



An EDISON INTERNATIONAL® Company

Janine Watkins-Ivie  
Director  
Regulatory Policy & Affairs

May 9, 2007

Mr. Sean Gallagher  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102

Subject: Southern California Edison Company's Response to the  
2006 Affiliate Transactions Audit Recommendations

Dear Mr. Gallagher:

On May 1, 2007, in compliance with Affiliate Transaction Rule VI.C, Southern California Edison Company (SCE ) filed with the Commission the *2006 Affiliate Transactions Audit of Southern California Edison Company and Certain of its Affiliates* (Audit Report).

Over the past six months NorthStar Consulting Group (NorthStar) conducted a thorough review of SCE's 2006 affiliate transactions and found that SCE was largely in compliance with the Rules.

However, the Audit Report does contain twenty-one recommendations. SCE takes these recommendations seriously and has reviewed each of them carefully. Attached is SCE's response to each recommendation. For those recommendations with which SCE is not in agreement, SCE states its position regarding its compliance with the applicable rule.

If you have any questions regarding this matter, please feel free to contact Randy Lisbin at (626) 302-2088 or me at (626) 302-4384.

Best regards,

A handwritten signature in black ink that reads "Janine M. Watkins-Ivie". The signature is written in a cursive style and is positioned to the right of the typed name "Janine M. Watkins-Ivie".

Enclosure

cc: Doug Bennett, NorthStar Consulting Group

P.O. Box 800  
2244 Walnut Grove Ave.  
Rosemead, CA 91770  
626-302-4384/PAX 24384  
Fax 626-302-1626  
janine.watkinsivie@sce.com

# **2006 Annual Affiliate Transactions Audit Southern California Edison Company's Response To The Recommendations of NorthStar Consulting Group**

*Recommendation 1: Revise SCE's current definition of an affiliate's "creation" and Rules applicability in its compliance plan.*

*Recommendation 2: Re-evaluate and reclassify as necessary all SCE Class B affiliates based upon the revised definition.*

## **SCE response to Recommendations 1 and 2:**

SCE accepts these recommendations. SCE is currently re-evaluating its current definition of an affiliate's "creation" and what constitutes a covered affiliate. The section of SCE's Compliance Plan in which the definition appears is subject to substantial revision to reflect modifications to the reporting requirements in the Revised Affiliate Transaction Rules (Rules) adopted in D.06-12-029. SCE will incorporate any revisions necessitated by Recommendation 1 into its Compliance Plan update to be filed on June 30, 2007. SCE will evaluate its affiliates' classifications based upon the revisions made in response to Recommendation 1 and will reclassify affiliates as necessary.

*Recommendation 3: Improve the process to grant affiliate employee access to SCE's computer systems and conduct focused training for all personnel involved.*

## **SCE response to Recommendation 3:**

SCE accepts this recommendation. SCE will evaluate and improve the processes and procedures to grant affiliate access to SCE computer systems. SCE anticipates that it will complete this evaluation during the third quarter of 2007. As discussed in more detail in response to Recommendation 12, SCE will develop and implement enhancements to its training program related to the Rules. Focused modules of training for personnel involved in the computer access process will be included in the training program.

*Recommendation 4: Conduct periodic audits of computer system access protocols for covered affiliate employees.*

## **SCE response to Recommendation 4:**

SCE accepts this recommendation. SCE will conduct periodic audits of its computer system access protocols for covered affiliate employees.

*Recommendation 5: Discontinue covered affiliate employee attendance at SCE Board of Directors meetings.*

## **SCE response to Recommendation 5:**

SCE does not agree with this recommendation. The attendance by the Chief Executive Officer (CEO) of an affiliate company at SCE's Board of Directors meetings did not violate the letter or the spirit of the Rules. SCE has designed and employed effective procedures to ensure that its Board of Directors meetings are not used as a conduit for transferring non-customer specific, non-public utility information to its covered affiliates.

SCE prepares its updates to the Boards of Directors using only publicly available information whenever possible in order to ensure compliance with not only Rules IV.B and V.G, but also with the FERC Standards and Codes of Conduct, and with SCE's California Activity Procedures – each of which limits the types of information that can be shared among affiliated companies. When the Board's presentations or deliberation require discussion of information that may not be permissibly shared with the affiliates under any applicable rules or procedures, affected employees are excused from the meeting. No such instances arose during the Board meetings in 2006 related to the Rules. SCE believes that its vigilant enforcement of these procedures has, and will continue to, ensure its compliance with the applicable Rules.

***Recommendation 6:** Discontinue joint attendance of SCE and EMMT personnel at meetings such as the EIX Market Design Policy Group and EIX Risk Management Committee.*

**SCE response to Recommendation 6:**

SCE does not agree with this recommendation. The Rules do not prohibit employees from SCE and Edison Mission Marketing & Trading (EMMT), an energy marketing affiliate, from participating in meetings together. Rule IV.B prohibits the transfer of non-customer specific, non-public utility information to covered affiliates unless the information is contemporaneously made available to all other service providers under the same terms and conditions. Because SCE's interactions with its energy marketing affiliates such as EMMT are governed by the Rules, the FERC Standards and Codes of Conduct, and SCE's California Activity Procedures, SCE has taken precautions to ensure that information is not impermissibly transferred between SCE and its affected affiliate through meetings such as those identified above. For example, during the EIX Risk Management Committee meetings, EMMT employees are excused when SCE-specific issues are discussed and SCE employees are excused when EMMT-specific issues are discussed. Nevertheless, in its enhancements to its training program discussed in response to Recommendation 12, SCE will reinforce its training for utility and covered affiliate employees that participate in joint meetings such as those identified above, in order to further ensure that such meetings do not become conduits for the impermissible transfer of information.

***Recommendation 7:** Provide a checklist of exit interview documents required for each utility employee transferring to a covered affiliate. This checklist should be completed, signed by the appropriate HR manager, and included in each employee's exit interview file with the documentation for audit inspection.*

**SCE response to Recommendation 7:**

SCE accepts this recommendation. SCE is already developing a checklist of exit interview documents required for each utility employee transferring to an affiliate. This checklist will be included in the employees' file and will be available for future audit inspections. SCE anticipates that this checklist will be completed and in use by the end of the second quarter of 2007.

**Recommendation 8:** *Clarify the degree to which MVL books and records are common to and separate from SCE in its Compliance Plan.*

**SCE response to Recommendation 8:**

SCE accepts this recommendation, even though SCE disagrees with NorthStar's conclusion that Mountainview's books and records cannot be fully separate from SCE's simply because Mountainview's accounts are maintained on SCE's accounting systems (as permitted by the Commission's one-time waiver of Rule V.C for Mountainview). SCE believes that maintaining separate accounts and generating separate financial statements for Mountainview adequately satisfies the requirement for separate books and records. Nevertheless, SCE will clarify in its Compliance Plan update to be filed on June 30, 2007 how Mountainview's books and records are maintained.

**Recommendation 9:** *Revoke Class A affiliate employee GO 1 parking garage passes and prohibit garage access.*

**SCE response to Recommendation 9:**

SCE does not agree with this recommendation. Rule V.E prescribes security-controlled access where utility and affiliates are housed in the same building. While covered affiliates do not have offices in SCE facilities, Edison International's (EIX) corporate offices are located within a portion of SCE's General Office 1 building (GO 1). In addition, many of the SCE organizations that provide shared corporate support functions have their offices in the GO 1 and GO 4 buildings. Thus, in order to meet with EIX officers and staff, and those SCE employees that provide shared corporate support functions, covered affiliate employees must have access to the GO 1 and GO 4 buildings. Most covered affiliate employees enter these buildings through security guarded entrances as a visitor, and are escorted by the SCE or EIX employee they are visiting. However, several covered affiliate executives have been provided security badge access to the GO buildings to facilitate their frequent access. In addition, a limited number of these executives (e.g., the CEO of Edison Mission Group) have also been provided parking passes that allow them access to the GO 1 parking garage through a security guarded entrance. SCE believes that the security-controlled access it has provided to a limited number of covered affiliate employees satisfies the intent and spirit of the Rules.

**Recommendation 10:** *Restrict Class A affiliate employees' access to SCE facilities to normal business hours.*

**SCE response to Recommendation 10:**

SCE does not agree with this recommendation. The Rules cannot be reasonably read to require this prohibition. After-hours access to the GO 1 and GO 4 buildings is provided through a security guarded entrance. As discussed in the response to Recommendation 9, covered affiliate employees need to have access to the GO 1 and GO 4 buildings to meet with EIX officers and staff and SCE employees engaged in permissible shared corporate support functions. Given the schedules of many of the EIX and covered affiliate officers and employees, certain meetings are necessarily conducted before normal business hours begin, or after they end. SCE believes security-controlled access to SCE's GO1 and GO4 buildings outside of normal business hours satisfies the intent and spirit of the Rules.

**Recommendation 11:** *Terminate system access for SCE employees transferring to Class A affiliates in a more timely manner.*

**SCE response to Recommendation 11:**

SCE accepts this recommendation. SCE is currently evaluating the processes and procedures to terminate computer access of SCE employees who transfer to covered affiliates and will revise its procedures to ensure that their access is terminated in a timely manner. SCE anticipates that this evaluation will be completed and revisions implemented during the third quarter of 2007.

**Recommendation 12:** *Develop and implement an overall training program that provides periodic training to SCE employees who are affected by the Rules. This should include focused training in the area of computer systems and facilities access.*

**SCE response to Recommendation 12:**

SCE accepts this recommendation. SCE will develop and implement enhancements to its training program for SCE employees who are affected by the Rules. This will include, among other things, focused training modules related to computer systems and facilities access (Recommendation 3), no-conduit rule (Recommendation 6), disclaimer requirements (Recommendation 16), and NTP&S incremental costs (Recommendation 20).

**Recommendation 13:**

*Test changes to affiliate transaction spreadsheets before they are used in accounting systems.*

**SCE response to Recommendation 13:**

SCE accepts this recommendation. SCE will test changes to affiliate spreadsheets before they are used in accounting systems. SCE is implementing a new accounting system in early 2008 that should eliminate the need for the current manual processes and spreadsheets.

**Recommendation 14:** *Remove all Class A affiliate references from SCE's website.*

**SCE response to Recommendation 14:**

SCE accepts this recommendation. SCE will either remove the statement at the bottom of its website that states, "Edison International is the parent company of Southern California Edison, Edison Mission Energy, and Edison Capital" or revise it to eliminate the names of Class A affiliates. SCE anticipates that this statement will be removed or revised by the end of the second quarter of 2007.

**Recommendation 15:** *Modify SCE's ATR Manual and Compliance Plan to accurately describe the utility's obligations with regard to the disclaimer requirement in Rule V.F.1.*

**SCE response to Recommendation 15:**

SCE accepts this recommendation. SCE will modify its ATR Manual and Compliance Plan to describe the utility's obligations with regard to the disclaimer requirement in Rule V.F.1. SCE will incorporate this clarification in its Compliance Plan update to be filed on June 30, 2007.

**Recommendation 16:** *Develop and implement an overall training program that provides periodic training to SCE employees who are affected by the Rules. This should include focused training in the area of disclaimer requirements.*

**SCE response to Recommendation 16:**

SCE accepts this recommendation. See response to Recommendation 12.

**Recommendation 17:** *Prohibit SCE participation in meetings, conference calls, or other events in California with covered affiliates except those expressly permitted by the Rules.*

**SCE response to Recommendation 17:**

SCE does not agree with this recommendation. Rule V.F.4 prohibits the utility and its covered affiliates from participating in joint advertising or joint marketing. SCE and its covered affiliates do not jointly participate in marketing or advertising activities, and the participation of SCE, Edison Mission Group # (EMG), and EMMT in the California Climate Coalition cannot reasonably be construed as a marketing or advertising activity. The fact that car manufacturers and oil companies that "may be" SCE customers are also members of the California Climate Coalition is irrelevant. Since SCE and EMG each have generating facilities in California, their participation in this Coalition is appropriate.

**Recommendation 18:** *Discontinue the use of "blanket" Intercompany Service Requests for joint employment.*

**SCE response to Recommendation 18:**

SCE accepts this recommendation. SCE will discontinue the use of "blanket" Intercompany Service Requests. Any existing "blanket" Intercompany Service Requests will be terminated by the end of the second quarter of 2007.

**Recommendation 19:** *Strengthen the Regulatory Policy and Affairs Department's Affiliate Transaction Rules compliance function to provide a stronger monitoring role, increase its presence and influence over affiliate rules compliance issues across the EIX family of companies.*

**SCE response to Recommendation 19:**

SCE accepts this recommendation. SCE is currently evaluating its Regulatory Policy and Affairs Department's affiliate compliance function to identify how it can strengthen its monitoring role and influence over affiliate rules compliance not only at SCE but across all of the EIX family of companies. SCE anticipates that this evaluation will be completed and any improvements identified will commence implementation during the third quarter of 2007.

*Recommendation 20: Revise NTP&S accounting standards to improve accuracy and timely reporting.*

*Recommendation 21: The Annual Report of Nontariffed Products and Services should be developed and submitted to the CPUC on a timely basis.*

**SCE response to Recommendations 20 and 21:**

SCE accepts these recommendations. SCE will revise its existing NTP&S Incremental Costs and Accounting Guidelines to improve the accuracy and timeliness of its reporting of NTP&S incremental costs. In addition, as noted in its response to Recommendation 12, SCE will include in its revised training program focused training related to NTP&S incremental costs. SCE anticipates that its revisions to its existing incremental costs guidelines will be completed during the third quarter of 2007.

Rule V.H does not set forth a specific submission date for the annual Nontariffed Products and Services Report. Nevertheless, SCE will take steps to ensure that the report is completed and submitted to the Commission by March 31 of each year, as it has for the NTP&S Reports for the years 1998 through 2004.