California Public Utilities Commission
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NEWS RELEASE
DIVISION OF RATEPAYER ADVOCATES

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April 15, 2008

DRA SLASHES
SOUTHERN CALIFORNIA EDISON COMPANY'S
$858 MILLION RATE REQUEST

The Division of Ratepayer Advocates (DRA), an independent consumer advocacy division of the California Public Utilities Commission (PUC), today issued its reports recommending a substantial reduction to Southern California Edison Company's (SCE) requested revenue increase of $858 million (or 19.8%) in 2009. DRA recommends a more modest $156 million (or 3.6%) revenue increase based on its independent review of SCE's cost estimates. Edison's requested rate increase would raise the average residential customer's electricity bill by $7.70 per month in 2009, while DRA's recommendation would likely limit the increase to less than $0.50 per month.

"Less than a fifth of the rate increase SCE asked for is justified," said DRA Director Dana Appling. "In particular, DRA vehemently opposes SCE's request that ratepayers pay for $170 million of various employee and executive bonuses, incentives, and stock options, which really benefit shareholders."

The DRA reports are issued in response to Application (A.) 07-11-011, which SCE filed with the PUC in November 2007. SCE's rate increase request is proposed to take effect on January 1, 2009. This general rate case addresses the components of SCE's total rates related to generation, transmission, and distribution infrastructure, all of which represent approximately 40% of the total charges on a customer's bill.

On top of its 2009 rate increase request, SCE also has requested further revenue increases of $288 million (or 5.5%) in 2010, and $362 million (6.2%) in 2011. DRA recommends only 3% increases that are tied to inflation for those same two years. DRA's recommendation results in revenue increases of $136 million in 2010, and $140 million in 2011, again based on DRA's independent review of SCE's cost estimates.

Comparison of DRA and SCE Proposals

2009 – 2011 Base Revenue Requirement

Year	2008 Base Revenues	SCE's Proposed Increase in Base Revenues from 2009-2011			DRA's Proposed Increase in Base Revenues from 2009-2011		
		Increase over Prior Year	Current Year's Total	Percent Increase	Increase over Prior Year	Current Year's Total	Percent Increase
2009	$4,341 M	$858 M	$5,199 M	19.8%	$156 M	$4,496 M	3.6%
2010	[redacted]	$288 M	$5,487 M	5.5%	$136 M	$4,632 M	3.0%
2011	[redacted]	$362 M	$5,849 M	6.2%	$140 M	$4,772 M	3.0%

DRA conducted a thorough investigation, review and audit of SCE's filing and 2009 estimates of projected revenues, operational and maintenance expenses, customer-related and administrative and general expenses, capital expenditures and depreciation, and developed its own independent forecasts of all of these utility costs. In the process, DRA issued over 250 information discovery requests with over 2,200 questions. DRA's project team consists of over 20 regulatory experts, including analysts, economists, engineers, auditors, and legal counsel.

Approximately $338 million, or 48%, of the $703 million difference in the forecast revenue requirement between DRA and SCE is attributable to three functional categories: transmission and distribution (T&D) operational and maintenance (O&M) expenses, pensions and benefits (P&B), and the results sharing employee bonus program. A summary of those three primary areas of difference between DRA and SCE is described below:

- DRA forecasts O&M expenses at $429 million in contrast to the SCE estimate of $554 million. The primary reason for this $125 million difference is that DRA forecasts are comparable to historical expenditure levels while SCE requests significant increases above its traditional spending in this area.
- DRA forecasts P&B costs at $267 million, compared to SCE's $374 million request. This $107 million difference is mainly due to pension expenses, executive supplemental pensions, and medical benefits. SCE's pension fund currently meets minimum funding standards under the new Federal Pension Protection Act, and thus SCE's proposal to spend $53 million is not required at this time. SCE has failed to justify ratepayer funding for supplemental pension enhancements of $22.2 million for a limited number of highly compensated executives, while DRA's projection of lower escalation rates for

medical and related benefits accounts for the balance of the difference with SCE.

- DRA recommends no ratepayer funding of SCE's Results Sharing employee bonus program because recorded costs of this program were corrupted by fraudulent data and the program does not demonstrate sufficient ratepayer value. This change reduces SCE's request by $106 million while allowing SCE's shareholders to pay employee bonuses as they see fit.

In addition to the three main areas of difference discussed above, DRA also forecasts lower expenses than SCE in numerous other areas resulting in a smaller rate increase. DRA proposes that the PUC deny SCE ratepayer funding of $23.3 million for long-term incentives comprised mainly of stock options, and executive officer incentives and new executive positions totaling $11.4 million, because these expenditures primarily benefit shareholders with no demonstrated ratepayer benefit. DRA forecasts $69 million less in generation O&M expenses than SCE due to lower projected staffing and a reduction to new project development funding based on prior PUC guidance provided in past decisions. DRA recommends a $110 million reduction to SCE's rate increase request based on forecasts lower than SCE's for capital investments in 2007-2009 across several functional areas, and lower forecasts of working capital. DRA's forecast of SCE's anticipated capital investments reflects lower customer growth and load projections, known delays in projects and facility acquisitions, and historical investment levels demonstrated by the utility.

Evidentiary hearings will begin on May 29, 2008, in Los Angeles and continue June 2-16, 2008 at the Commission's headquarters in San Francisco. A Commission decision in this case is expected in December 2008.

DRA is an independent consumer advocacy division of the PUC, created by the Legislature to represent the interests of all utility customers throughout the state and to obtain the lowest possible rate for service consistent with reliable and safe service levels. DRA has a multidisciplinary staff with expertise in economics, finance, accounting and engineering. DRA's views do not necessarily reflect those of the PUC.

The DRA reports and exhibits on the SCE Test Year 2009 GRC, including an executive summary, are available on its website at www.dra.ca.gov.

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