rules, such as inside electrical wiring warranty services.

- Select Home Warranty Company – A subsidiary of Edison Select, provides electricity-related warranties and other consumer products and services governed by the California Department of Insurance.

Edison Select and its subsidiaries were sold in August 2001.

♦ Edison Technology Solutions – Inactive (formerly engaged in electricity-related research and development activities).

  - Edison EV – Inactive (formerly supported the electric vehicle infrastructure market in California).

♦ Mission Power Engineering Company – Inactive (formerly engaged in design and construction of electrical power plants).

Class B Affiliates

♦ Edison International (EIX) – EIX is the parent holding company of Southern California Edison Company, The Mission Group, Edison Insurance Services, Inc., Edison Ventures, Edison Drives Electric, and Edison Energy (inactive). It was organized principally to acquire and hold securities of other corporations for investment purposes and to provide corporate governance and oversight.

- The Mission Group – Organized to own the stock and coordinate the activities of nonutility companies. It offers no products or services in its own name.

  ♦ Mission Energy Holding Company – Owns the stock of Edison Mission Energy and also acts as a financing vehicle.

- Edison Capital – Engaged in the business of providing capital and financial services, including leveraged-leasing transactions and other project financing, principally regarding infrastructure projects and affordable housing, either directly or through its subsidiaries. While some infrastructure financing transactions have involved electrical facilities, such as a cross-border financing lease or a power plant in the Netherlands, Edison Capital's role is solely as a lender or investor and not a provider of electricity or related services

  Edison Capital's non-covered subsidiaries, like their parent company, provide capital and financing services for infrastructure projects and affordable housing. Affiliate general partnerships include the affordable housing projects in which Edison Capital and its subsidiaries invest.

- Edison Enterprises – Organized to own stock and coordinate the activities of various retail companies.

- Mission Land Company and its subsidiaries – Engaged in the business of owning, managing, and selling industrial parks and other real property investments.

- Edison Environmental Services – Organized to provide nuclear decommissioning services. Because such services will predominantly take place with respect to shut-down facilities, they will not be electricity related.

- Edison Ventures – Organized to own stock and coordinate the activities of nonutility companies.

- Edison TransEnergy – Owns certain rights and assets that could be used in pipeline development activities to transport crude oil.

- Edison Insurance Services – Issues domestic and foreign property damage and business interruption insurance to Edison International and its subsidiaries.

- Edison Drives Electric – Organized to administer the offering of electric vehicles lease incentives to employees and retirees of Edison International companies. This is an internal administrative function.