Docket No.: A.23-04-003

Exhibit No.: _____

Date: December 5, 2023

Witness: Brian Shuey

PREPARED DIRECT TESTIMONY OF BRIAN SHUEY
ON BEHALF OF CALCCA
IN SOUTHERN CALIFORNIA EDISON COMPANY'S
2022 ERRA COMPLIANCE PROCEEDING

PUBLIC

Table of Contents

I. INTRODUCTION AND SUMMARY OF TESTIMONY 1
II. SCE OVERCHARGED DEPARTING LOAD CUSTOMERS FOR FRANCHISE FEES DURING 2022 2
III. SCE SHOULD NOT BE ALLOWED TO RECOVER CAISO SANCTIONS IN THE PABA AND ERRA. 6
IV. SCE SHOULD MAKE A CORRECTIVE ENTRY TO PROPERLY RECORD A SETTLMENT REFUND FROM VALLEY ELECTRIC ASSOCIATION. 8

Attachments

Attachment A: Curriculum Vitae of Brian Shuey
Attachment B: Select Data Request Responses

I. INTRODUCTION AND SUMMARY OF TESTIMONY

The California Community Choice Association (CalCCA) presents this prepared direct testimony in the *Application of Southern California Edison Company (*SCE*) For Approval of Its 2022 ERRA Compliance Proceeding Revenue Requirement* (Application). This testimony has been prepared on behalf of CalCCA by Brian Shuey, Senior Manager, NewGen Strategies and Solutions. Mr. Shuey's qualifications are set forth in Attachment A.

CalCCA has a particular interest in the Power Charge Indifference Adjustment (PCIA) and the Portfolio Allocation Balancing Account (PABA), both of which are charged to the CalCCA's customers through PCIA rates. This testimony focuses on the following issue in Commissioner Reynolds' July 24, 2023, Scoping Ruling:[1]

> 4. Whether during 2022, SCE appropriately operated its balancing accounts and memorandum accounts [listed below] and the recorded entries in the accounts are appropriate, correctly stated and in compliance with applicable Commission decisions, rules and regulations:
> a. Base Revenue Requirement Balancing Account;
> b. Nuclear Decommissioning Adjustment Mechanism;
> c. Public Purpose Program Adjustment Mechanism, and
> d. California Alternate Rates for Energy Balancing Account.

Based on my review of SCE's Application, supporting workpapers, and responses to discovery, I recommend the following:

- SCE refund $1.7 million to departing load customers due to the double collection of franchise fees during the 2022 record year.
- SCE not be allowed to recover sanctions incurred related to non-compliance with California Independent System Operator (CAISO) Tariff Section 37

[1] Application ("**A.**") 23-04-003, *Assigned Commissioner's Scoping Memo and Ruling*, pp. 2-4 (July 24, 2023).

Rules of Conduct. Reversing penalties recorded during the 2022 record period results in a reduction of [redacted] to the PABA and [redacted] to the ERRA.

- SCE make a corrective entry to properly record a settlement refund from Valley Electric Association of $4.078 million plus interest to the PABA.

II. SCE OVERCHARGED DEPARTING LOAD CUSTOMERS FOR FRANCHISE FEES DURING 2022

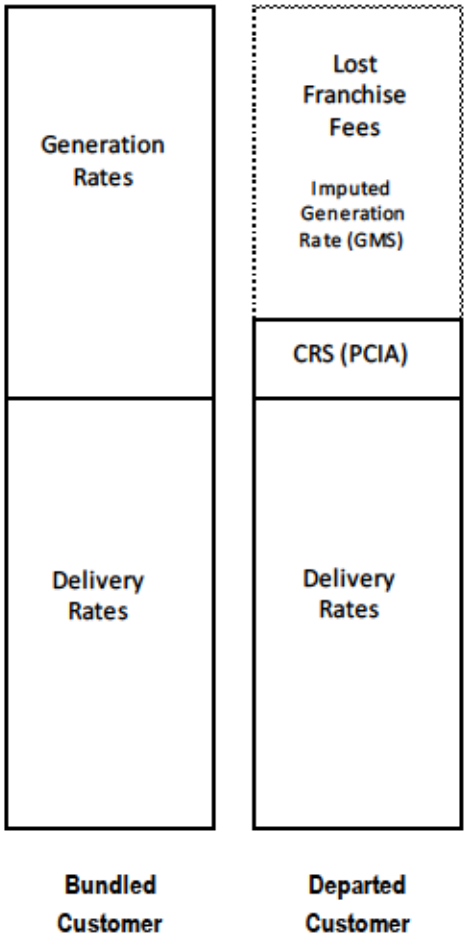
SCE collects franchise fees from bundled and unbundled customers and remits the fees to various municipalities in its service territory. Franchise fee collection is built into SCE's retail rates by grossing up the various revenue requirement components using a Franchise Fee Factor. As a result, franchise fees are embedded in the delivery and generation rates paid by bundled customers. When a customer departs SCE's bundled service, SCE is entitled to continue collecting the same franchise fees from that customer. However, departing load customers no longer pay SCE's generation rates (or the embedded franchise fees), potentially reducing SCE's franchise fee recovery.

To remedy this, according to SCE, departing load customers are assessed franchise fees on the delivery and customer responsibility surcharge (CRS) portion of their bill (the CRS includes the PCIA rates at issue in the current filing), plus a Generation Municipal Surcharge (GMS) calculated using imputed generation charges.[2] Stated another way, to compensate for the generation-related franchise fee revenue that would be lost when a customer leaves bundled service, SCE charges a separate GMS on departing load customer bills. Figure 1 below is a simplified diagram comparing rates paid by bundled and departing

[2] *See* A.22-05-014, SCE response to SoCal CCAs data request 2.35.

load customers and the proper way to recover lost franchise fee revenue from departing load. Each rate component shown in the diagram has franchise fee recovery embedded within the rates.

Figure 1: Proper Lost Franchise Fee Revenue Methodology

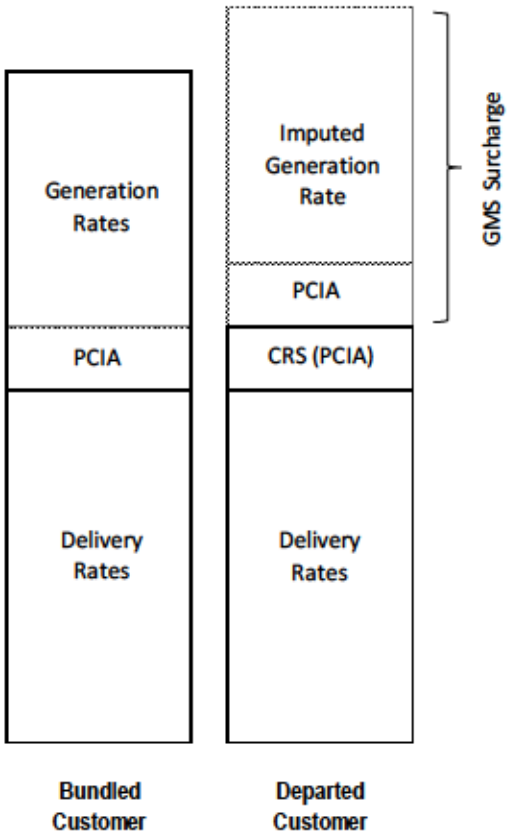


The GMS surcharge is calculated by applying the Franchise Fee Factor to the bundled generation rate that customer would have paid under bundled service. The problem is SCE's implementation of this system for collecting franchise fees from departing load overcharges those customers by double counting the franchise fee on PCIA charges.

Figure 2 below reproduces the simplified diagram from Figure 1, now identifying the PCIA rate for bundled customers and illustrating the GMS calculation for departing

load customers. Figure 2 clearly shows that departing load customers are charged twice for franchise fees on the PCIA portion of retail rates.[3]

Figure 2: Current Lost Franchise Fee Revenue Methodology



This issue was discovered and addressed in SCE's 2023 ERRA Forecast Application; A.22-05-014. In that case, SCE agreed with the SoCal CCAs that ceasing the gross-up of Franchise Fees on the PCIA revenue requirement would resolve the problem.[4] Additionally, SCE asked the Commission for authorization to modify their tariff effective with the implementation of the 2023 ERRA Forecast rates.[5]

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[3] *See* SCE response to CalCCA data request 1.22.

[4] *See* A.22-05-014, Exhibit SCE-04, p. 4: 11-14 (SCE Rebuttal Testimony in the 2023 ERRA Forecast Case).

[5] *Id.*: 15-18.

Through a series of data requests on the issue in the current Application, SCE confirmed the following:

- PCIA revenue from bundled service and departing load customers includes revenue from 'grossing up' PCIA rates for franchise fees and uncollectible accounts.[6]
- In 2022, SCE collected $1.7 million in duplicative franchise fees from departed load customers through the PCIA rates.[7]

In the 2021 ERRA Compliance case, SCE acknowledged that the current method of determining PCIA rates that has been in place for many years[8] results in a double collection of franchise fees from departed load customers. Despite this acknowledgement, SCE continued to double charge departed load customers through 2022 rather than proactively terminating the duplicative charge once it was discovered to be erroneous. Additionally, SCE argues the duplicative franchise fee revenue collected from departed load customers through PCIA rates in 2022 should not be returned to customers because SCE billed customers in accordance with approved tariffs.[9] However, once it is known that a tariff rate has incorrectly over-charged a customer, SCE should be required to correct the tariff *and* remedy the over-collection to the extent possible.

In the 2021 ERRA Compliance case SoCal CCAs argued that the double collected franchise fees should be refunded through a vintage-specific sur-credit, however a decision in that case is still outstanding. The Commission should adopt the same resolution in this case as it does in the 2021 ERRA Compliance case. My recommendation is that SCE refund

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6 *See* SCE response to CalCCA data request 1.22.
7 *See* SCE response to CalCCA data request 1.23.
8 *See* A.22-04-001, SCE response to SoCal CCAs data request 4.03.
9 *See* SCE response to CalCCA data request 1.23.

customers the $1.7 million for 2022 over-collected franchise fees. The refund should be done through a vintage-specific sur-credit to departed load customer PCIA rates.

III. SCE SHOULD NOT BE ALLOWED TO RECOVER CAISO SANCTIONS IN THE PABA AND ERRA.

Through discovery, SCE explained that it recorded certain penalty costs from CAISO, referred to as sanction charges, in the PABA and ERRA during the 2022 record period.[10] Under the CAISO Tariff Section 37 Rules of Conduct, CAISO can assess sanction charges as the result of market participants' failure to respond to CAISO requests for data or perform certain functions across a potential range of areas. Incidents that can trigger a sanction include failure on a timely basis to report generator outages, submit meter data and/or provide other information required by the CAISO Tariff Section 37. The responsibility to comply with CAISO Section 37 requests rests with the Scheduling Coordinator (SCE in this instance) or Other Responsible Party such as a third-party generator.

Penalties incurred due to a failure by the utility, such as these CAISO sanction charges, should not be recoverable from customers. Customers have no control over the actions that incurred these penalties and thus cannot take any actions to avoid them. Allowing SCE to pass through these penalties eliminates the incentive to SCE to manage its resources effectively and efficiently by avoiding the consequences of those decisions.

SCE was assessed charges of [redacted], and [redacted].[11] SCE

[10] *See* SCE response CalCCA data request 1.10.
[11] *See* SCE response CalCCA data request 1.10. [redacted]

recorded these sanctions as charges to ERRA and PABA, respectively. SCE's inclusion of [redacted] in penalties in the ERRA will unreasonably increase generation costs for SCE's bundled customers, and inclusion of [redacted] in penalties in the PABA will unreasonably increase the PCIA for all customers, including SCE's bundled customers and unbundled customers. The CAISO's ability to assess sanctions for non-compliance with its approved tariff is designed to provide meaningful deterrence to violations of its tariff procedures. Similarly, the Commission enforces its requirements through a variety of means including fines for violations of its rules and regulations. Federal Energy Regulatory Commission accounting procedures provide a specific account for recording penalties or fines for violation of any regulatory statutes, and these costs are rarely, if ever, included in customer rates. The deterrent effect of penalties and sanctions would be lost if SCE were able to simply pass the cost on to its retail customers.

In the PG&E 2020 ERRA Compliance case, the Joint CCAs argued that CAISO penalties should not be recoverable from ratepayers. During 2020 the CAISO charged PG&E penalties for failing to comply with CAISO Tariff Section 37 Rules of Conduct, including fines for late submission of transmission modeling data or telemetry communication associated with utility owned resources, filing inaccurate settlement quality meter data for retail load, and late submission of its monthly RA and supply plans to CAISO. In that case, a settlement between PG&E and the Joint CCAs was reached and accepted by the Commission which disallowed the CAISO penalties from being recovered from ratepayers through the ERRA and PABA.[12] As part of that settlement, PG&E committed to no longer charging such penalties to customers in the future.

[12] *See* A.21-03-008 Decision Resolving Phase One of PG&Es ERRA Compliance Application for the 2020 Record Year, Section 6.1, Ordering Paragraph No. 1.

The CAISO sanctions assessed to SCE are not allowable energy procurement costs that should be borne by customers; therefore, the charges recorded to the PABA and ERRA should be reversed. Removing CAISO Tariff Section 37 sanction costs from the 2022 record period will reduce the PABA balance by [redacted] and the ERRA balance by [redacted].

IV. SCE SHOULD MAKE A CORRECTIVE ENTRY TO PROPERLY RECORD A SETTLMENT REFUND FROM VALLEY ELECTRIC ASSOCIATION.

In December 2022, SCE received a cash settlement refund of $4.078 million from Valley Electric Association for excess energy delivered to VEA customers between 2000 and 2020.[13] SCE stated that due to staffing issues on both Valley Electric's staff and SCE's staff, the excess energy issue was outstanding until 2022.[14] The settlement credit was recorded to the ERRA balancing account when received.[15]

Through discovery, SCE noted the settlement credit was inadvertently recorded to the ERRA balancing account and should have been recorded to the PABA balancing account.[16] Since many customers have likely departed since the start of the adjustment period, the refund should have been credited to the PABA balancing account in order to properly pass the funds back to the customers who had paid for it in the first place. SCE noted that it would make a corrective entry to move the [redacted] plus interest from the ERRA balancing account to the PABA balancing account in 2023.[17] I agree with this adjustment.

This concludes my testimony.

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13 *See* SCE submitted testimony SCE-02, page 32 lines 6-11.
14 *See* SCE response CalCCA data request 1.07.
15 *See* SCE submitted testimony SCE-02, page 30 Table IV-14, line 8.
16 *See* SCE response CalCCA data request 1.07.
17 *Id*.

Attachment A

Curriculum Vitae of Brian Shuey

Brian T. SHUEY

SENIOR MANAGER

Mr. Brian Shuey joined NewGen as a Senior Manager in May 2022, with over 15 years of experience in consulting and the utility industry. Mr. Shuey has audited specialized financial statements and reviewed adjustment clause rate filings for electric, gas, water, and steam utility companies. Additionally, Mr. Shuey participated in various special projects regarding utility rate-making issues. He also has significant Big 4 internal audit, enterprise risk management, regulatory compliance, IT consulting, and process improvement experience.

CONTACT

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Lakewood, CO 80228
Email: bshuey@newgenstrategies.net
Website: www.newgenstrategies.net

EDUCATION

BS Accounting, 2004 The Pennsylvania State University

PROFESSIONAL REGISTRATIONS/ CERTIFICATIONS/ AWARDS

Certified Internal Auditor; Institute of Internal Auditors

KEY EXPERTISE

Adjustment Clause Rate Filing Review
Cost Recovery
Enterprise Risk Management
Financial Statement Audits
IT Consulting
Management Consulting
Process Improvement
Project Management
Regulatory Compliance
Utility Rate Design

RELEVANT EXPERIENCE

Litigation Support

Mr. Shuey provides litigation support related to utility revenue requirements, rate design, and other ratemaking issues before state and local regulatory bodies. He has evaluated utility stranded costs and exit fees for retail customer choice, including on behalf of approximately a dozen Community Choice Aggregators in California. A sample of Mr. Shuey's clients includes the following:

- California Community Choice Association, CA
- Clean Power Alliance, CA

PRIOR RELEVANT EXPERIENCE

Below is a small sample of Mr. Shuey's work within the energy utility industry.

PA Public Utility Commission Auditor & Supervisor

- Experience reviewing and auditing Electric Default Service, Transmission Service, Competitive Transition Charges, and Infrastructure Improvement Charges.
- Developed and maintained a training program for new and current employees to complete the review of adjustment clause rate filings.
- Assigned and supervised the review of over 300 adjustment clause filings per year for conformity to Commission directives and State statutes.
- Led discussions with utility personnel to revise or update filings as needed.
- Supervised the preparation of all audit work papers and reports for a team of seven auditors.
- Reviewed the work of Audit Team Leaders to ensure the audits were in accordance with generally accepted auditing standards.

NewGen Strategies & Solutions

Brian T. SHUEY

SENIOR MANAGER

Enterprise Risk Management/Internal Audit

- Directed and supervised up to 15 staff while completing multi-year internal control assessments over multiple large and small state agencies.
- Participated in risk assessments and control testing in multiple organizations over five years, utilizing COSO 13 and Green Book internal control frameworks.
- Facilitated the documentation of over 35 key processes and over 500 controls for a single client and assisted in developing and executing a risk-based monitoring plan for these controls.
- Participated in executing a risk-based audit plan, including process/control documentation and control testing.

Attachment B

Select Data Request Responses

Southern California Edison

A.23-04-003 2022 ERRA Review – Application of Southern California Edison Company (U 338-E) for a Commission Finding that its Procurement-Related and Other Operations for the Record Period January 1 Through December 31, 2022 Complied with its Adopted Procurement Plan

DATA REQUEST SET C a l C C A - S C E - 0 0 1

To: CalCCA
Prepared by: Eric Lee
Job Title: Sr. Advisor
Received Date: 5/4/2023

Response Date: 6/9/2023

Question 01.07:
Referring to SCE-02; page 32, lines 6-11;
a. Please provide journal entries to support the settlement accounting of $4.078 million settlement with Valley Electric Association.
b. Please provide a copy of the settlement.
c. Please explain the circumstances leading to the need for a settlement to address excess energy delivered over a period of over 20 years (2000 – 2020).
d. Please explain why SCE agreed to a cash settlement rather than a return of energy.
e. Please explain all actions taken by SCE to ensure correct accounting for excess energy going forward.
d. Please explain why the settlement credit was recorded to the ERRA balancing account.

Response to Question 01.07:

CONFIDENTIAL

The Attachment(s) Are Marked Confidential In Accordance With Applicable Law and Regulation.
Basis for Confidentiality In Accompanying Confidentiality Declaration.
Public Disclosure Restricted.

a. Please see attached PDF, "VEA Settlement" from SCE's 2022 ERRA Review workpaper.
b. Please see attached PDF, "SCE Acceptance of VEA Settlement Offer"
c. Due to staffing issues on both VEA and SCE, the excess energy issue was outstanding until 2022.
d. The cash settlement was the preferred option for both parties.
e. Based on the terms of the 2022 settlement, both parties agreed to resolve the excess energy accounting on an annual basis moving forward.
f. SCE inadvertently recorded the amount into the ERRA instead of the one-time refunds in the PABA. In 2023, SCE will make a corrective entry to move this amount.

Southern California Edison

A.23-04-003 2022 ERRA Review – Application of Southern California Edison Company (U 338-E) for a Commission Finding that its Procurement-Related and Other Operations for the Record Period January 1 Through December 31, 2022 Complied with its Adopted Procurement Plan

DATA REQUEST SET C a l C C A - S C E - 0 0 1

To: CalCCA
Prepared by: Alishan Mansourian
Job Title: Sr. Manager
Received Date: 5/4/2023

Response Date: 5/18/2023

Question 01.10:
Referring to SCE-02; page 22, lines 15-19: Please explain whether SCE incurred any costs during the record period for sanction charges assessed pursuant to CAISO tariff section 37 rules of conduct. For each such charge please provide the following:

a. Explain the nature of the violation.
b. Quantify the charges by charge code and by month.
c. Provide details supporting the accounting, including identification of the balancing account where charges are recorded.

Response to Question 01.10:

[redacted]

[redacted]

Southern California Edison

A.23-04-003 2022 ERRA Review – Application of Southern California Edison Company (U 338-E) for a Commission Finding that its Procurement-Related and Other Operations for the Record Period January 1 Through December 31, 2022 Complied with its Adopted Procurement Plan

DATA REQUEST SET C a l C C A - S C E - 0 0 1

To: CalCCA
Prepared by: Eric Lee
Job Title: Sr. Advisor
Received Date: 5/4/2023

Response Date: 6/9/2023

Question 01.22:
Referring to Exhibit SCE-02 Chapter IV, Table IV-44, Line 15: Please explain whether revenue from bundled service and departing load customers includes revenue from 'grossing up' PCIA rates for franchise fees and uncollectible accounts. If not confirmed, please explain where the franchise fee and uncollectible revenue is recorded.

Response to Question 01.22:
Yes, per SCE's CPUC-approved tariffs from 2022, revenue includes "grossing up" PCIA rates for franchise fees and uncollectible accounts.

Southern California Edison

A.23-04-003 2022 ERRA Review – Application of Southern California Edison Company (U 338-E) for a Commission Finding that its Procurement-Related and Other Operations for the Record Period January 1 Through December 31, 2022 Complied with its Adopted Procurement Plan

DATA REQUEST SET C a l C C A - S C E - 0 0 1

To: CalCCA
Prepared by: Eric Lee
Job Title: Sr. Advisor
Received Date: 5/4/2023

Response Date: 6/16/2023

Question 01.23:
Referring to CalCCA's previous question:
a. Please quantify the amount of franchise fee revenue recorded during 2022, by month, that was collected through PCIA rates for departing load customers.
b. Please describe the accounting for the franchise fee revenue collected through PCIA rates.
c. Please provide monthly accounting entries for the franchise fee revenue collected through PCIA rates.

Response to Question 01.23:

a. Please see the attached Excel spreadsheet for the franchise fee revenue recorded during 2022, by month.[1]
b. SCE complied with its CPUC-approved tariffs by grossing up the PCIA revenue requirement with the franchise fee factor adopted in SCE's General Rate Case. Franchise fees were assessed on departing load revenue and the calculation is shown in SCE's response to Q01.23(a).
c. In the monthly closing sheet, SCE reduces the recorded revenue amount by the franchise fee factor.

[1] SCE calculated the franchise fee revenue using billed customer revenue only.

Southern California Edison
A.22-05-014 – 2023 ERRA Forecast

DATA REQUEST SET SoCalCCAs-SCE-002

To: SoCal CCAs
Prepared by: Eric Lee
Job Title: Sr. Advisor
Received Date: 6/20/2022

Response Date: 7/5/2022

Question 35:
Referring to SCE's response to SoCal CCAs Data Request SCE 02.32, 2.33 and 2.34: Please confirm that a departing load customer pays PCIA rates that include the Franchise Fee Factor and also pays the Generation Municipal Surcharge that includes the Franchise Fee Factor related to SCE's bundled generation rates no longer paid by the departing load customer. If confirmed, please explain whether any portion of the Franchise Fees remitted to SCE is collected twice. If not confirmed, please explain.

Response to Question 35:
A departing load customer is assessed Franchise Fees using the 0.009261 Franchise Fee Factor on the $ amount of the Delivery + CRS portion of their bill. The GMS Factor of 0.009261 is applied to the $ amount of imputed generation charges. The fee is not applied twice to any amounts on the bill.

Southern California Edison
A.22-04-001 2021 ERRA Review – 2021 ERRA Review

DATA REQUEST SET SoCal CCAs-SCE-004

To: SoCal CCAs
Prepared by: Eric Lee
Job Title: Sr. Advisor
Received Date: 11/22/2022

Response Date: 11/29/2022

Question 04.03:
Referring to SoCal CCAs data request 4.01: Please describe how the franchise fee and uncollectible revenue accounting has changed since inception of the PABA?

Response to Question 04.03:
Based on SCE's understanding of the question, the franchise fee and uncollectible revenue accounting has been applied according to SCE's Commission-approved tariffs and has not changed since the inception of the PABA.