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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Authority to, Among Other Things, Increase Its Authorized Revenues for Electric Service In 2012, And to Reflect that Increase in Rates.	Application 10-11-015 (Filed November 23, 2010)

PROTEST
OF THE DIVISION OF RATEPAYER ADVOCATES

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I. INTRODUCTION

On November 23, 2010, Southern California Edison Company (SCE) filed its General Rate Case (GRC) application with the California Public Utilities Commission (Commission) covering the three-year period from 2012 through 2014. For Test Year (TY) 2012, SCE seeks a $938 million increase over present levels, and seeks additional revenue increases of $347 million in 2013 and $612 million in 2014.[1,2] Thus, for the 3-year GRC cycle, SCE requests a total cumulative increase in revenues of approximately ***$4.1 billion.*** The proposed change in GRC base revenue required from the present level of $5.348 billion to the proposed $7.495 billion in 2014 represents a ***40.2% increase*** over currently authorized levels.[3]

According to SCE's own estimates, if its Application is approved, the percent increase for a residential customer would be approximately 18.93%; for a small or medium commercial customer it would be about 15.48%.[4]

[1] Application, p. 3, Table 1, line 14.

[2] On page 1 of the Application, SCE characterizes its 2012 request as an $866 million increase over currently authorized base revenues. SCE arrives at this figure by offsetting the $938 million figure by $72 million in revenues from estimated sales growth.

[3] Application, p. 3, Table 1, line 1 for year 2012 and line 15 for year 2014.

[4] Amendment to Application (11/24/2010), Table 2.

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure (Rules), the Division of Ratepayer Advocates (DRA) protests this Application. Since the Application first appeared on the Commission's Daily Calendar on November 29, 2010, this Protest is timely filed.

II. DRA's REVIEW

DRA intends to investigate and analyze all aspects of the utility's request and to develop independent forecasts in areas that include the following: electric generation, transmission and distribution plant, operation and maintenance expenses, customer service needs/ operations support, depreciation, rate base, administrative and general expenses and information technology. DRA is also conducting an audit and evaluating the utility's post-test year ratemaking proposals. DRA will present its estimates, recommendations and findings in its Results of Operations and related reports.

For the reasons discussed in detail below, the due date for DRA's testimony should be no sooner than May 11, 2011. DRA also asks that the Commission allow at least four weeks between the time rebuttal testimony is served and the beginning of evidentiary hearings to afford time for serious review of the rebuttal testimony, meaningful settlement discussions and sufficient time to prepare for hearing on issues that do not settle. Providing adequate time for each of these activities will ensure the most efficient use of Commission and party resources.

As the Commission is aware, three of California's largest utilities – SCE, San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) all filed their GRC applications in the last five weeks.[5] Each of these applications will require a substantial commitment of staff resources by DRA and Legal Division within the same time frame.

Just this month, the Commission issued a decision directly addressing the staffing issue posed by the filing of these three GRCs. In that decision, the Commission emphasized the need to provide sufficient resources to DRA to ensure that ratepayer interests are effectively represented:

> [i]n order to protect and advance ratepayer interests, the California Legislature enacted section 309.5. Pursuant to this statutory provision, the Commission must consist of, among other things, a division of ratepayer advocates 'to represent and advocate on

[5] A.10-11-015, A. 10-12-005 and A.10-12-006, respectively. Collectively, SDG&E and SoCalGas are also referred to as the "Sempra utilities," or "Sempra."

> behalf of the interest of public utility customers and subscribers within the jurisdiction of the [C]ommission.' Pursuant to subdivision (c) of section 309.5, the Division Director is charged with developing the budget for DRA, which is subject to final approval by the Commission. However, it is the Commission which is required to 'provide for the assignment of personnel to, and the functioning of, the division.'... '*Personnel and resources, including attorneys and other legal support, shall be provided by the [C]ommission to the division at a level sufficient to ensure that customer and subscriber interests are effectively represented in all significant proceedings*.'"[6]

The same decision elaborated that scheduling of the three GRCs may need to take staffing considerations into account: "[i]f the matter [of staffing] cannot be resolved in-house, the DRA should petition to the Commission and propose a solution for the staffing issue, which can include a revisit on the issue of the scheduling of the three GRCs in Test Year 2012."[7]

DRA and the Commission's Legal Division are making every effort to staff each of these GRCs. In the SCE situation, the availability of Commission attorneys is particularly acute. SCE's application seeks a total cumulative increase in revenues of approximately ***$4.12 billion*** over the GRC period. SCE has submitted approximately 50 separate volumes of testimony and 16 boxes of workpapers to justify this proposed increase. It appears from the application that there are seven attorneys and about 89 witnesses representing the utility. In contrast, DRA currently has one attorney assigned to this GRC full-time, one assigned part-time, and about 17 witnesses, some of whom are also assigned to the Sempra GRCs.

While Legal Division is committed to doing what it can to correct this imbalance of legal staffing in the coming months, the fact remains that there are simply not enough "personnel and resources, including attorneys and other legal support," to properly address three large energy utility GRCs under the schedule proposed by those utilities. DRA's proposal for the due date of DRA testimony in this GRC, and the interval between rebuttal testimony and hearings, takes these staffing concerns into account and is consistent with the directives of D.10-12-028 and the requirements of Public Utilities Code Section 309.5. DRA's request is reasonable and should be granted.

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[6] D.10-12-018, Order Modifying Decision 10-04-003, mimeo, pp. 4-5, emphasis added.

[7] D.10-12-028, mimeo, p. 9.

III. CURRENTLY IDENTIFIED RATE CASE ISSUES

SCE asks that the Commission authorize a base revenue requirement (ABRR) increase effective January 1, 2012, for its Electric Transmission, Distribution, and Generation operations which fall within the Commission's jurisdiction. If the Commission were to grant SCE's request, the utility's GRC revenues would increase from a currently authorized level of $5.347 million[8] to $6.285 billion in TY 2012.

SCE claims its request is based on several "key themes:"

- Safety
- Reliability
- Customer service
- Compliance with applicable laws, regulations, and policies
- Security of the electric grid
- Just and reasonable rates
- Environmental responsibility
- SCE workforce and California jobs.[9]

SCE claims that "the magnitude" of its proposed GRC increase is due to an error made by the Commission in SCE's last GRC. According to SCE, the error "shortchanged SCE's revenue requirement."[10]

SCE also proposes to extend its current Post-Test Year Ratemaking (PTYR) mechanism to account for: (1) escalation of operating expenses; (2) capital-related cost increases; (3) inclusion of SmartConnect costs beginning in 2013, after SmartConnect is fully deployed; and (4) nuclear refueling outages. SCE also requests that its existing Z-Factor mechanism, which allows revenue adjustments for exogenous events, be continued.[11]

DRA is conducting discovery on issues raised in SCE's Application and intends to make recommendations in its testimony as appropriate. The following is a non-exhaustive list and brief discussion of some major issue areas that DRA may address in testimony. Other issues may arise after further discovery and analysis.

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[8] Amendment to Application (11/24/2010), Table 2.

[9] Application, pp. 1-2.

[10] Ex. SCE-10, Vol. 1, p. 105.

[11] Ex. SCE-10, Vol. 1, pp. 94-103.

The majority of SCE's requested increases for 2012 are in the following areas: (1) operation and maintenance (O&M) expenses; (2) administrative and general (A&G) expenses, including insurance, pensions, and post-retirement benefits other than pensions (PBOPs); (3) information technology expenses; (4) capital expenditures to replace an aging infrastructure and expand the system to accommodate load growth; and (5) depreciation expenses. As part of its requested increase, SCE estimates that its employee headcount in 2012 will increase by approximately 10% compared to year-end 2009 levels.[12]

DRA intends to investigate and evaluate SCE's forecasts and its justifications for the proposed increases in all areas listed below.

A. Operations and Maintenance Expenses

SCE forecasts a $172.2 million (or 14.3%) increase in Operation & Maintenance (O&M) expenses for 2012 over 2009 recorded expenses, from $1.20 billion to $1.37 billion.[13] SCE presents its forecasts for O&M expenses according to Production, Transmission and Distribution expenses.

1. Production Expenses

SCE's forecast for Production O&M expenses in the test year is $669,880 million, an increase of $84,668 million or 14.5% over SCE's 2009 recorded. SCE says the increases in Production O&M expenses are driven by, for example, overhaul costs for coal facilities; reliability upgrades, FTE[14] increases, additional maintenance, and air operations cost increases for hydro facilities; additional costs from increased peaker dispatch; and higher costs to operate the Palo Verde nuclear facility.

2. Transmission and Distribution Expenses

SCE's forecast for Transmission O&M expenses in the test year is $191,590 million, an increase of $29,301 million or 18.1% over SCE's 2009 recorded expenses. SCE claims the increases in Transmission and Distribution O&M expenses are driven by, for example, more inspection and maintenance, expenses associated with capital projects, storm-related costs, and

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[12] Ex. SCE-01, p. 16, Figure III-3.

[13] Ex. SCE-10, Vol. 1, p. 86, Table IX-34.

[14] Full-time equivalents.

compliance with new North American Electric Corporation (NERC) Critical Infrastructure Protection (CIP) regulations for the physical and cyber security of facilities.[15]

B. Customer-Related Expenses

SCE forecasts a $28.3 million (or 12.0%) increase in customer-related expenses for 2012 over 2009 recorded expenses, from $235.6 million to $263.9 million.[16] According to SCE, the increases in operations support expenses are driven by higher facility costs due to growth in headcount and contingent workers, compliance with regulations, supplier diversity efforts, and vehicle fleet. SCE says the increases in customer service are primarily driven by customer growth, additional training, and SmartConnect post-deployment operations (in 2013).

C. Administrative and General Expenses

SCE forecasts a $267.0 million (or 32.0%) increase in Administrative & General (A&G) expenses for 2012 over 2009 recorded expenses, from $833.8 million to $1.10 billion.[17]

SCE claims the increases in A&G expenses are driven by new positions for various A&G departments (new FTEs),[18] higher employee pension and benefit costs (e.g., medical and dental insurance),[19] higher property and liability insurance premiums,[20] higher workers' compensation costs, higher banking and financing fees, and higher payouts of Short-Term Incentives.[21]

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[15] Ex. SCE-03, Vol. 1, p. 20.

[16] Ex. SCE-10, Vol. 1, p. 86, Table IX-34, excluding uncollectibles.

[17] Ex. SCE-07, Vol. 1, p. 7, Table I-3. Recorded and forecast before adjustments within the Results of Operations model for capitalized software productivity savings (Catalina GRC allocation).

[18] For example, in the Regulatory Policy & Affairs, Corporate Communications, Audit Services, Risk Control, Law, and Ethics & Compliance departments. (*See* Ex. SCE-07, Vol. 1, p. 7, lines 1-5.)

[19] Increase of $150.7 million for pensions and benefits, from $412.9 million recorded in 2009 to $563.6 million forecasted for 2012. (*See* Ex. SCE-06, Vol. 2, p. 35, Figure VII-4.)

[20] Increase of $44.3 million for insurance premiums, from $23.6 million recorded in 2009 to $67.9 million forecasted for 2012. (*See* Ex. SCE-07, Vol. 3, p. 51, Figure IV-7.)

[21] Increase of $23.7 million for incentives, from $124.8 million recorded in 2009 to $148.5 million forecasted for 2012. (*See* Ex. SCE-06, Vol. 2, p. 13, Figure IV-1.)

D. Information Technology

SCE forecasts a $97.4 million (or 45.8%) increase in Information Technology (IT) expenses for 2012 compared to recorded costs in the base year, from $212.6 million to $309.9 million.[22] The utility asserts that the increase in IT expenses is due to incremental O&M to support new capitalized software applications, operating software license growth, strengthening information security, supporting growth in Business Unit needs, and complying with the NERC CIP mandate.[23]

E. Capital Expenditures

SCE forecasts capital expenditures of about $3.14 billion in 2010, $3.75 billion in 2011, and $4.22 billion in 2012, for a total of $11.11 billion over the three years, or an average of $3.70 billion per year from 2010-2012. SCE's request during these three years amounts to, on average, a 56.7% increase in capital spending compared to recorded 2009 levels.

1. Generation

SCE forecasts approximately $559 million for 2010, $504 million for 2011 and $520 million in 2012 for generation capital expenditures. SCE says these proposed increases are largely due to: (1) modifications at the San Onofre Generating Station (SONGS) that are necessary to meet Nuclear Regulatory Commission (NRC) requirements and are necessary for the continued safe and reliable operation of SONGS Units 2 and 3; (2) dam and waterway projects, along with electrical upgrades, and relicensing of hydro facilities; and (3) a turbine compressor upgrade at the Mountainview plant.

2. Transmission & Distribution

SCE forecasts approximately $2.037 billion for 2010, $2.681 billion for 2011, and $3.075 billion in transmission and distribution capital expenditures. SCE says these proposed increases are largely due to: (1) load growth projects; (2) infrastructure replacement programs; (3) connecting new customers to the system; (4) accelerating the street light replacement and

[22] Ex. SCE-05, Vol. 1, p. 4, Table I-2.

[23] Ex. SCE-05, Vol. 2, summary page appearing before the table of contents.

transmission pole replacement programs; and (5) various distribution and substation construction projects.

3. Customer-Related

SCE forecasts approximately $67 million for 2010, $72 million for 2011 and $75 million for 2012 in customer-related capital expenditures. SCE says these proposed increases are largely due to: (1) new meters; (2) capitalized software; and (3) office furniture and equipment.

4. Information Technology

SCE forecasts approximately $226 million for 2010, $161 million for 2011, and $300 million for 2012 in information technology capital expenditures. SCE says the proposed increases are largely required to: (1) maintain and improve information security; (2) meet the needs of new or additional regulatory mandates; (3) meet new or increased business services; and (4) replace or refresh aging infrastructure (i.e., obsolete hardware and software).

5. Corporate Center

SCE forecasts $5.829 million for 2010, $4.424 million for 2011, and $17.913 million for 2012 in corporate center capital expenditures. SCE says these proposed increases are largely due to: (1) capitalized software (including software for Ethics & Law); and (2) furniture and equipment.

6. Power Procurement

SCE forecasts approximately $21.124 million for 2010, $24.725 million for 2011 and $27.518 million for 2012 in power procurement capital expenditures. SCE says these proposed increases are largely due to the need for communication equipment for renewable resources projects and activities.

7. Operations Support

SCE forecasts $224.962 million for 2010, $304.747 million for 2011, and $202.496 million for 2012 in operations support capital expenditures. SCE says the proposed increases are largely due to: (1) demand for additional space (i.e., new buildings and new field facilities); (2) projects at critical facilities such as data centers, customer call centers, and grid operations/management centers; and (3) new vehicles.

F. Depreciation Expenses

SCE forecasts about $1.58 billion in depreciation and amortization expense for 2012, an increase of $516 million (or 48.6%) compared to recorded 2009 levels of $1.06 billion.[24] SCE says the increase in expenses is primarily due to higher forecasted depreciable plant balances and changes SCE says the Commission should adopt in depreciation rates (i.e., net salvage rates).[25]

G. Other

SCE's test year request includes higher forecasted costs in numerous other areas. Some of these are briefly described below.

1. Rate Base

Rate Base is the depreciated asset value of a utility's net investments used to provide service to its customers. SCE forecasts about $19.39 billion in weighted-average rate base for 2012, an increase of $5.65 billion (or 41.1%) compared to recorded 2009 levels of $13.74 billion.[26]

2. Cost Escalation

Escalation is the rate of inflation for the costs of the utility's purchase of labor and materials. For forecast labor and non-labor escalation, SCE relies on indexes provided by Global Insight's Utility Cost Information Service (UCIS).[27] DRA will review SCE's estimating methodology, and determine whether the weighting SCE wants applied to the forecasted numbers is appropriate.

3. Other Operating Revenues

Other Operating Revenues (OOR) are revenues received by SCE from transactions not directly associated with the sale of electric energy. OOR reduces the revenue that needs to be collected from customers.

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[24] Ex. SCE-10, Vol. 2, p. 21, Table II-6.

[25] Ex. SCE-10, Vol. 2, p. 19, Table II-5. According to SCE, $457 million out of the $516 million increase is due to changes in plant balances, while $48 million out of the $516 million increase is due to changes in accrual rates.

[26] Ex. SCE-10, Vol. 2, p. 45, Table IV-10.

[27] Ex. SCE-10, Vol. 1, pp. 63-64.

SCE's estimate for OOR in 2012 is about the same as recorded in 2009, and would be higher but for the fact that SCE forecasts a $19.2 million (or 54.1%) decrease in Miscellaneous Service Revenues, primarily because of estimated reductions of fees such as returned check charges and service establishment charges.

4. Taxes

DRA will review the appropriateness of SCE's tax deductions and evaluate the utility's forecasts of income taxes, property taxes, payroll taxes, and other taxes.

5. Electric Sales and Customers

SCE estimates that retail sales will be about 0.08% higher in 2012 than in 2009.[28] At the same time, SCE estimates that the year-end number of customers in 2012 will be about 1.83% higher than in 2009.[29] DRA will review SCE's forecasting methodologies and will derive its own independent estimates.

6. Total Factor Productivity

SCE has prepared a report on Total Factor Productivity for its electric operations. DRA will review the company's model and data and independently derive its own results to determine whether any adjustment to the electric revenue requirement is warranted.

IV. CATEGORIZATION OF PROCEEDING

DRA recommends that this proceeding be categorized as "ratesetting." DRA also asks that the Commission open an Order Instituting Investigation to include consideration of issues not necessarily specified in SCE's GRC application or in this Protest.

V. PROCEDURAL ISSUES

SCE proposes a procedural schedule that includes evidentiary hearings. DRA agrees that hearings are likely to be needed to resolve the numerous issues raised by this Application. DRA does not agree to the schedule SCE proposes and intends to propose its own schedule at the pre-hearing conference (PHC).

As a preliminary matter, DRA agrees with SCE that, rather than holding separate sets of evidentiary hearings on Applicant's direct and rebuttal testimony, the hearings should be

[28] Ex. SCE-10, Vol. 1, p. 50, Table V-13.

[29] Ex. SCE-10, Vol. 1, p. 50, Table V-14.

consolidated. DRA expects to propose a comprehensive schedule at the prehearing conference based upon additional review of the application and SCE's responsiveness to discovery.

For the reasons discussed above in Section II of this Protest, DRA asks that whatever procedural schedule the Commission adopts set a date no sooner than May 11, 2011 for DRA's testimony to be served and allow an interval of at least four weeks between the service of Rebuttal testimony and the beginning of evidentiary hearings.

As to SCE's proposal to have evidentiary hearing days in Los Angeles, DRA is not opposed to the concept, so long as DRA's own witnesses testify in San Francisco. Given current budget constraints, however, there is no assurance that DRA and/ or Legal will have the funding to cover evidentiary hearing days in Los Angeles.

VI. CONCLUSION

DRA respectfully recommends that the proceeding be categorized as ratesetting, that a reasonable schedule be set that includes adequate time for discovery, the preparation of testimony and evidentiary hearings, and that the scope of the proceeding include, but not be limited to, the issues identified in this Protest.

Respectfully submitted,

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December 28, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of "**PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES"** to the official service lists in **A.10-11-015 and A.07-11-011** by using the following service:

[**X**] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[**X**] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **December 28, 2010** at San Francisco, California.

/s/ NELLY SARMIENTO

Nelly Sarmiento

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A.07-11-011

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