



● **Board of Directors**
Legal and Human Resources Committee

July 14, 2009 Board Meeting

9-3

Subject

Report on tentative settlement of proposed Southern California Edison transmission rate proceeding

Description

As a follow-up to the Office of the General Counsel – Monthly Activity Report (April 2009), this informational item updates the status of Southern California Edison’s (SCE) wholesale transmission rate proceeding pending at the Federal Energy Regulatory Commission (FERC). SCE originally proposed an almost 100 percent rate increase and modification of existing transmission contracts (ETCs) to increase revenue and cover its costs of service. Because the State Water Project (SWP) takes wholesale transmission service from SCE and retains several transmission contracts, the combined effect of SCE’s filing would have almost doubled the SCE portion of SWP’s pumping power costs.

Metropolitan’s Interests

On average Metropolitan pays approximately 70 percent of the pumping power costs for the SWP, which were estimated to total approximately \$424 million in 2009 for all SWP contractors. In light of the potential impacts of increases to SWP’s costs and to control these costs, Metropolitan intervened in the FERC proceedings to monitor and support the California Department of Water Resources’ (DWR) efforts to resolve the rate case. State Water Contractors (SWC) also intervened to protect its interests, and Metropolitan staff coordinated with SWC in this effort.

SCE’s FERC Application and Settlement Process

SCE is entitled to recoup the capital costs of providing transmission services to its wholesale customers, such as the SWP. To do so, SCE submits an application to FERC setting forth its proposed rate increases and the justification for them. Affected parties are permitted to intervene in the proceeding if they believe the rates are not adequately justified.

Since December 2008, DWR, FERC and California Public Utilities Commission staff, and a handful of other parties have been actively involved in settlement negotiations at FERC with SCE. On June 3, 2009, the parties reached a tentative settlement with SCE. Altogether the proposed SCE settlement reduces the potential SWP cost increases from approximately \$10 million to \$12 million per year to approximately \$6 million to \$8 million per year.

Effect of Proposed Settlement on Metropolitan’s SWP Power Costs

Metropolitan’s SWP power costs are estimated to increase by about \$4 million per year for the rate increases attributed to increases to both the transmission and ETC rates. However, DWR staff had already included the proposed estimates in the 2009 SWP pumping power cost projections and thus, the settlement should reduce this element of the 2009 power costs. The settlement also achieved important precedents that will assist DWR in future SCE filings, for example, prohibiting SCE from improperly making unilateral changes to ETCs and disallowing application of uniform “postage stamp” rates where they conflicted with prior contract rights.

Regarding the impacts to DWR’s ETCs, SCE sought unilateral changes to its contracts with DWR and certain other parties that would result in a dramatic increase in SWP’s rates. With this settlement, the ETC rate increases are significantly reduced by 20 percent to 70 percent per year from SCE’s proposed increases. The effects are further mitigated by having the ETC rate increases phased in over a five-year period. DWR was also able to

secure several key benefits for its ETCs, including a right to terminate the contracts early if beneficial to DWR and a new, more cost-effective delivery point for one of the contracts.

The next step is for SCE to submit the proposed settlement to FERC for approval, which is anticipated because all parties active in the proceeding approve of the proposed settlement. DWR is satisfied with the settlement terms and Metropolitan staff supports the settlement as well. Because FERC permitted SCE's proposed rate increase to become effective on a tentative basis on March 1, 2009, SWP and other transmission customers will receive a refund reflecting the difference between SCE's filed rate and the settlement rate following FERC approval.

Potential for Future Rate Increases

This rate proceeding is only the fourth that SCE has proposed since 1997. SCE has limited the frequency of its requested rate increases, unlike Pacific Gas and Electric Company (PG&E), whose practice has been to file annual rate increases since 1997. SCE's current proposed rate increase is a direct result of the lack of prior transmission investment and renewable energy mandates. The most costly and significant projects identified by SCE involve the development of transmission to access renewable energy. Staff expects that SCE's proposed rate increases, like those of PG&E, will continue more frequently, if not annually, over the next five to ten years as a result of the state and federal renewable energy initiatives, and the lack of significant investment in transmission infrastructure for the past several decades.

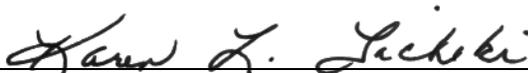
Staff will continue to monitor and to take proactive steps to protect Metropolitan's interests. Staff will report on these matters going forward.

Policy

Metropolitan Water District Administrative Code Section 6433: Authority to Litigate, Compromise and Settle Claims By and Against the District: (d) Authority to Contest Matters by or Before Administrative Agencies

Fiscal Impact

Depending on the level of SWP pumping and other power cost assumptions, the SCE transmission rate increases could increase Metropolitan's share of SWP pumping power costs, estimated to total \$424 million, by an average of \$4 million per year for the next four years. This is reduced approximately 50 percent from what would result from the current SWP 2009 billing rate. Thus, this settlement will result in a decrease from SCE's proposed rate increases in the overall estimate power costs for at least the next four years.


 _____ 7/2/2009
 Karen L. Tachiki Date
 General Counsel


 _____ 7/2/2009
 Jeffrey Kightlinger Date
 General Manager