

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael Miller/Sheila Miller

1. Please provide any and all workpapers KAWC used to produce the schedules in the Company's filing, testimony exhibits, and Filing Requirements. To the extent they are in Excel (or similar spreadsheet program), please provide such workpapers electronically, with formulas and calculations intact.

Response:

The Company's electronic workpapers, filing exhibits and schedules are included on the enclosed CD. Please refer to the folder labeled as KAW_R_AGDR1#1_042610. For hard copies of the workpapers please refer to KAW_R_PSCDR1#1a.

For the electronic version of this response refer to KAW_R_AGDR1#1_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Sheila Miller

2. Please provide the Excel files, with formulas and calculations intact that were used to produce the Company's filing, testimony, exhibits, studies and workpapers.

Response:

Please see the information provided on the enclosed CD and refer to folder KAW_R_AGDR1#2_042610.

For the electronic version, refer to KAW_R_AGDR1#2_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Sheila Miller**

3. For each KAWC witness that filed testimony, please provide a complete set of workpapers supporting the witness's testimony and exhibits.

Response:

Please see the response to KAW_R_AGDR1#2_042610.

For the electronic version of this response, refer to KAW_R_AGDR1#3_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
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Witness: Michael A. Miller/Sheila Miller

4. For each KAWC witness that filed testimony, please identify all documents relied upon by the witness.

Response:

Please see the response to KAW_R_AGDR1#2 which provides the testimony and work papers provided by each witness. The testimony provides footnotes regarding source documents and reference material used as noted. The only information provided outside that provided by the witnesses in the case in response to question 2 or requested in other AGDR1 responses is as follows:

Other documents relied on preparing the testimony of Linda Bridwell:

Invoices on New Pool 3 WTP project (project includes treatment plant, booster station and transmission main as referenced throughout)

Contract documents on New Pool 3 WTP project including contracts, bids, plans, specifications, change orders, and submittals

Correspondence with regulators including state, local and federal agencies on New Pool 3 WTP project including permits

Easement and land documents on New Pool 3 WTP project

Contractor invoices and contracts for service installations and meter settings

For the electronic version of this response, refer to KAW_R_AGDR1#4_042610.pdf.

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Witness: **Sheila Miller**

5. To the extent not already provided in response to discovery or other filings made in the current KAWC rate case, or in the witness' workpapers being provided in response to data requests, please provide a copy of the documents relied upon by each KAWC witness.

Response:

This question appears to be a duplicate of question 4. Please refer to the response to KAW_R_AGDDR1#4_042610.

For the electronic version of this response, refer to KAW_R_AGDR1#5_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
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Witness: All Witnesses

6. For each KAWC witness filing testimony, please provide the testimony electronically in native format (e.g., Word) and provide all exhibits and supporting calculations electronically in native format (e.g., Excel).

Response:

Please refer to the response to KAW_R_AGDR1#2_042610.

For the electronic version of this response, refer to KAW_R_AGDR1#6_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
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ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller**

7. Lead-Lag Study. Please provide the electronic Excel files, with formulas and calculations intact, which were used to produce the lead-lag study that was used for the current rate case.

Response:

The lead lag study was provided in response to KAW_R_AGDR1#1_042610. Please refer to the file labeled as lead lag study.xlsx on the enclosed CD.

For the electronic version of this response, refer to KAW_R_AGDR1#7_042610.pdf.

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CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Michael A. Miller**

8. Data requests of others: With regard to all data requests served on the Company concerning the testimony of KAWC witnesses and other issues being addressed in this proceeding and to the extent that any of the responses to these data requests involve calculations using a program such as Microsoft Excel, or Access, provide a complete copy of the electronic files, with formulas, calculations, macros, and cell references intact.

Response:

The Company objects to this question on the grounds that it is vague and unduly burdensome. Notwithstanding the objection, the AG has been provided electronic files in compliance with Commission guidelines for the responses to the Commission's Staff's First Set of DR's and will be provided copies of the responses to the other parties DR's under those same guidelines. If the AG in his review of those responses finds information that he wishes to view in a format such as excel that has not been provided in the comprehensive electronic filings provided in responses to KAW_R_AGDR1#1-#6, or in the other 460 responses to the AG's First Set of DR's, he may request that specific information in a follow-up DR.

For the electronic version of this response, refer to KAW_R_AGDR1#8_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
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ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael Miller/Sheila Miller

9. Chart of Accounts. Please provide the detailed chart of accounts used by the Company during the test year, and how the accounts used by the Company relate to and correspond with the NARUC Uniform System of Accounts for Water Utilities. Update for any subsequent changes.

Response:

Please see the attached chart of accounts.

For the electronic version, refer to KAW_R_AGDR1#9_042610.pdf.

KENTUCKY AMERICAN WATER COMPANY
 JDE CHART OF ACCOUNTS
 AG1#9

Object	Sub	Description	Line#	84 NARUC
101000	301000	301000 Organization	B01	B3011
101000	302000	302000 Franchises	B01	B3021
101000	303200	303200 Land & Ld Rights SS	B01	B3032
101000	303300	303300 Land & Ld Rights P	B01	B3032
101000	303400	303400 Land & Ld Rights WT	B01	B3033
101000	303500	303500 Land & Ld Rights TD	B01	B3034
101000	304100	304100 Struct & Imp SS	B01	B3042
101000	304200	304200 Struct & Imp P	B01	B3042
101000	304300	304300 Struct & Imp WT	B01	B3043
101000	304400	304400 Struct & Imp TD	B01	B3044
101000	304500	304500 Struct & Imp AG	B01	B3045
101000	304600	304600 Struct & Imp Offices	B01	B3045
101000	304610	304610 Gen Structures - HVAC	B01	B3045
101000	304700	304700 Struct & Imp Store,Shop,Gar	B01	B3045
101000	304800	304800 Struct & Imp Misc	B01	B3045
101000	305000	305000 Collect & Impounding	B01	B3052
101000	306000	306000 Lake, River & Other Intakes	B01	B3062
101000	309000	309000 Supply Mains	B01	B3092
101000	310000	310000 Power Generation Equip	B01	B3102
101000	311200	311200 Pump Equip Electric	B01	B3112
101000	311300	311300 Pump Equip Diesel	B01	B3112
101000	311400	311400 Pump Equip Hydraulic	B01	B3112
101000	311520	311520 Pumping Equipment SS	B01	B3112
101000	311540	311540 Pumping Equipment TD	B01	B3112
101000	320100	320100 WT Equip Non-Media	B01	B3203
101000	320200	320200 WT Equip Filter Media	B01	B3203
101000	330000	330000 Dist Reservoirs & Standpipes	B01	B3304
101000	330100	330100 Elevated Tanks & Standpipes	B01	B3304
101000	330200	330200 Ground Level Facilities	B01	B3304
101000	330400	330400 Clearwell	B01	B3304
101000	331001	331001 TD Mains Not Classified by S	B01	B3314
101000	331100	331100 TD Mains 4in & Less	B01	B3314
101000	331200	331200 TD Mains 6in to 8in	B01	B3314
101000	331300	331300 TD Mains 10in to 16in	B01	B3314
101000	331400	331400 TD Mains 18in & Grtr	B01	B3314
101000	333000	333000 Services	B01	B3334
101000	334100	334100 Meters	B01	B3344
101000	334110	334110 Meters Bronze Case	B01	B3344
101000	334120	334120 Meters Plastic Case	B01	B3344
101000	334130	334130 Meters Other	B01	B3344
101000	334131	334131 Meters Other-Rem Rdr Unts	B01	B3344
101000	334200	334200 Meter Installations	B01	B3344
101000	334300	334300 Meter Vaults	B01	B3344
101000	335000	335000 Hydrants	B01	B3354
101000	339100	339100 Other P/E Intangible	B01	B3391

101000	339600	339600	Other P/E CPS	B01	B3391
101000	340100	340100	Office Furniture & Equip	B01	B3405
101000	340210	340210	Comp & Periph Mainframe	B01	B3405
101000	340220	340220	Comp & Periph Personal	B01	B3405
101000	340230	340230	Comp & Periph Other	B01	B3405
101000	340300	340300	Computer Software	B01	B3405
101000	340320	340320	Comp Software Personal	B01	B3405
101000	340325	340325	Comp Software Customized	B01	B3405
101000	340330	340330	Comp Software Other	B01	B3405
101000	340500	340500	Other Office Equipment	B01	B3405
101000	341100	341100	Trans Equip Lt Duty Trks	B01	B3415
101000	341200	341200	Trans Equip Hvy Duty Trks	B01	B3415
101000	341300	341300	Trans Equip Autos	B01	B3415
101000	341400	341400	Trans Equip Other	B01	B3415
101000	342000	342000	Stores Equipment	B01	B3425
101000	343000	343000	Tools,Shop,Garage Equip	B01	B3435
101000	344000	344000	Laboratory Equipment	B01	B3445
101000	345000	345000	Power Operated Equipment	B01	B3455
101000	346100	346100	Comm Equip Non-Telephone	B01	B3465
101000	346190	346190	Remote Control & Instrumenta	B01	B3465
101000	346200	346200	Comm Equip Telephone	B01	B3465
101000	347000	347000	Misc Equipment	B01	B3475
101000	348000	348000	Other Tangible Property	B01	B3485
101000	353500	353500	WW Land & Ld Rights Gen	B01	B3535
101000	354200	354200	WW Struct & Imp Coll	B01	B3542
101000	354300	354300	WW Struct & Imp SPP	B01	B3543
101000	354400	354400	WW Struct & Imp TDP	B01	B3544
101000	354500	354500	WW Struct & Imp Gen	B01	B3545
101000	360000	360000	WW Collection Sewers Forced	B01	B3602
101000	361100	361100	WW Collecting Mains	B01	B3612
101000	363000	363000	WW Services Sewer	B01	B3632
101000	364000	364000	WW Flow Measuring Devices	B01	B3642
101000	371100	371100	WW Pump Equip Elect	B01	B3713
101000	371200	371200	WW Pump Equip Oth Pwr	B01	B3713
101000	380000	380000	WW TD Equipment	B01	B3804
101000	390000	390000	WW Office Furniture & Equipm	B01	B3905
101000	391100	391100	WW Trans Equip Lt Dty Trks	B01	B3915
101000	392000	392000	WW Stores Equipment	B01	B3925
101000	393000	393000	WW Tool Shop & Garage Equip	B01	B3935
101000	394000	394000	WW Laboratory Equipment	B01	B3945
101000	395000	395000	WW Power Operated Equip	B01	B3955
101000	396000	396000	WW Communication Equip	B01	B3965
101000	397000	397000	WW Misc Equipment	B01	B3975
101099			Completed Const not Classifi	B01	B106
101100			Reg Asset-AFUDC-Debt	B01	B101
103000			Property Held Future Use	B01	B103
104000			Utility Plant Purchased/Sold	B01	B104
105050	21	21	CWIP Accr-Infra	B02	B105
105110	1	1	CWIP History	B02	B105
105110	11	11	CWIP History-Bldgs	B02	B105
105110	21	21	CWIP History-Infrastr	B02	B105
105110	31	31	CWIP History-Plant	B02	B105

105125	1	1	CWIP Permits & Fees	B02	B105
105125	11	11	CWIP Permits-Bldgs	B02	B105
105125	21	21	CWIP Permits-Infrastr	B02	B105
105125	31	31	CWIP Permits-Plant	B02	B105
105150	1	1	CWIP M&S & Purchases	B02	B105
105150	11	11	CWIP M & S-Bldgs	B02	B105
105150	21	21	CWIP M & S-Infrastr	B02	B105
105150	31	31	CWIP M & S-Plant	B02	B105
105175	1	1	CWIP Professional Services	B02	B105
105175	21	21	CWIP Prof Svc-Infrastr	B02	B105
105175	31	31	CWIP Prof Svc-Plant	B02	B105
105200	1	1	CWIP Co Labor	B02	B105
105200	11	11	CWIP Co Labor-Bldgs	B02	B105
105200	21	21	CWIP Co Labor-Infrastr	B02	B105
105200	31	31	CWIP Co Labor-Plant	B02	B105
105250	1	1	CWIP Co Labor OH	B02	B105
105250	11	11	CWIP Labor OH-Bldgs	B02	B105
105250	21	21	CWIP Labor OH-Infrastr	B02	B105
105250	31	31	CWIP Labor OH-Plant	B02	B105
105260	1	1	CWIP Overhead	B02	B105
105260	11	11	CWIP Overhead-Bldgs	B02	B105
105260	21	21	CWIP Overhead-Infrastr	B02	B105
105260	31	31	CWIP Overhead-Plant	B02	B105
105270	1	1	CWIP Service Co Chgs	B02	B105
105270	21	21	CWIP AWWSC Chg-Infrastr	B02	B105
105270	31	31	CWIP AWWSC Chg-Plant	B02	B105
105275	1	1	CWIP Contracted Services	B02	B105
105275	11	11	CWIP Contr Svc-Bldgs	B02	B105
105275	21	21	CWIP Contr Svc-Infrastr	B02	B105
105275	31	31	CWIP Contr Svc-Plant	B02	B105
105280	1	1	CWIP Retainage	B02	B105
105280	11	11	CWIP Retainage-Bldgs	B02	B105
105280	21	21	CWIP Retainage-Infrastr	B02	B105
105280	31	31	CWIP Retainage-Plant	B02	B105
105285	21	21	CWIP Developer Const Costs	B02	B105
105300	1	1	CWIP Paving	B02	B105
105300	21	21	CWIP Paving-Infrastr	B02	B105
105300	31	31	CWIP Paving-Plant	B02	B105
105350	1	1	CWIP AFUDC Debt	B02	B105
105350	11	11	CWIP AFUDC Debt-Bldgs	B02	B105
105350	21	21	CWIP AFUDC Debt-Infrastr	B02	B105
105350	31	31	CWIP AFUDC Debt-Plant	B02	B105
105375	1	1	CWIP AFUDC Equity	B02	B105
105375	11	11	CWIP AFUDC Eqty-Bldgs	B02	B105
105375	21	21	CWIP AFUDC Eqty-Infrastr	B02	B105
105375	31	31	CWIP AFUDC Eqty-Plant	B02	B105
105390	11	11	CWIP Tran PY Chg-Bldgs	B02	B105
105390	21	21	CWIP Tran PY Chg-Infrastr	B02	B105
105390	31	31	CWIP Tran PY Chg-Plant	B02	B105
105391	1	1	CWIP Trans Current Yr Chgs	B02	B105
105399	31	31	CWIP Prelim Eng-Plant	B02	B105
105900	1	1	CWIP Transfer to UPIS	B02	B105

105900	11	11	CWIP Tran UPIS-Bldgs	B02	B105
105900	21	21	CWIP Tran UPIS-Infrastr	B02	B105
105900	31	31	CWIP Tran UPIS-Plant	B02	B105
105900			CWIP Transfer to UPIS	B02	B105
106000	304300	304300	Struct & Imp WT	B01	B3043
106000	304400	304400	Struct & Imp TD	B01	B3044
106000	304700	304700	Struct & Imp Store,Shop,Gar	B01	B3045
106000	309000	309000	Supply Mains	B01	B3092
106000	311200	311200	Pump Equip Electric	B01	B3112
106000	311520	311520	Pumping Equipment SS	B01	B3112
106000	311530	311530	Pumping Equipment WT	B01	B3112
106000	320200	320200	WT Equip Filter Media	B01	B3203
106000	331001	331001	TD Mains Not Classified by S	B01	B3314
106000	331100	331100	TD Mains 4in & Less	B01	B3314
106000	331200	331200	TD Mains 6in to 8in	B01	B3314
106000	331300	331300	TD Mains 10in to 16in	B01	B3314
106000	331400	331400	TD Mains 18in & Grtr	B01	B3314
106000	333000	333000	Services	B01	B3334
106000	334100	334100	Meters	B01	B3344
106000	334110	334110	Meters Bronze Case	B01	B3344
106000	334130	334130	Meters Other	B01	B3344
106000	334131	334131	Meters Other-Rem Rdr Unts	B01	B3344
106000	334200	334200	Meter Installations	B01	B3344
106000	334300	334300	Meter Vaults	B01	B3344
106000	335000	335000	Hydrants	B01	B3354
106000	339600	339600	Other P/E CPS	B01	B3391
106000	340100	340100	Office Furniture & Equip	B01	B3405
106000	340210	340210	Comp & Periph Mainframe	B01	B3405
106000	340220	340220	Comp & Periph Personal	B01	B3405
106000	340230	340230	Comp & Periph Other	B01	B3405
106000	340325	340325	Comp Software Customized	B01	B3405
106000	340330	340330	Comp Software Other	B01	B3405
106000	341100	341100	Trans Equip Lt Duty Trks	B01	B3415
106000	343000	343000	Tools,Shop,Garage Equip	B01	B3435
106000	346100	346100	Comm Equip Non-Telephone	B01	B3465
106000	346200	346200	Comm Equip Telephone	B01	B3465
108105	1	01	AD UPIS-AccDepr-Oper Bldgs	B03	B1081
108105	2	02	AD UPIS-AccDepr-Admin Bldgs	B03	B1081
108105	5	05	AD UPIS-AccDepr-Infrastructu	B03	B1081
108105	6	06	AD UPIS-AccDepr-Op Water Pro	B03	B1081
108105	7	07	AD UPIS-AccDepr-Oth Op Equip	B03	B1081
108105	8	08	AD UPIS-AccDepr-Office Equip	B03	B1081
108105	9	09	AD UPIS-AccDepr-Cap Developm	B03	B1081
108105			AD UPIS-Acc Depr-Not Classif	B03	B1081
108110			AD UPIS-Removal Cost	B03	B1081
108115			AD UPIS-Salvage	B03	B1081
108120			AD UPIS-Scrap Meters	B03	B1081
108122			AD UPIS-Scrap Misc	B03	B1081
108135			AD UPIS-Salv Trade-In	B03	B1081
108140			AD UPIS-Salv Sale	B03	B1081
108145			AD UPIS-Orig Cost-Not Classi	B03	B1081
108190			Acc Depr Reg Asset	B03	B1081

114100			UPAA-ATL	B04	B114
115100			Accum Amort UPAA-ATL	B04	B115
121100			NUP-Land	B07	B121
131312	3	003	BB&T	B10	B1312
131312	5	005	Deutsche Bank	B10	B1312
131312	7	007	Cash-Mellon Lockbox	B10	B1312
131998	1	001	Cash Clear-NSF Checks	B10	B1312
131998	3	003	Cash Clear-Misc DR/CR	B10	B1312
131998	5	005	Cash Clear-ORCOM	B10	B1312
131998	6	006	Cash Clear-Interco	B10	B1312
134100			Petty Cash	B10	B134
134101			Petty Cash-OTC	B10	B134
141000			Customer A/R	B12	B141
141999			Customer A/R Clearing	B12	B141
143000			Accum prov-uncoll accts	B13	B143
146100			Misc A/R-System	B16	B142
146105			Misc A/R-Retro Ins	B16	B142
146115			Misc A/R-Medicare Subsidy	B16	B142
146300			Misc A/R-Adv to Employees	B16	B142
146370			Accum prov-uncoll misc a/r	B16	B142
146500			A/R Assoc Cos	B16	B145
146520	AW02	AW02	A/R Div Equiv AW02	B16	B145
146800			Rents Receivable	B16	B172
151100			Plant Material	B17	B151
151300			Chemicals	B17	B151
165100			Prepaid Taxes	B19	B162
165200			Prepaid Insurance	B19	B162
165300			Prepaid PUC/PSC Assessments	B19	B162
165400			Prepaid Audit Fees	B19	B162
165500			Prepaid Other	B19	B162
174100			Deferred Vacation Pay	B19	B174
174200			Curr State Def Tax	B19	B174
174300			Curr Fed Def Tax	B19	B174
181111			Unamort Debt Exp NoIAS	B23	B181
181121	AW46	AW46	Unamort Debt AW46 NoIAS	B23	B181
181512			Pref Stk Exp w/ mandatory	B23	B181
182000			Deferred Rate Proceedings	B24	B1861
183000			Prelim Survey & Invest	B25	B183
183280			DEF-Customer Service Project	B27	B183
184100			Eng Clearing Dist OH	B27	B184
184102			Mngmt Studu - AMR	B27	B184
184103			Mngmt Study - Pipe Assmnt	B27	B184
185125			RWIP Permits, Fees & Premium	B27	B1862
185150	21	21	RWIP M & S and Purchases	B27	B1862
185150			RWIP M & S and Purchases	B27	B1862
185200	21	21	RWIP Co Labor	B27	B1862
185200			RWIP Co Labor	B27	B1862
185250	21	21	RWIP Co Labor OH	B27	B1862
185250			RWIP Co Labor OH	B27	B1862
185260	21	21	RWIP Indirect Labor	B27	B1862
185275	21	21	RWIP Contracted Services	B27	B1862
185275	31	31	RWIP Contracted Services	B27	B1862

185275			RWIP Contracted Services	B27	B1862
185280			RWIP Retainage	B27	B1862
185315	31	31	RWIP Salvage	B27	B1862
185315			RWIP Salvage	B27	B1862
185320	21	21	RWIP Scrap Meters	B27	B1862
185320			RWIP Scrap Meters	B27	B1862
185322	21	21	RWIP Scrap Misc	B27	B1862
185322	31	31	RWIP Scrap Misc	B27	B1862
185322			RWIP Scrap Misc	B27	B1862
185999	21	21	RWIP Clear Removal & Salvage	B27	B1862
185999	31	31	RWIP Clear Removal & Salvage	B27	B1862
185999			RWIP Clear Removal & Salvage	B27	B1862
186030			Reg Asset-AFUDC-Eq-CWIP	B26	B1862
186035			Reg Asset-AFUDC-Equity	B26	B1862
186040			Reg Asset-Plt Flow-Diff	B26	B1862
186045			Reg Asset-Other	B26	B1862
186055			Reg Asset-Accum Amort	B26	B1862
186401			DDA-Programmed Maint	B27	B1862
186405			DDA-RIA Software Licen	B27	B1862
186426			DDA-FAS 112 Costs	B27	B1862
186431			DDA-Depreciation Study	B27	B1862
186432			DDA-Cost of Service Study	B27	B1862
186444			DDA-Waste Disposal	B27	B1862
186598			DDA-Oth Reg Assets	B27	B1862
186711			DDN-Acquisition Costs	B27	B1862
186750			DDN-Engineering Studie	B27	B1862
186898			DDN-Oth LT Assets	B27	B1862
187007			Prelim Financing E	B27	B187
201200	AW02	AW02	Com Stk Subs AW02	B33	B201
205175	AW02	AW02	Donations Stkhld AW02	B34	B211
205300	AW02	AW02	Gain on Res/Can AW02	B34	B210
205300			Gain on res/can I/C	B34	B210
205310			Gain on res/can min int.	B34	B210
205440	AW02	AW02	Misc PIC AW02	B34	B211
210210	AW02	AW02	R/E at Acq AW02	B35	B215
210240			R/E Since Acquisition	B35	B215
215110			Pref Stk-Outside	B39	B204
215113			Pref Stk-Mand LT	B40	B204
215410			Pref Stk Sub Outside	B39	B205
221110			Bonds-Outside	B40	B221
221120	AW46	AW46	Bonds-Inside AW46	B40	B221
231200	AW46	AW46	Notes Pay AW46	B43	B234
231200			Notes Pay-Assoc Cos	B43	B234
234100			Accts Pay-Gen System	B45	B231
234110			Accts Pay-Pcard	B45	B231
234120			Accts Pay-Utility Billing	B45	B231
234200			Accts Pay-Contract Retention	B45	B231
234300			Accts Pay-Misc	B45	B231
234400	AW03	AW03	Accts Pay-AW03	B45	B234
236111			Gross Receipts - Income Tax	B46	B23611
236120			FUTA	B46	B23611
236130			FICA	B46	B23611

236140		SUTA	B46	B23611
236151		Gen Tax - Property	B46	B23611
236152		Gen Tax - Sales/Use	B46	B23611
236170		Gen Tax - Other	B46	B23611
236210		Accr FIT - Current Yr	B46	B23612
236220		Accr FIT - Pr Yrs	B46	B23612
236230		Accr SIT - Current Yr	B46	B23612
236240		Accr SIT - Pr Yrs	B46	B23612
236310		Curr Def FIT	B46	B23612
236320		Curr Def SIT/LIT	B46	B23612
241100		Accrued Vacation Pay	B51	B241
241201		Accr Water Purchases	B51	B241
241205		Accr TMS License	B51	B241
241207		Accr Insurance	B51	B241
241208		Accr Rents	B51	B241
241210		Accr Waste Disposal	B51	B241
241211		Accr Retiree Medical Reimb	B51	B241
241212		Accr DCP Contribution	B51	B241
241220	1	001 WH PR-Union Dues	B51	B241
241220	2	002 WH PR-Charity Contribution	B51	B241
241220	5	005 WH PR-Flex Spending Account	B51	B241
241220	6	006 WH PR-401k Contribution	B51	B241
241220	8	008 WH PR-Garnishments	B51	B241
241220	10	010 WH PR-Tax Coll Pay FIT	B51	B241
241220	12	012 WH PR-Tax Coll Pay LIT	B51	B241
241220	13	013 WH PR-Tax Coll Pay FICA	B51	B241
241220	14	014 WH PR-ESPP	B51	B241
241220	999	999 WH PR-Miscellaneous	B51	B241
241220	KY	KY WH PR-Tax Coll SIT KY	B51	B241
241227		Accr Employer 401k Match	B51	B241
241229		Accr Construction Costs Pay	B51	B241
241230		Unclaimed Credits Pay	B51	B241
241232		Outstanding Checks Pay	B51	B241
241234		Unclaimed Ext Dep Refund Pay	B51	B241
241236		Unbilled Items-System	B51	B241
241237		Unbilled Stock C-System	B51	B241
241238		Unbilled Stock E-System	B51	B241
241241	5	005 CFO-Cust Asst NonPledged	B51	B241
241241	6	006 CFO-Cust Asst Pledged	B51	B241
241244		CFO-Sales Tax	B51	B241
241246		CFO-Gross Rcts Tax	B51	B241
241248		CFO-Mun Tax	B51	B241
241249	1	001 CFO-MC/Swr Rev/Cash	B51	B241
241249	2	002 CFO-MC/Swr A/R	B51	B241
241249	4	004 CFO-MC/Swr ChgOff	B51	B241
241249		CFO-Mgmt Contracts	B51	B241
241250		A/P Check Clearing	B51	B234
241251		P/R Check Clearing	B51	B234
241252		Cred Refund A/P Check Cleari	B51	B234
241260		Misc Deposits Payable	B51	B241
241322		Incentive Plan Cash Annual	B51	B241
241998		Other Curr Liab Analyzed	B51	B241

252110		Adv for Const-NT Mains	B55	B252
252120		Adv for Const-NT Ext	B55	B252
252130		Adv for Const-NT Services	B55	B252
252140		Adv for Const-NT Meters	B55	B252
252150		Adv for Const-NT Hydrants	B55	B252
252160		Adv for Const-NT Other	B55	B252
252170		Adv for Const-NT WIP	B55	B252
252999	CP CP	Adv for Const-Current Portio	B51	B252
252999		Adv for Const-Cur Portion Re	B55	B252
253301		Def FIT-Other	B56	B283
253701		Def SIT-Other	B56	B283
255101		Unamortized ITC - 3%	B57	B2551
255102		Unamortized ITC - 4%	B57	B2551
255103		Unamortized ITC - 10%	B57	B2551
256212		Reg Liab-Exc Def Depr FIT	B58	B253
256220		Reg Liab-Deficit Def FIT	B58	B253
256232		Reg Liab-Exc Def Depr SIT	B58	B253
256250		Reg Liab-Cost of Removal	B58	B1081
256310		Reg Liab-ITC Gross-Up 3%	B58	B253
256311		Reg Liab-ITC Gross-Up 4%	B58	B253
256312		Reg Liab-ITC Gross-Up 10%	B58	B253
256335		Reg Liab-Gain on Debt Exting	B59	B253
256340		Regulatory Liab. - Other	B59	B253
262120		DCA-Accr Pension Def Benefit	B59	B253
262210		DCA-Accr OPEB	B59	B253
262215		DCA-Accr OPEB Med Subsidy	B59	B253
262313		DCA-FAS 112 Costs	B59	B253
262315		Accr Div Equivalentents	B59	B253
262398		DCA-Other	B59	B253
271110		CIAC-NT Mains	B62	B271
271120		CIAC-NT Ext Dep	B62	B271
271130		CIAC-NT Services	B62	B271
271140		CIAC-NT Meters	B62	B271
271150		CIAC-NT Hydrants	B62	B271
271160		CIAC-NT Other	B62	B271
271170		CIAC-NT WIP	B62	B271
271180		CIAC-NT Non-Util Prop	B62	B271
271210		CIAC-Tax Mains	B62	B271
271220		CIAC-Tax Ext Dep	B62	B271
271230		CIAC-Tax Services	B62	B271
271240		CIAC-Tax Meters	B62	B271
271250		CIAC-Tax Hydrants	B62	B271
271260		CIAC-Tax Other	B62	B271
271270		CIAC-Tax WIP	B62	B271
272010		Accum Amort CIAC-Mains	B62	B272
272040		Accum Amort CIAC-Meters	B62	B272
272060		Accum Amort CIAC-Other	B62	B272
272100		Accum Amort CIAC-Taxable	B62	B272
280999		Interco Rec/Pay	B45	B233
401110		Res Sales Billed	P02	B4611
401120		Res Sales Unbilled	P02	B4611
401210		Com Sales Billed	P02	B4612

401220			Com Sales Unbilled	P02	B4612
401310			Ind Sales Billed	P02	B4613
401320			Ind Sales Unbilled	P02	B4613
401410			Pub Fire Billed	P02	B4621
401450			Priv Fire Billed	P02	B4622
401510			Pub Auth Billed	P02	B4614
401520			Pub Auth Unbilled	P02	B4614
401610			SFR Billed	P02	B466
401620			Sales for Resale Unbilled	P02	B466
401630	AW12	AW12	Sale for Resale AW09	P02	B467
401710			Misc Sales Billed	P02	B474
402110			Dom WW Serv Billed	P03	B5211
402210			Com WW Serv Billed	P03	B5212
402310			Ind WW Serv Billed	P03	B5213
402510			Pub Auth WW Svc Billed	P03	B5214
403003	AW03	AW03	Oth Rev-Interco Rent	P04	B474
403101			Oth Rev-Forfeited Discounts	P04	B470
403102			Oth Rev-Rents Water Property	P04	B472
403103			Oth Rev-Collect for Others	P04	B471
403104			Oth Rev-NSF Check Charge	P04	B471
403105			Oth Rev-Appl/Initiate Serv F	P04	B471
403107			Oth Rev-Reconnection Charges	P04	B471
403198			Oth Rev-Misc Service Rev	P04	B471
403199			Oth Rev-Other Water Rev	P04	B474
501200	13	13	Labor Oper WT	P08	B6013
501200	14	14	Labor Oper TD	P08	B6015
501200	15	15	Labor Oper CA	P08	B6017
501200	16	16	Labor Oper AG	P08	B6018
501200	22	22	Labor Maint P	P08	B6012
501200	23	23	Labor Maint WT	P08	B6014
501200	24	24	Labor Maint TD	P08	B6016
501200	1305	1305	Labor Oper WT Super/Eng	P08	B6013
501200	1405	1405	Labor Oper TD Super/Eng	P08	B6015
501200	1415	1415	Labor Oper TD Lines	P08	B6015
501200	1420	1420	Labor Oper TD Meter	P08	B6015
501200	1510	1510	Labor Oper CA Mtr Read	P08	B6017
501200	1520	1520	Labor Oper CA Cust Serv	P08	B6017
501200	2305	2305	Labor Maint WT Super/Eng	P08	B6014
501200	2405	2405	Labor Maint TD Super/Eng	P08	B6016
501200	2410	2410	Labor Maint TD Struct & Imp	P08	B6016
501200	2415	2415	Labor Maint TD Dist Res	P08	B6016
501200	2420	2420	Labor Maint TD Mains	P08	B6016
501200	2430	2430	Labor Maint TD Services	P08	B6016
501200	2435	2435	Labor Maint TD Meters	P08	B6016
501200	2440	2440	Labor Maint TD Hydrants	P08	B6016
501210	13	13	Labor NS OT WT	P08	B6013
501210	14	14	Labor NS OT TD	P08	B6015
501210	15	15	Labor NS OT CA	P08	B6017
501210	16	16	Labor NS OT AG	P08	B6018
501210	1305	1305	Labor NS OT WT Super/Eng	P08	B6013
501210	1405	1405	Labor NS OT TD Super/Eng	P08	B6015
501210	1415	1415	Labor NS OT TD Lines	P08	B6015

501210	1420	1420	Labor NS OT TD Meter	P08	B6015
501210	1510	1510	Labor NS OT CA Mtr Read	P08	B6017
501210	1520	1520	Labor NS OT CA Cust Serv	P08	B6017
501210	2410	2410	Labor NS OT TD Struct & Imp	P08	B6016
501210	2415	2415	Labor NS OT TD Dist Res	P08	B6016
501210	2420	2420	Labor NS OT TD Mains	P08	B6016
501210	2430	2430	Labor NS OT TD Services	P08	B6016
501210	2440	2440	Labor NS OT TD Hydrants	P08	B6016
501211	13	13	Labor OT WT	P08	B6013
501211	14	14	Labor OT TD	P08	B6015
501211	2420	2420	Labor OT TD Mains	P08	B6016
501211	2430	2430	Labor OT TD Services	P08	B6016
501711			IP-Off-Annual-P/R JE	P08	B6018
501716	16	16	Comp Exp-Options	P08	B6018
501718	16	16	Comp Exp-RSU's	P08	B6018
504100	1	001	Group Insurance - Cap Credit	P14	B6048
504100	16	16	Group Ins Oper AG	P14	B6048
504610	16	16	Employee Awards AG	P21	B6048
504620	16	16	Employee Physical Exam AG	P21	B6048
504640	16	16	Safety Incentive	P21	B6048
504660	16	16	Tuition Aid AG	P21	B6048
504670	16	16	Training AG	P21	B6048
505100	1	001	PBOP Cap Credits	P14	B6048
505100	16	16	PBOP Oper AG	P14	B6048
506100	1	001	Pension - Cap Credits	P15	B6048
506100	16	16	Pension Oper AG	P15	B6048
507100	16	16	401k Oper AG	P21	B6048
508101	16	16	DCP Oper AG	P21	B6048
508102	16	16	Retiree Med Oper AG	P21	B6048
508200	16	16	ESPP Oper AG	P21	B6048
510100	11	11	Purchased Water-Outside	P09	B6101
510110	AW12	AW12	Purch Water AW12	P09	B6101
511100	13	13	Waste Disposal Exp WT	P12	B6753
511200	13	13	Amort Waste Disp Exp	P12	B6753
515100	12	12	Purch Power P	P10	B6151
515100	13	13	Purch Power WT	P10	B6153
515100	14	14	Purch Power TD	P10	B6155
515200	11	11	Fuel for Power Prod SS	P10	B6161
518000	13	13	Chemicals WT	P11	B6183
518001	AWSI	AWSI	Chemicals Carbon AWSI	P11	B6183
520100	13	13	M & S Oper WT	P21	B6203
520100	14	14	M & S Oper TD	P21	B6205
520100	16	16	M & S Oper AG	P20	B6208
532100	16	16	Contr Svc-Audit Fees Oper AG	P21	B6328
533000	16	16	Contr Svc-Legal Oper AG	P21	B6338
534600	16	16	Mmgt Fees-Corporate	P13	B6358
534601	16	16	Mmgt Fees-External Affairs/C	P13	B6358
534602	16	16	Mmgt Fees-Finance	P13	B6358
534603	16	16	Mmgt Fees-Human Resources	P13	B6358
534604	16	16	Mmgt Fees-Legal	P13	B6358
534605	16	16	Mmgt Fees-Operations Svcs	P13	B6358
534606	16	16	Mmgt Fees-Property	P13	B6358

534607	16	16	Mmgt Fees-Business Developme	P13	B6358
534608	16	16	Mmgt Fees-Bus Transformation	P13	B6358
534609	16	16	Mmgt Fees-Audit	P13	B6358
534610	16	16	Mmgt Fees-Regulatory	P13	B6358
534611	16	16	Mmgt Fees-Inv Relations	P13	B6358
534615	16	16	SSC-Shrd Bus Srv Fees	P13	B6358
534625	16	16	CSC-Shrd Bus Srv Fees	P13	B6358
534635	16	16	ITS-Shrd Bus Srv Fees	P13	B6358
534645	16	16	Procure-Shrd Bus Srv Fees	P13	B6358
534655	16	16	Lab-Shrd Bus Srv Fees	P13	B6358
534665	16	16	BSC-Shrd Bus Srv Fees	P13	B6358
534701	16	16	Mmgt Fees-Regulated Operatio	P13	B6358
535000	13	13	Contr Svc-Other Oper WT	P21	B6353
535000	14	14	Contr Svc-Other Oper TD	P21	B6355
535000	15	15	Contr Svc-Other Oper CA	P21	B6357
535000	16	16	Contr Svc-Other Oper AG	P21	B6358
535001	13	13	Contr Svc-Temp Empl Oper WT	P21	B6353
535001	15	15	Contr Svc-Temp Empl Oper CA	P21	B6357
536000	13	13	Contr Svc-Lab Testing Oper W	P21	B6353
541000	14	14	Rents-Real Prop Oper TD	P19	B6415
541400	16	16	Rents-Equipment Oper AG	P19	B6428
550000	1	001	Trans - Cap Credits	P21	B6508
550000	14	14	Trans Oper TD	P21	B6505
550000	16	16	Trans Oper AG	P21	B6508
550001	16	16	Trans Oper AG Lease Cost	P21	B6508
550002	16	16	Trans Oper AG Lease Fuel	P21	B6508
550003	16	16	Trans Oper AG Lease Maint	P21	B6508
556000	16	16	Ins Vehicle Oper AG	P21	B6568
557000	16	16	Ins Gen Liab Oper AG	P17	B6578
558000	1	001	Ins Work Comp Cap Credits	P17	B6588
558000	16	16	Ins Work Comp AG	P17	B6588
559000	16	16	Ins Other Oper AG	P17	B6598
566100	16	16	Reg Comm Amort Rate Case	P16	B6668
566200	16	16	Reg Comm Amort Depr Study	P16	B6678
568010	16	16	Water Res Conservation	P21	B6758
570100	15	15	Uncollectible Accounts	P18	B6707
570100	16	16	Uncollectible Accts-MI's	P18	B6707
575000	11	11	Misc Oper SS	P21	B6751
575000	12	12	Misc Oper P	P21	B6751
575000	13	13	Misc Oper WT	P21	B6753
575000	14	14	Misc Oper TD	P21	B6755
575000	15	15	Misc Oper CA	P18	B6757
575000	16	16	Misc Oper AG	P21	B6758
575002	16	16	Misc General Office	P20	B6758
575030	16	16	Advertising	P21	B6608
575100	15	15	Bank Service Charges CA	P18	B6757
575100	16	16	Bank Service Charges AG	P20	B6758
575130	16	16	Brochures and Handouts	P21	B6758
575200	15	15	Collection Agencies CA	P18	B6757
575220	16	16	Community Relations	P21	B6758
575240	16	16	Co Dues/Membership Deduct	P21	B6758
575242	16	16	Co Dues Deduct AWWA	P21	B6758

575244	16	16	Co Dues Deduct NAWC	P21	B6758
575260	16	16	Credit Line Fees	P20	B6758
575261	AW46	AW46	Credit Line Fees AW46	P20	B6758
575270	16	16	Directors Fees	P21	B6758
575275	16	16	Discounts Available	P21	B6758
575280	16	16	Dues/Membership Deduct	P20	B6758
575320	13	13	Electricity WT	P21	B6753
575320	14	14	Electricity TD	P21	B6755
575320	16	16	Electricity AG	P20	B6758
575340	16	16	Employee Expenses AG	P20	B6758
575342	16	16	Empl Exp Conf/Registration A	P20	B6758
575350	16	16	Meals Deduct	P20	B6758
575351	16	16	Meals Non Deduct	P20	B6758
575420	15	15	Forms CA	P18	B6757
575420	16	16	Forms AG	P20	B6758
575480	14	14	Heat - Oil/Gas TD	P21	B6755
575480	16	16	Heat - Oil/Gas AG	P20	B6758
575500	13	13	Janitorial WT	P21	B6753
575500	14	14	Janitorial TD	P21	B6755
575500	16	16	Janitorial AG	P20	B6758
575545	13	13	Lab Supplies WT	P21	B6753
575620	13	13	Office & Admin Supplies WT	P21	B6753
575620	14	14	Office & Admin Supplies TD	P21	B6755
575620	15	15	Office & Admin Supplies CA	P18	B6757
575620	16	16	Office & Admin Supplies AG	P20	B6758
575625	13	13	Overnight Shipping WT	P21	B6753
575625	16	16	Overnight Shipping AG	P21	B6758
575660	15	15	Postage CA	P18	B6757
575660	16	16	Postage AG	P20	B6758
575711	16	16	Add'l Security Costs AG	P21	B6758
575715	16	16	Software Licenses & Support	P21	B6758
575740	14	14	Telephone TD	P21	B6755
575740	15	15	Telephone CA	P18	B6757
575740	16	16	Telephone AG	P20	B6758
575741	13	13	Cell Phone WT	P21	B6753
575741	14	14	Cell Phone TD	P21	B6755
575741	16	16	Cell Phone AG	P20	B6758
575780	11	11	Trash Removal SS	P21	B6751
575780	14	14	Trash Removal TD	P21	B6755
575780	16	16	Trash Removal AG	P20	B6758
575790	16	16	Trustee Fees AG	P21	B6758
575820	13	13	Uniforms WT	P21	B6753
575820	14	14	Uniforms TD	P21	B6755
575820	15	15	Uniforms CA	P18	B6757
575830	11	11	Wtr & Waste Wtr Exp SS	P21	B6751
575830	16	16	Wtr & Waste Wtr Exp AG	P20	B6758
575998	16	16	PCard Undistributed	P21	B6751
620000	21	21	Mat and Sup Maint SS	P25	B6202
620000	23	23	Mat and Sup Maint WT	P25	B6204
620000	24	24	Mat and Sup Maint TD	P25	B6206
620000	26	26	Mat and Sup Maint AG	P25	B6208
635000	26	26	Contr Svc-Other Maint AG	P25	B6358

675000	23	23	Misc Maint WT	P25	B6754
675000	24	24	Misc Maint TD	P25	B6756
675000	26	26	Misc Maint AG	P25	B6758
675000	2440	2440	Misc Maint TD Hydrants	P25	B6756
675050	23	23	Amort Def Maint WT	P25	B6754
675050	24	24	Amort Def Maint TD	P25	B6756
675110	26	26	Maint Exp ARO/Net Neg Sal AG	P25	B403
675650	24	24	Paving/Backfill TD	P25	B6756
680110			Depr Exp-General	P27	B403
680120			Depr Exp-Amort CIAC Tax	P27	B403
680125			Depr Exp-Amort CIAC Non Tax	P27	B403
680300			Amortization of UPAA	P28	B406
680540			Amort-Reg Asset AFUDC	P28	B4071
680600			Amort-Prop Losses	P28	B4072
680620			Amort-Reg Asset	P28	B4071
685100			Utility Reg Assessment Fee	P29	B40810
685200			Property Taxes	P29	B40811
685320			FUTA	P29	B40812
685325			FICA	P29	B40812
685350			SUTA	P29	B40812
685440			Gross Receipts Tax	P29	B40813
690110			FIT-Current	P31	B40910
690210			SIT-Current	P30	B40911
690630	1	001	Def FIT-Reg Asset	P31	B41010
690630	2	002	Def FIT-Reg Liab	P31	B41010
690650	2	002	Def FIT-Other Liab	P31	B41010
690730	1	001	Def SIT-Reg Asset	P30	B41011
690730	2	002	Def SIT-Reg Liab	P30	B41011
690750	2	002	Def SIT-Other Liab	P30	B41011
695220			ITC Restored - 3%	P31	B41211
695230			ITC Restored - 4%	P31	B41211
695240			ITC Restored - 10%	P31	B41211
705100			AFUDC - Equity	P40	B420
710500	AW46	AW46	Int Inc-Inside AW46	P39	B419
715111			M&J Revenues-Outside	P42	B415
716121			M&J Expenses-Outside	P42	B416
716122			M&J Expenses-Inside	P42	B416
755100			Amort UPAA	P46	B426
755201			Amort PS Exp w/ mandatory	P57	B428
760100			Donations Deduct	P48	B426
760200			Other Income Deductions	P48	B426
760400			Other Lobbying Expenses	P48	B426
780100			SIT-Other Inc & Ded Curr	P50	B40920
790100			FIT-Oth Inc & Ded-curr	P51	B40920
810100			Int LTD-Outside Reg	P56	B4273
810400	AW46	AW46	Int LTD-Inside AW46	P56	B4273
820100			Amort Debt Disc & Exp	P57	B428
820110	AW46	AW46	Amort DExp Inside AW46	P57	B428
830100	AW46	AW46	Interest STD Inside	P58	B4272
840000			Other Interest Expense	P59	B4275
850000			AFUDC Debt	P60	B420
860040			Div Dec PS-Out w/ mand	P56	B437

860220 AW02 AW02 Div Decl Com Stk In-AW02 P69 B438

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Sheila Miller

10. Please provide a complete copy of KAWC's detailed general ledger for 2007, 2008 and 2009 and as budgeted/forecasted for 2010 through 9/30/2011. In addition, please provide new monthly data as it becomes available through the course of this proceeding.

Response:

Due to the volume of paper for this response, the attachments are being provided in excel format only. Please refer to the CD provided with this filing and folder named KAW_R_AGDR1#10_042610 for the general ledgers and budgets.

For the electronic version of this response, refer to KAW_R_AGDR1#10_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Sheila Miller**

11. Please provide a copy of KAWC's trial balances for 12/31/2007, 12/31/2008 and 12/31/2009 and for each month in 2010. In addition, please provide new monthly data as it becomes available through the course of this proceeding.

Response:

Please see attached.

For the electronic version, refer to KAW_R_AGDR1#11_042610.pdf.

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0001R

American Water Works Company
Kentucky-American Water- CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2007

01/21/08
11:53:23

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
101000 Organization	187.02	37,534.43	5,439.75	31,640.33
302000 Franchises		355,966.67		311,222.42
303000 Land & Ld Rights SS		68,163.99		68,163.99
303300 Land & Ld Rights WT		4,019.85		3,946.18
303500 Land & Ld Rights TD		2,625.48		2,568.38
304100 Struct & Imp SS	55,325.54	4,265.49	125,792.66	3,871.51
304200 Struct & Imp P	731.97	4,900.59	25,309.80	4,800.06
304300 Struct & Imp WT	28,206.06	17,227.27	8,962.01	8,962.01
304400 Struct & Imp TD	307.54	2,275.16	281,528.06	8,962.01
304610 Gen Structures - HVAC	1,914.55	869.75	13,215.32	3,991,281.60
304700 Struct & Imp Store, Shop, Gar		1,018.77		993,632.47
304800 Struct & Imp Misc		1,018.77		1,472,885.04
305000 Lakes & Imp Ponding		1,519.33		1,519,330.94
306000 Supply Mains & Other Intakes	25,422.84	5,572.45	166,346.17	5,082,342.14
311000 Power Generation Equip				
311100 Pump Equip Electric	77,889.08	887.40	175.65	573,453.97
311200 Pump Equip Diesel		9,524.88	24,225.24	9,600,980.00
311300 Pump Equip Hydraulic		7,724.41	7,174.49	7,724,441.60
311400 Pumping Equipment TD		5,609.22	2,485.28	6,181,581.87
311540 WT Equip Non-Media	50,283.07	8,405.01	63,270.85	24,144,251.43
321000 Dist Reservoirs & Standpipes		26,514.24	1,656,898.71	1,656,898.71
331000 Elevated Tanks & Standpipes		10,156.80	56,540.81	9,470,324.37
331001 TD Mains Not Classified by	417,456.02	148,689.55	427,847.94	1,477,489.96
331100 TD Mains 4in & Less	406,828.26	2,086.62	1,902,968.04	1,918,057.35
331200 TD Mains 6in to 8in	1,578.91	738.82	1,902,968.04	4,932.93
331300 TD Mains 10in to 12in		1,324.30		4,932.93
331400 TD Mains 18in & Grtr	135,122.36	36,170.71	408,119.67	35,200,528.14
331500 Meters		57,743.89		47,063.51
331600 Meters Bronze Case	11,794.09	1,436.86	37,862.01	1,436,864.36
331700 Meters Plastic Case		1,522.98	529,969.66	1,443,400.44
331800 Meter Installations	334,743.27	15,225.48	103,451.35	16,876,610.64
332000 Hydrants		10,417.32	99,526.32	15,144,584.55
333000 Other P/E CPS		8,374.81	125,792.80	10,144,266.86
334000 Office Furniture & Equip	328,245.94	264,691.24	833,319.43	3,833,000
334100 Comp & Periph Mainframe	53,279.23	668,239.12	15,760.39	685,445.14
334200 Comp & Periph Personal	87,183.93	770,264.47	9,581.18	1,497,999.21
334220 Comp & Periph Other	319,960.08	162,379.31	15,862.23	4,548,345.95
334300 Computer Software	28,742.84	598,529.14	8,097.95	538,268.14
334320 Comp Software Personal	19,782.42	1,183,417.29	2,544.92	1,743,248.10
334400 Trans Equip Ld Duty Trks	37,941.31	1,711,417.54	496,276.70	1,543,418.30
334500 Trans Equip Hvy Duty Trks	131,794.85	2,057,613.06	26,478.71	1,788,378.60
334600 Trans Equip Autos	137,911.12	2,057,613.06	1,508.17	1,880,201.94
334700 Stores Equip Other		33,926.53	51,202.15	1,138,568.17
334800 Tools, Shop, Garage Equip	1,620.32	1,537,926.63	235,935.44	35,546.95
334900 Laboratory Equipment	2,257.53	1,856,180.67	1,415,411.27	1,415,411.27
335000 Power Operated Equipment	1,035.78	1,589,810.47	49,934.81	1,843,098.99
335100 Comm Equip Non-Telephone	7,189.59	1,589,810.47	3,330.37	1,589,810.47
335200 Misc Equipment	3,095.04	1,138,484.38	32,150.10	1,138,484.38
335300 Other Tangible Property		27,250.00		
335400 WW Land & Ld Rights Gen		67,212.77		
335500 WW Struct & Imp Col		2,110,327.92		
335600 WW Struct & Imp SPP		853,517.58		
335700 WW Struct & Imp GDP		1,9,550.00		
335800 WW Collecting Mains Forced	17,492.73	10,707.91	22,715.85	10,707.91
335900 WW Services Sewer		22,715.85		
336000 WW Pump Equip Elect		22,715.85		
336100 WW TD Equipment		4,960.16		
336200 WW Office Furniture & Equip		6,237.50		
336300 WW Computers & Peripheral				
336400 WW Trans Equip Ld Duty Trks				
336500 WW Stores Equip				
336600 WW Tool Shop & Garage Equip				
336700 WW Power Operated Equip				
336800 WW Communication Equip				
336900 WW Misc Equipment				
337000				
337100				
337200				
337300				
337400				
337500				
337600				
337700				
337800				
337900				
338000				
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American Water Works Company
Kentucky-American Water Co 12
TOTAL
For the period ending 12/31/2007

01/21/08
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Description	December Activity	Prior Year Activity	December Balance	Prior Year Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
101001 Land & Ld Rights SS			20,744.35	20,744.35
303200 Land & Ld Rights P			9,286.00	9,286.00
303300 Land & Ld Rights TD			73,655.20	73,655.20
304400 Struct & Imp	3,677.25		25,137.46	25,137.46
304700 Struct & Imp Store, Shop, Gar	441.01		82,353.23	82,353.23
304800 Struct & Imp Misc			686,245.16	686,245.16
304900 WF Equip Non-Media			123,222.68	123,222.68
305100 Elevated Tanks & Standpipes			104,452.19	104,452.19
305200 TD Mains Not Classified by			5,330.88	5,330.88
305300 Services			3,393.00	3,393.00
305400 Meter Installations				
305500 Meter				
305600 Hydrants				
305700 Furniture & Equip				
305800 Comp & Periph Personal	2.18		12,043.83	12,043.83
305900 Computer Software			18,563.32	18,563.32
306000 Other Office Equipment			4,220.91	4,220.91
306100 Trans Equip Lt Duty Trks			4,877.77	4,877.77
306200 Tools, Shop, Garage Equip			49,449.98	49,449.98
306300 Power Operated Equipment			75,554.21	75,554.21
306400 Misc Equipment			2,235.00	2,235.00
306500 WW Land & Ld Rights Gen			267,312.77	267,312.77
306600 WW Struct & Imp SEP			2,110,088.46	2,110,088.46
306700 WW Struct & Imp IDP			853,517.56	853,517.56
306800 WW Struct & Imp Gen			22,571.55	22,571.55
306900 WW Collection Sewers			25,399.51	25,399.51
307000 WW Of Equipment			5,144.16	5,144.16
307100 WW Of Furniture & Equip			500.00	500.00
307200 WW Computers Peripheral			25,748.88	25,748.88
307300 WW Trans Equip Lt Duty Trks			37,141.88	37,141.88
307400 WW Tool Shop & Garage Equip.			1,396.00	1,396.00
307500 WW Power Operated Equip				
307600 WW Communication Equip				
307700 WW Misc Equipment	477.06		19,745.70	19,745.70
101099 Completed Const not Classif				
101100 Reg Asset-AFUDC-Debt				
103000 Property Held Future Use				
104000 Utility Plant Purchased/Sold				
106000 Utility Plant Purchased/Sol				
106000 Struct & Imp SS				
304100 Struct & Imp SS	182,550.90		80.65	80.65
304200 Struct & Imp WT	185,045.39		228.44	228.44
304300 Struct & Imp AG	127,206.21		2,202.21	2,202.21
304400 Struct & Imp Offices				
304500 Struct & Imp Misc	2,913.75		110.25	110.25
304600 Lake, River & Other Intakes			7,123.84	7,123.84
304700 Supply Mains	3,437.04		312,331.84	312,331.84
304800 Power Generation Equip	17,735.57		12,600.29	12,600.29
304900 Pump Equip Electric			619,736.80	619,736.80
305000 Pumping Equipment WT	204,608.55		140,617.53	140,617.53
305100 Pumping Equipment TD	1,237,618.91		1,612,010.25	1,612,010.25
305200 WF Equip Non-Media			1,812,089.65	1,812,089.65
305300 Ground Level Facilities	727,045.54		5,118,840.92	5,118,840.92
305400 TD Mains Not Classified by			20,807.65	20,807.65
305500 TD Mains 4in & Less	423,672.02		1,488,240.34	1,488,240.34
305600 TD Mains 6in to 8in	1,356,520.50		1,360,177.85	1,360,177.85
305700 TD Mains 10in to 16in	484,385.02		92,383.17	92,383.17
305800 TD Mains 18in & Gtr	12,976.96		1,800.99	1,800.99
305900 Meters	7,515.16		7,515.16	7,515.16
306000 Meters Bronze Case	86,056.73		478,845.89	478,845.89
306100 Meters Plastic Case	289,533.25		239,259.05	239,259.05
306200 Meters Other Rem Pdr Units	4,101.35		15,913.42	15,913.42
306300 Meter Installations	335,413.09		67,615.55	67,615.55
306400 Meter Vaults	46,326.36		54,033.85	54,033.85
306500 Hydrants	114,436.72		153,585.25	153,585.25
306600 Office Furniture & Equip	9,511.40		31,377.16	31,377.16
306700 Comp & Periph Personal				
306800 Comp Software Personal				

272,637.00
114,076.24
80.65
228.44
2,202.21
110.25
7,123.84
312,331.84
12,600.29
619,736.80
140,617.53
1,612,010.25
1,812,089.65
5,118,840.92
20,807.65
1,488,240.34
1,360,177.85
92,383.17
1,800.99
7,515.16
478,845.89
239,259.05
15,913.42
67,615.55
54,033.85
153,585.25
31,377.16

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American Water Works Company
Kentucky-American Water- CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2007

01/21/08
11:53:23

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
106000 Comp Software Other	31,059.32	97,003.83		
340330 Trans Equip Lt Duty Trks	44,438.73CR	142,130.78		
341100 Tools, Shop, Garage Equip	3,155.00CR			
343000 Laboratory Equipment	2,187.80CR			
347000 Misc Equipment	39,650.00	4,468.89		
354500 WW Struct & Imp Gen	43,020.00	4,873.02		
394000 WW Laboratory Equipment	40,520.00	4,566.79		
B01 Utility Plant Original Cost	4,938,772.14	345,341,373.77	4,402,710.22	327,533,086.16
B02 CWIP				
105050 CWIP Acqr-Infra	536,800.26	774,305.45	804,050.08	1,745,378.86
21 CWIP Acqr-Plant	1,015,247.16	2,375,345.81	2,474,338.18	2,559,478.22
105110 CWIP History-Bldgs		10,021,835.69		10,021,835.69
11 CWIP History-Infrastr		51,966.84		51,966.84
31 CWIP History-Plant		5,381.46CR		5,381.46CR
105125 CWIP Permits & Fees		602,319.28		602,319.28
11 CWIP Permits & Fees	17,950.97	49,132.88		49,132.88
21 CWIP Permits-Bldgs	150.00	568,385.13		270,304.98
31 CWIP Permits-Infrastr	44,799.99	142,941.61	36,608.13	111,451.97
105150 CWIP M&S & Purchases		497,079.72		349,781.45
11 CWIP M & S-Bldgs	588,750.76	19,112,344.78		19,112,344.78
21 CWIP M & S-Infrastr	582,382.06	22,895,731.33		17,820,522.20
31 CWIP M & S-Plant	43,744.50	8,798,114.06	1,577,890.28	4,882,402.75
105175 CWIP Professional Services		30,275.65		30,385.35
21 CWIP Prof Svc-Infrastr		1,387,098.51		1,082,241.40
31 CWIP Prof Svc-Plant		40,587.35		40,017.77
105200 CWIP Co Labor		1,594,849.33		1,594,849.33
11 CWIP Co Labor-Bldgs	97,819.26	21,216.17		19,406.87
21 CWIP Co Labor-Infrastr	6,065.08	3,328,515.20	57,278.22	2,351,556.50
31 CWIP Co Labor-Plant		708,031.91	5,530.16	605,143.76
105250 CWIP Co Labor OH		1,765,848.50		1,733,257.55
11 CWIP Labor OH-Bldgs	27,320.46	1,145,740.11		1,145,740.11
21 CWIP Labor OH-Infrastr	72,742.46	2,101,939.24	42,121.79	1,594,757.36
31 CWIP Labor OH-Plant	6,620.10	301,169.15	4,184.97	1,529,304.22
105260 CWIP Overhead		688,754.64		688,754.64
11 CWIP Overhead-Bldgs	411.47	174,485.05		159,785.93
21 CWIP Overhead-Infrastr	111,716.05	3,938,755.03	59,533.92	2,233,896.02
31 CWIP Overhead-Plant	29,159.29	974,854.56	38,986.17	1,550,330.52
105270 CWIP Service Co Chgs		5,269.73		5,269.73
21 CWIP Service Co Chgs	17,115.36	543,743.59	42,248.52CR	544,022.02
31 CWIP AMWSC Chg-Plant		746,941.01	55,535.93	552,103.68
105275 CWIP Contract Services		26,570,271.06		26,566,882.64
11 CWIP Contr Svc-Bldgs	633,142.50	36,950,636.27	16,375.66	715,555.39
21 CWIP Contr Svc-Infrastr	2,069,447.20	17,671,839.38	2,887,048.80	28,980,348.23
31 CWIP Contr Svc-Plant		366,817.31		366,817.31
105280 CWIP Retainage		3,706,739.69		3,706,739.69
11 CWIP Retainage-Bldgs	258,796.45	2,071,328.00	217,135.32	2,155,405.20
21 CWIP Retainage-Infrastr	71,276.85	7,706,739.69	79,784.53	7,429,707.69
31 CWIP Retainage-Plant				
105300 CWIP Paving		22,858.20		22,858.20
21 CWIP Paving-Infrastr		199,028.00		199,028.00
31 CWIP Paving-Plant		466.06		466.06
105350 CWIP AFUDC Debt		703,911.94		703,911.94
11 CWIP AFUDC Debt	28,416.85	51,763.27	6,035.05	51,763.27
21 CWIP AFUDC Debt-Infrastr	22,157.58	389,913.80	4,379.53	234,212.02
31 CWIP AFUDC Debt-Plant		727,638.15		495,314.81
105375 CWIP AFUDC Equity		809,429.26		809,429.26
11 CWIP AFUDC Equity-Bldgs	37,176.60	51,763.27	7,988.11	51,763.27
21 CWIP AFUDC Equity-Infrastr	28,775.17	514,290.19	5,681.26	314,887.42
31 CWIP AFUDC Equity-Plant		246,689.80		246,689.80
105390 CWIP Tran FY Chg-Bldgs				

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American Water Works Company
Kentucky-American Water- CO 12
Total Balance (USGAAP)
Trial Balance

01/21/08
11:53:23

For the Period Ending 12/31/2007

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
11 CWIP Tran FY Chg-Bldgs		16,511.92	33,096.36	177,144.11
21 CWIP Tran FY Chg-Infrastr	49.51	876,982.15	282,903.53	850,078.39
103991 CWIP Tran FY Chg-Plant	9.86		175,409.50	
103999 CWIP Trans-Current Yr Chgs		9,843,395.47		9,843,395.47
105900 CWIP Prelim Eng-Plant		2,618.00		2,618.00
1 CWIP Transfer to UPIS		376.20		
11 CWIP Transfer to UPIS	5,609.22	51,962.76	106,113.95	51,962.76
21 CWIP Tran UPIS-Bldgs	4,911.66	1,950.65	3,247.81	1,944.99
31 CWIP Tran UPIS-Infrastr	2,977.52	71,816.43	3,247.81	55,376.31
		18,336.83	1,563.96	13,044.85
B02 CWIP	1,627,208.78	21,309,716.26	5,166,122.94	11,763,310.24
B03 Accumulated Depreciation				
108105 AD UPIS-Deprec Not Classifd	212.87	50,260.52	108,553.97	50,260.52
01 AD UPIS-Deprec-Other Bldgs	38,138.73	2,246,011.30	81,729.81	2,172,982.30
05 AD UPIS-Deprec-Other Bldgs	37,855.47	2,246,416.47	12,858.01	2,150,410.30
06 AD UPIS-Deprec-Infrastr	40,333.65	18,740,198.20	347,553.39	15,388,398.16
07 AD UPIS-Deprec-Op Water Pl	56,078.69	8,746,753.23	174,380.79	7,189,961.23
08 AD UPIS-Deprec-Other Equip	105,248.71	4,430,232.39	82,533.95	3,355,954.56
09 AD UPIS-Deprec-Office Equi	67,139.30	6,750,928.43	130,553.95	5,207,657.69
108110 AD UPIS-Removal Cost		2,040,107.64	1,079.82	51,831.36
108115 AD UPIS-Salvage	743.50	96,847.49		94,978.49
108120 AD UPIS-Scrap Meters		23,226.64		19,995.14
108122 AD UPIS-Scrap Meters		10,764.38		9,606.63
108135 AD UPIS-Salv Sale		16,975.00		16,975.00
108140 AD UPIS-Salv Sale		2,490.81		2,490.81
108145 AD UPIS-Orig Cost-Not Classifd	2,956,092.91	10,110,183.06	111,246.67	6,779,218.74
108190 Acc Dep'r Reg Asset	575.00	103,489.18	575.00	96,589.18
B03 Accumulated Depreciation	2,609,459.75	80,434,538.71	611,881.10	75,828,388.59
B04 UPAA				
114100 UPAA-ATL		455,951.18	23.96	455,951.18
115100 Accum Amort UPAA-ATL	1,765.58	129,174.65	1,765.53	107,985.33
	1,765.58	326,776.53	1,741.57	347,965.85
B07 Non Utility Property, Net				
121500 NUP-Other		249,737.68		249,737.68
NUP-Other		249,737.68		249,737.68
B07 Non Utility Property, Net				
B10 Cash & Cash Equivalents				
123112 BB&T	24.06	24.06	63,079.70	76,661.28
003 Cash-Meysr	35,207.16	118,521.91		
007 Cash Clear-NSF Checks	456.24	276,226.96		
131998 Cash Clear-Mixed Pymt		1,487.34	22.49	121.44
002 Cash Clear-Mi's			510.60	
004 Cash Clear-ORCOM			41.53	
006 Cash Clear-Interco	35.74	35.74	278.43	57.94
007 Cash Clear-Pinnac/ARP	8,670.41	367.37	114.98	114.98
008 Cash Clear-General	9.93	9.93	449.37	400.75
009 Cash Clear-ARC DR/CR	818,197.76	6.14	118,290.96	825,408.00
134100 Petty Cash		2,400.00	7.29	51.80
Petty Cash		2,400.00		2,400.00
B10 Cash & Cash Equivalents	573,351.50	398,277.20	181,209.77	904,169.16
B12 Customer Accounts Receivable				
114100 Customer A/R	114,488.24	1,926,155.18	103,153.71	2,450,494.71
Customer A/R				

		American Water Works Company Kentucky American Water Co 12 Total Company (USGAAP) For the Period Ending 12/31/2007		01/21/08 11:53:23	
Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance	
00012 Kentucky-American Water Co.	114,488.24	1,927,082.47	2,097,450CR	2,533.93	
B12 Customer Accounts Receivable			101,056.26	2,453,028.64	
B13 Allowance for Uncollectible A/ 143000 Accum prov-uncoll acct	37,657.34	223,309.20CR	23,854.32	261,096.96CR	
B13 Allowance for Uncollectible A/ 143000 Accum prov-uncoll acct	37,657.34	223,309.20CR	23,854.32	261,096.96CR	
B14 Accrued Utility Revenue	290,931.91	2,562,043.18	89,632.10	2,510,264.49	
B14 Accrued Utility Revenue	290,931.91	2,562,043.18	89,632.10	2,510,264.49	
B15 FIT Refund Due From Assoc Co	370,520.00CR	388,037.86	249,075.00	3,470,085.82	
B15 FIT Refund Due From Assoc Co	370,520.00CR	388,037.86	249,075.00	3,470,085.82	
B16 Miscellaneous Receivables	50,560.33CR	59,088.32	47,559.30CR	541,006.77	
B16 Miscellaneous Receivables	50,560.33CR	59,088.32	47,559.30CR	541,006.77	
B17 Materials & Supplies	49,071.00	634,634.44	87,277.01CR	515,515.45	
B17 Materials & Supplies	49,071.00	634,634.44	87,277.01CR	515,515.45	
B19 Prepayments	57,031.59CR	431.66	56,186.18CR	708.24	
B19 Prepayments	57,031.59CR	431.66	56,186.18CR	708.24	
B23 Debt & Preferred Stock Exp	667.03CR	150,023.38	668.50CR	158,075.43	
B23 Debt & Preferred Stock Exp	667.03CR	150,023.38	668.50CR	158,075.43	
B24 Debt & Preferred Stock Exp	5,285.56CR	217,954.84	5,340.03CR	281,653.93	
B24 Debt & Preferred Stock Exp	5,285.56CR	217,954.84	5,340.03CR	281,653.93	
B25 Debt & Preferred Stock Exp	139.97	455,597.96			
B25 Debt & Preferred Stock Exp	139.97	455,597.96			

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American Water Works Company
Kentucky-American Water- CO 12
Total Balance (USGAAP)
Trial Balance
For the Period Ending 12/31/2007

01/21/08
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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
182000 Pref Stk Exp w/ mandatory	64,24CR	22,291.28	64,24CR	23,962.16
B23 Debt & Preferred Stock Exp	5,876.86CR	845,867.45	6,072.77CR	462,791.52
B24 Deferred Rate Proceedings				
182000 Deferred Rate Proceedings				
Deferred Rate Proceedings	60,856.31CR	485,892.90	30,086.23CR	421,207.06
B24 Deferred Rate Proceedings	60,856.31CR	485,892.90	30,086.23CR	421,207.06
B25 Preliminary Survey & Invest				
183000 Prelim Survey & Invest				
Prelim Survey & Invest	125,657.24	125,657.24		125,657.24
B25 Preliminary Survey & Invest	125,657.24	125,657.24		125,657.24
B26 Deferred Regulatory Asset				
B26 Deferred Regulatory Asset				
186030 Reg Asset-APUDC-OWIP	40,888.74	700,123.65	9,255.47	362,548.13
Reg Asset-APUDC-OWIP				
186035 Reg Asset-APUDC-OWIP				
Reg Asset-APUDC-OWIP	2,495,394.60	2,495,394.60		2,495,394.60
186040 Reg Asset-Plt Flow-Diff	33,109.00CR	4,090,748.38	30,875.00CR	4,488,056.38
Reg Asset-Plt Flow-Diff				
186045 Reg Asset-Other	2,008.00	477,241.39CR	2,008.00	501,337.39CR
Reg Asset-Other				
186055 Reg Asset-Accum Amort	5,282.45CR	423,587.41CR	2,144.00CR	360,198.00CR
Reg Asset-Accum Amort				
B26 Deferred Regulatory Asset	4,505.29	6,385,437.83	21,755.53CR	6,484,463.72
B27 Other Deferred Debits				
183280 DEP Customer Service Project				
Customer Service Project				
184100 Eng Client Service Projec				
Client Service Projec				
184102 Mngmt Study - AMR	10,594.01		82.95CR	
Mngmt Study - AMR				
184103 Mngmt Study - Pipe Assmnt	590.17			
Mngmt Study - Pipe Assmnt				
185125 RWIP Permits, Fees & Premiun	773.01CR			
RWIP Permits, Fees & Premiun				
185150 RWIP M & S and Purchases				
RWIP M & S and Purchases				
21 RWIP M & S and Purchases	682.08			
RWIP M & S and Purchases				
185200 RWIP CO Labor				
RWIP CO Labor				
21 RWIP CO Labor	357.42CR			
RWIP CO Labor				
185250 RWIP CO Labor OH				
RWIP CO Labor OH				
21 RWIP CO Labor OH	5,917.61			
RWIP CO Labor OH				
185275 RWIP Contracted Services				
RWIP Contracted Services				
21 RWIP Contracted Services	287.40CR			
RWIP Contracted Services				
31 RWIP Contracted Services	126,415.10			
RWIP Contracted Services				
185280 RWIP Retainage				
RWIP Retainage				
21 RWIP Retainage	3,282.16			
RWIP Retainage				
185315 RWIP Salvage				
RWIP Salvage				
31 RWIP Salvage	129.21CR			
RWIP Salvage				
185320 RWIP Scrap Meters				
RWIP Scrap Meters				
21 RWIP Scrap Meters	985.00			
RWIP Scrap Meters				
185322 RWIP Scrap Misc				
RWIP Scrap Misc				
21 RWIP Scrap Misc	2,076.280.37			
RWIP Scrap Misc				
31 RWIP Scrap Misc	21,486.54			
RWIP Scrap Misc				
185999 RWIP Clear Removal & Salvage				
RWIP Clear Removal & Salvage				
21 RWIP Clear Removal & Salvage	70,000.00			
RWIP Clear Removal & Salvage				
186401 DDA-Programmed Maint				
DDA-Programmed Maint				
21 DDA-Programmed Maint	5,093.07			
DDA-Programmed Maint				
186405 DDA-RIA Software Licen				
DDA-RIA Software Licen				
21 DDA-RIA Software Licen	80,727.10CR			
DDA-RIA Software Licen				
186426 DDA-FAS 112 Costs				
DDA-FAS 112 Costs				
21 DDA-FAS 112 Costs	10,664.20CR			
DDA-FAS 112 Costs				
186431 DDA-Depreciation Study				
DDA-Depreciation Study				
21 DDA-Depreciation Study	80,727.10CR			
DDA-Depreciation Study				
186432 DDA-CEI SF-Sacet Study				
DDA-CEI SF-Sacet Study				
21 DDA-CEI SF-Sacet Study	743.50CR			
DDA-CEI SF-Sacet Study				
186444 DDA-Waste Disposal				
DDA-Waste Disposal				
21 DDA-Waste Disposal	1,125.51CR			
DDA-Waste Disposal				
31 DDA-Waste Disposal	780.00CR			
DDA-Waste Disposal				
21 DDA-Waste Disposal	26,376.63CR			
DDA-Waste Disposal				
31 DDA-Waste Disposal	2,139,192.95CR			
DDA-Waste Disposal				
21 DDA-Waste Disposal	21,945.95CR			
DDA-Waste Disposal				
31 DDA-Waste Disposal	342.72CR			
DDA-Waste Disposal				
21 DDA-Waste Disposal	54,852.00			
DDA-Waste Disposal				
31 DDA-Waste Disposal	61,130.00			
DDA-Waste Disposal				
21 DDA-Waste Disposal	26,965.95			
DDA-Waste Disposal				
31 DDA-Waste Disposal	13,300.70			
DDA-Waste Disposal				
21 DDA-Waste Disposal	92,812.50			
DDA-Waste Disposal				
31 DDA-Waste Disposal	194,062.50			
DDA-Waste Disposal				

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American Water Works Company
Kentucky-American Water- CO 12
Total Company (USSAAP)
Trial Balance
For the Period Ending 12/31/2007

01/21/08
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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B27 Other Deferred Debits				
186492 DDA-Add'l Security Costs			15.10	15.10
186598 DDA-Oth Reg Assets	34,348.86CR	2,948,965.56	34,349.02CR	3,361,153.63
186703 DDA-Undistributed Items	873.50CR	30,118.63	3,134.00	14,124.92
186704 DDA-Undistributed Items	450.15CR			
186705 DDA-IC Rec/Pay Clearing	27,963.00			
186707 DDA-Ins Oth Than Grp Reg			22,814.65CR	2,916.10
186711 DDA-Acquisition Costs			1,608.05CR	.33
186750 DDA-Engineering Studie				
186898 DDA-Oth LT Assets				
B27 Other Deferred Debits	122,349.16	5,384,533.91	170,855.67	5,109,489.70
B33 Common Stock				
201200 Com Stk Subs Interco				
AW02 Com Stk Subs AW02	36,568,776.50CR	36,568,776.50CR		36,568,776.50CR
B33 Common Stock				
B34 Paid In Capital				
205175 Donations from Stkholders				
AW02 Donations from Stkholders	21,329.44CR	21,329.44CR		21,329.44CR
205300 Gain on Resale/Cancel				
AW02 Gain on Resale/Cancel	180.00CR	180.00CR		180.00CR
205440 Misc PIC				
AW02 Misc PIC AW02	8,034,810.00CR	8,034,810.00CR	8,000,000.00CR	8,034,810.00CR
B34 Paid In Capital	8,056,319.44CR	8,056,319.44CR	8,000,000.00CR	8,056,319.44CR
B35 Retained Earnings				
210210 R/E at Acquisition				
AW02 R/E at Acq AW02	343,498.00CR	343,498.00CR		343,498.00CR
210240 R/E Since Acquisition				
AW02 R/E Since Acquisition	28,005,584.72CR	28,005,584.72CR	26,738,529.57CR	26,738,529.57CR
B35 Retained Earnings	28,349,082.72CR	28,349,082.72CR	27,082,027.57CR	27,082,027.57CR
B39 Preferred Stock				
215110 Pref Stk-Outside				
AW02 Pref Stk Sub Outside	1,456,700.00CR	1,456,700.00CR	600.00	1,456,100.00CR
215410 Pref Stk Sub Outside				
AW02 Pref Stk Sub Outside	1,456,700.00CR	1,456,700.00CR	600.00	1,456,100.00CR
B39 Preferred Stock				
B40 Long Term Debt				
215113 Pref Stk-Mand LT				
AW02 Pref Stk-Mand LT	4,500,000.00CR	4,500,000.00CR		4,500,000.00CR
221110 Bonds-Outside				
AW02 Bonds-Outside	23,500,000.00CR	23,500,000.00CR		23,500,000.00CR
221120 Bonds-Inside AW46				
AW02 Bonds-Inside AW46	56,300,000.00CR	56,300,000.00CR	27,100,000.00	26,400,000.00CR
B40 Long Term Debt	84,300,000.00CR	84,300,000.00CR	27,100,000.00	54,400,000.00CR
B43 Bank Debt				
231200 Notes Pay-Assoc Cos				
AW46 Notes Pay AW46	7,136,663.54CR	7,136,663.54CR	3,021,804.87	3,297,056.37CR
B43 Bank Debt	7,136,663.54CR	7,136,663.54CR	3,021,804.87	3,297,056.37CR
B44 Current Portion LTD				
232200 Curr Portion LTD-In				
AW46 Curr Portion LTD-AW46	3,100,000.00CR	3,100,000.00CR	27,100,000.00CR	27,100,000.00CR

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American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2007

December
Activity

December
Balance

Prior Year
Activity

Prior Year
Balance

Description

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.		3,100,000.00CR	27,100,000.00CR	27,100,000.00CR
B44 Current Portion LTD				
23200 Curr Portion LTD-In				
B44 Current Portion LTD		3,100,000.00CR	27,100,000.00CR	27,100,000.00CR
B45 Accounts Payable				
234100 Accts Pay-Gen System	1,760,576.09CR	2,164,937.83CR	1,152,058.91CR	1,321,667.39CR
234110 Accts Pay-Pcard	3,660.62CR	13,029.35	16,034.39	21,666.90
234200 Accts Pay-Contract Retention	186,019.22CR	1,136,834.89CR	67,133.42CR	196,873.65CR
234300 Accts Pay-Misc	17,233.18	155,086.79CR	129,537.97CR	171,583.70CR
002 Accts Pay-Misc W/O's	3,150.00CR	36,000.00	18,824.09CR	327,328.44CR
007 Accts Pay-Wrksk/ Acct	3,214.09	32,284.28CR	18,154.91	25,251.47CR
008 Accts Pay-Int'l Loan Clearing	97,069.93	97,069.93	3,813.23CR	20,250.71CR
234350 Accts Pay-Proj/Exp Acct	1,552,047.42CR	3,089,651.26CR	3,362,820.36CR	4,304,149.14CR
234400 Accts Pay-AWMS	29,381.84CR	16,448.66CR	918,222.62CR	994,977.29CR
234500 Accts Pay-ASSOC Cos	3,408.57CR	10,225.70CR		
AW46 Accts Pay-AW46	12,986.77CR	9,390.86	23,378.23CR	23,714.35CR
280999 Interco Rec/Pay	3,433,450.80CR	6,507,358.29CR	5,696,607.53CR	7,353,989.16CR
B45 Accounts Payable				
B45 Accrued Taxes				
236120 FICA	2,204.46CR	2,226.61CR	9.20CR	144.15CR
236130 FICA	6,599.09CR	22,686.17CR	587.30CR	15,673.55CR
236140 SUTA	1,986.39CR	2,015.36CR	21.50CR	210.19CR
236151 Gen Tax - Property	241,503.46CR	2,092,039.32CR	622,820.86	1,965,847.48CR
236152 Gen Tax - Sales/Use	19,284.14CR	390,486.90	987,758.16CR	1,047,181.51CR
236170 Gen Tax - Other	4,702.44CR	4,702.44CR	464,239.15CR	474,210.00CR
236201 FIT Tax Clearing	1,820.00	1,820.00	1,820.00	1,820.00
236210 Acct FIT Current Yr	2,926,747.00CR	2,920,010.00CR	2,338,800.00	2,802,775.00CR
236213 Acct FIT Interim Curr	3,677,288.00			
236220 Acct FIT - Pr Yrs	2,941,415.00	41,286.97		2,060,993.85CR
236230 Acct SIT - Current Yr	25,770.00CR	25,770.00CR	311,792.00	4,633.00
236233 Acct SIT - Interim Curr	308,221.00			
236240 Acct SIT - Pr Yrs	372,703.00CR			53,486.00CR
236310 Curr Def FIT	120,523.00	120,523.00	142,076.00	120,523.00
236320 Curr Def SIT/LIT	26,020.00	26,020.00	31,549.00	26,020.00
B45 Accrued Taxes	3,702,829.46	4,862,016.03CR	1,994,422.55	8,267,525.73CR
B47 Accrued Interest				
237200 Int Acct-LTD-Outside	420,437.50	311,872.09CR	425,027.91	311,872.09CR
237300 Int Acct-LTD-Inside	329,215.83CR	800,648.22CR	823,801.46	269,170.42CR
AW46 Int Acct-LTD-AW46	63,525.00	30,703.75CR	64,583.75	30,703.75CR
241228 Accrued PFD Div Requirements	154,746.67	1,143,224.06CR	1,313,413.12	611,746.26CR
B47 Accrued Interest				
B48 Customer Deposits				
238020 Unclaimed Cust Deposits			6,060.00	6,060.00
Unclaimed Cust Deposits			6,060.00	6,060.00
B48 Customer Deposits				

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American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the period Ending 12/31/2007

01/21/08
11:53:23

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B51 Misc Current Liabilities				
241100 Accrued Vacation Pay	215,526.23	38,090.94CR	123,706.51	24,138.25CR
241201 Accr Water Purchases	63,257.62	14,685.98CR	6,496.63CR	33,268.16CR
241202 Accr Power	19,711.35	235,527.46CR	4,923.11CR	273,336.96CR
241203 Accr Legal	56,930.04CR	158,899.50CR	21,805.70CR	21,805.70CR
241204 Accr Audit			1,055.00CR	1,055.00CR
241205 Accr TMS License				
241206 Accr Wages	195,523.70	21,851.10CR	8,661.40CR	205,867.00CR
241207 Accr Insurance	.50CR	503.77CR	.02CR	1.06CR
241208 Accr Rents	2,000.00	12,000.00CR	4,660.71	30,624.97CR
241210 Accr Disposal	150,000.00		120,218.18CR	120,218.18CR
241211 Accr Retiree Medical Reimb	1,124.45CR	8,000.00CR	1,624.88CR	3,500.00CR
241212 Accr DCP Contribution	799.85CR	11,077.64CR	263.98CR	5,238.53CR
241214 Accr Bank Fees	23,687.89CR	50,832.11CR	11,096.67	34,155.52CR
241220 WH PR-Tax Coll SIT KY	13,531.13CR	13,531.13CR	1,221.49	
001 WH PR-Tax Coll SIT KY	2,051.41CR	2,051.41CR		
002 WH PR-Charity Contribution	176.00CR	3,209.05CR		
003 WH PR-401k Spending Account	21,331.89CR	59,872.76CR	540.41CR	1,774.37CR
006 WH PR-401k Contribution	1,380.90CR	31,051.36CR		30,824.08CR
010 WH PR-Grain Simples FIT	39,820.40CR	25,384.75CR		
012 WH PR-Tax Coll Pay LIT	21,138.72CR	21,138.72CR	2,061.04CR	16,375.66CR
013 WH PR-Tax Coll Pay FICA				
099 WH PR-Miscellaneous				
241227 Accr Employer 401k Match	2,184.33CR	14,193.47CR	299.98CR	10,510.05CR
241228 Accrued PFD Div Requirements	6,559.59CR	19,460.10CR	6,514.89CR	19,460.10CR
241229 Accr Construction Costs Pay			57,053.20CR	57,053.20CR
241230 Unclaimed Credits Pay			21,393.95CR	52,620.93CR
241234 Unclaimed Ext Dep Refund Pay				4,598.15CR
241236 Unbilled Stock C-System	113,892.07	224,934.46CR	21,161.76CR	28,771.29CR
241237 Unbilled Stock E-System	12,580.11	31,121.82CR	35,494.36	66,572.45CR
241238 Unbilled Stock E-System	56,819.87CR	85,365.52CR	511,966.27	113,168.22CR
241241 CFO-Cust Asst NonPledged	94.00	65.00CR	53.00CR	226.00CR
005 CFO-Cust Asst Pledged	72.00	34.00CR	31.00CR	124.00CR
241244 CFO-Sales Tax	8,144.19	153,695.74CR	89,561.88CR	370,382.05CR
241246 CFO-Gross Rcts Tax	101,062.40CR	216,921.33CR	27,310.74	38,041.80
241248 CFO-Mun Tax	10,420.31	111,131.07CR		1,367.80CR
241249 CFO-Contracts				
001 CFO-MC/Swr Pay/Cash	78,393.82	2,395,963.91CR	47,674.70	2,418,632.52CR
002 CFO-MC/Swr Pay/ChgOff	113,545.16CR	1,301,475.84	54,066.10CR	1,610,263.89
004 CFO-MC/Swr ChgOff	20,562.10	1,895,711.99	23,127.28	1,644,337.60
241250 A/P A/P Check Clearing				
241251 P/R A/P Check Clearing	1,132,411.65	1,063,025.98CR	1,883,943.77CR	3,375,861.04CR
241251 P/R Check Clearing	177,106.24CR	177,106.24CR	12,823.12	1,492.71CR
241261 Accr Insurance Retro	2,537.32CR	39,320.48CR		
241298 Other Curr Liab Analyzed	176,531.72	184,903.28CR	47,967.58CR	668,941.13CR
B51 Misc Current Liabilities	1,552,580.83	3,267,524.17CR	1,555,603.12CR	5,699,321.79CR

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American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2007

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B55 Advances for Construction				
252110 Adv for Const-NT Main	276,613.66	13,253,240.64CR	819,920.78	14,426,761.57CR
252120 Adv for Const-NT Ext	1,516.18CR		1,317,416.90	509,106.84CR
252130 Adv for Const-NT Services		13,085.00CR		358,112.36CR
252140 Adv for Const-NT Meters		36,641.02CR		402,609.48CR
252150 Adv for Const-NT Hydrants	17,190.79		11,077.88CR	574,399.94CR
252160 Adv for Const-NT Other	5,200.52			
252170 Adv for Const-NT WIP	197,861.44CR	1,097,395.81CR	3,711.27CR	
252220 Adv for Const-Tax-Ext		759.60CR		
	99,627.35	14,653,090.55CR	208,419.03	221,648.08CR
B55 Advances for Construction			2,330,967.56	16,492,638.27CR
B56 Deferred Income Taxes				
253113 Def FIT-Interim Def	705,856.00CR		146,542.00CR	1,935,054.00CR
253203 Def FIT-Norm Property		1,935,054.00CR		28,154,242.54CR
253301 Def FIT-Other	232,212.00CR	26,819,903.54CR	2,068,144.35CR	133,392.00
253309 Def FIT-AWT	245,644.00			
253613 Def SIT-Interim Def	200,556.00CR	4,450,682.88CR	515,409.31CR	5,358,581.88CR
253701 Def SIT-Other	892,980.00CR	33,072,254.42CR	2,730,095.66CR	35,314,486.43CR
B56 Deferred Income Taxes				
B57 Deferred ITC				
255101 Unamortized ITC - 3%	637.67	101,825.97CR	638.00	109,478.67CR
255102 Unamortized ITC - 4%	565.42	61,159.21CR	525.00	67,503.41CR
255103 Unamortized ITC - 10%	5,903.33	1,054,826.27CR	5,903.00	1,125,665.57CR
	7,106.42	1,217,811.45CR	7,066.00	1,302,647.65CR
B57 Deferred ITC				
B58 Deferred Regulatory Liability				
256212 Reg Liab-Exc Def Depr FIT	11,733.58	1,425,596.83CR	11,734.00	1,566,400.63CR
256220 Reg Liab-Exc Def Depr SIT	2,296.50CR		2,296.00CR	306,404.84
256232 Reg Liab-Exc Def Depr SIT	28,836.31CR	1,643,356.75CR	2,200.00	873,357.00CR
256250 Reg Liab-ARO/MNS	359,698.90CR	8,772,379.89CR	82,277.34CR	7,597,007.36CR
256310 Reg Liab-ITC Gross-Up 3%	432.00	68,984.75CR	432.00	74,168.75CR
256311 Reg Liab-ITC Gross-Up 4%	355.83	41,418.45CR	356.00	45,688.75CR
256312 Reg Liab-ITC Gross-Up 10%	3,252.33	581,137.94CR	3,252.00	620,165.24CR
	375,057.97CR	12,254,026.77CR	66,539.34CR	10,470,382.89CR
B58 Deferred Regulatory Liability				
B59 Other Deferred Credits				
262110 DCA-Pension Liab-AWMS			834,296.02	
262120 DCA-Pension Pymt-Op Co	60,076.75CR	2,174,086.20CR	64,524.75CR	2,381,721.20CR
262210 DCA-Accr OPEB	59,674.75CR	299,737.00CR	67,656.83CR	299,736.95CR
262215 DCA-Accr OPEB Med Subsidy		84,567.40CR	10,745.00CR	42,980.00CR
262313 DCA-FAS 112 Costs		61,130.00CR	54,852.00CR	61,130.00CR
262317 DCA-Def Comp Costs		31,657.20		31,657.20
262322 DCA-Inc Plan Cash Annual	24,896.38CR	280,134.55CR	18,780.09CR	213,721.81CR

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American Water Works Company
Kentucky-American Water Co L2
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2007

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B59 Other Deferred Credits		805,090.91CR		
262398 DCA-Other	10,734.54			
262401 DCN-Other Than Grp Reg			30,765.92CR	10,765.92CR
DCN-Ins Other Than Grp Reg			586,971.43	2,998,398.69CR
B59 Other Deferred Credits	133,913.34CR	3,673,088.86CR		
B62 CIAC				
271110 CIAC-NT Mains	692.69	14,652,257.20CR		13,725,613.47CR
CIAC-NT Mains				
271120 CIAC-NT Ext Dep	324.47CR	10,368,051.01CR	232,039.52CR	9,849,066.41CR
CIAC-NT Ext Dep				
271130 CIAC-NT Services	83,493.82CR	14,239,812.09CR	1,411,488.93CR	12,726,971.56CR
CIAC-NT Services				
271140 CIAC-NT Meters	12,451.60	521,259.07CR		168,042.19CR
CIAC-NT Meters				
271150 CIAC-NT Hydrants	46,326.88CR	1,199,649.35CR		694,087.66CR
CIAC-NT Hydrants				
271160 CIAC-NT Other	148,453.98CR	3,603,117.02CR		2,991,896.06CR
CIAC-NT Other				
271170 CIAC-NT WIP	65,887.86CR	637,089.00CR		358.60CR
CIAC-NT WIP				
271180 CIAC-NT Non-Util Prop		249,724.86CR		249,724.86CR
CIAC-NT Non-Util Prop				
271210 CIAC-Tax Mains		1,998,493.38CR		1,998,493.38CR
CIAC-Tax Mains				
271220 CIAC-Tax Ext Dep		766,585.92CR	155,843.02CR	704,228.02CR
CIAC-Tax Ext Dep				
271230 CIAC-Tax Services		6,308,695.01CR	22,670.00CR	6,049,242.33CR
CIAC-Tax Services				
271240 CIAC-Tax Meters	13,105.00CR			
CIAC-Tax Meters				
271250 CIAC-Tax Hydrants		3,299.01CR		3,299.01CR
CIAC-Tax Hydrants				
271260 CIAC-Tax Other		487,486.50CR		487,486.50CR
CIAC-Tax Other				
271270 CIAC-Tax WIP		440,902.80CR		440,902.80CR
CIAC-Tax WIP				
272010 Accum Amort CIAC-Mains		281,286.30		281,286.30
Accum Amort CIAC-Mains				
272040 Accum Amort CIAC-Meters		35,022.86		35,022.86
Accum Amort CIAC-Meters				
272050 Accum Amort CIAC-Hydrants		5,907.84		5,907.84
Accum Amort CIAC-Hydrants				
272060 Accum Amort CIAC-Other		11,336,270.57	103,933.44	9,931,963.60
Accum Amort CIAC-Other				
272100 Accum Amort CIAC-Taxable	126,784.69			
Accum Amort CIAC-Taxable				
	29,725.29	232,619.48		
	187,937.74CR	43,585,315.17CR	1,718,108.03CR	39,635,232.25CR
B62 CIAC				
00012 Kentucky-American Water Co.	1,427,749.58CR	1,810,784.16	1,553,381.84CR	1,267,055.15

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American Water Works Company
Kentucky American Water
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2008

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Kentucky-American Water Co.		December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012	Boil Utility Plant Original Cost				
101000	Organization	37,450.43	187.02		37,524.43
302000	Franchises	30,229.12			30,229.12
303000	Land & Int Rights SS	61,123.99			61,123.99
303200	Land & Int Rights WT	4,019.85			4,019.85
303300	Land & Int Rights TD	2,624.88			2,624.88
304000	Struct & Imp P	5,159.56	55,731.97CR		5,265.49
304200	Struct & Imp WT	9,859.48	28,307.54		9,859.48
304300	Struct & Imp TD	8,121.63			8,121.63
304400	Struct & Imp AG	141,368.14			141,368.14
304500	Struct & Imp Offices	4,073.67	1,914.55CR		4,029.86
304600	Gen Structures - HVAC	10,570.37			10,570.37
304700	Struct & Imp Store, Shop, Gar	989.65			989.65
304800	Struct & Imp Misc	1,928.89	118,902.65		1,859.40
305000	Collect & Impounding	1,005.85			1,016.53
306000	Lake, River & Other Intakes	5,337.09	25,422.84CR		5,332.40
309000	Supply Generation Equip	1,109.06	2,249.59		1,109.06
310000	Pump Equip Electric	3,200.41	77,889.08CR		3,200.41
311200	Pump Equip Hydraulic	718.44			718.44
311300	Pump Equip Mechanical	8,405.01			8,405.01
311400	Pumping Equipment SS	4,261.43	5,609.22		4,261.43
311500	Pumping Equipment TD	1,176.34	50,283.07		1,176.34
320200	WT Equip Non-Media	30,058.21			30,058.21
320300	WT Equip Filter Media	2,279.68			2,279.68
330000	Dist Reservoirs & Standpipe	1,656.89	221.03		1,656.89
330100	Elevated Tanks & Standpipes	10,170.89			10,170.89
330200	Ground Level Facilities	112			112
330400	Clearwell	149,157.16	417,456.02CR		148,689.55
331001	TD Mains Not Classified by	3,345.21	471,362.26		3,345.21
331100	TD Mains 4in & Less	2,816.92	406,928.83		2,816.92
331200	TD Mains 6in to 8in	810,595.71	490,183.83		810,595.71
331300	TD Mains 10in to 16in	2,246,478.70	135,122.36CR		2,246,478.70
331400	TD Mains 18in & Grtr	211,135.70			211,135.70
333000	Services	130,392.83	11,794.09		130,392.83
334000	Meters	919,108.50			919,108.50
334100	Meters Bronze Case	91,944.91			91,944.91
334200	Meters Plastic Case	7,270.91			7,270.91
334300	Meters Other-Rem Rdr Unts	15,330.47			15,330.47
334400	Meter Installations	39,154.48			39,154.48
334500	Hydants	59,368.90			59,368.90
335000	Other P/E Intangible	49,098.33CR	33,486.92		10,417.32
339600	Office Furniture & Equip	744,556.47	328,245.94CR		8,374.81
340100	Comp & Periph Mainframe	766,523.32	53,279.23CR		268,239.12
340200	Comp & Periph Personal	836,996.57	77,183.93CR		680,264.47
340300	Comp & Periph Other	207,917.95	847,573.22CR		68,402.47
340300	Computer Software	4,547,577.32	319,960.08CR		4,547,577.32
340320	Comp Software Personal	97,249.20	228,742.84CR		4,408,928.30
340330	Comp Software Other	532,344.13			532,344.13
340340	Other Software Other	97,310.93	10,025.08		112,917.69
341000	Trans Equip Hvy Duty Trks	1,884,336.92	65,785.42CR		1,711,427.54
341200	Trans Equip Lt Duty Trks	224,005.81	37,941.31		1,851,475.53
341300	Trans Equip Other	225,997.10	131,794.85		217,613.06
341400	Stores Equip	33,926.63	37,911.12		205,678.58
342000	Tools, Shop, Garage Equip	1,787,386.54	1,620.32CR		1,537,619.43
343000	Laboratory Equipment	809,973.43	2,257.53CR		807,715.90
345000	Power Operated Equipment	1,599,144.06	1,035.78		1,589,810.84
346000	Comm Equip Non-Telephone	1,927,984.20	7,189.59CR		1,930,704.87
346100	Remote Control & Instrument	1,270,375.37	3,095.04CR		1,260,950.21
348000	Misc Equipment Property	139,494.08			139,494.08
353500	WW Land & Int Rights, Gen	26,557.74			26,557.74
353600	WW Land & Int Rights, Spp	32,693.77			32,693.77
354000	WW Struct & Imp SPP	2,106,279.46	46.53		2,110,399.46
354200	WW Struct & Imp TDP	853,517.58			853,517.58
354400	WW Struct & Imp Gen	34,167.91			34,167.91
360000	WW Collecting Sewers Forced	19,387.11			19,387.11
361000	WW Collecting Mains	34,167.91			34,167.91
363000	WW Services Sewer	10,707.91			10,707.91
371000	WW Pump Equip Elect	10,707.91			10,707.91
371200	WW Pump Equip Oth Pwr	10,707.91			10,707.91

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American Water Works Company
Kentucky American Water Co. 12
Total Company (USGAP)
Trial Balance
For the period ending 12/31/2008

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
101000 WW TD Equipment		80,086.34		22,715.85
380000 WW TD Equipment		439.00	4,960.16CR	439.00
390000 WW Office Furniture & Equip			6,237.50CR	
390200 WW Computers & Peripheral		35,144.16		35,144.16
391100 WW Trains Equip Lt Duty Trks		24,500.00		500.00
392000 WW Stores Equipment		24,599.43		25,748.28
393000 WW Tool Shop & Garage Equip	1,148.85CR			
394000 WW Laboratory Equipment	2,197.80			37,141.28
395000 WW Power Operated Equip				1,361.28
395000 WW Communication Equip				22,580.88
397000 WW Misc Equipment				
101099 Completed Const not Classified				
101100 Reg Assets				
101100 Reg Assets - Future Debt		272,637.00		272,637.00
103000 Property Held Future Use		114,076.24		114,076.24
104000 Utility Plant Purchased/Sold				
106000 Struct & Imp SS	163.79			80.65
304100 Struct & Imp P	5,172.18		182,550.90	189,248.42
304200 Struct & Imp WT	7,945.23		483,048.39	666,548.95
304300 Struct & Imp TD	16,721.79CR			
304500 Struct & Imp AG	30,164.30CR		127,202.21	127,202.21
304600 Struct & Imp Offracs	1,161,729.36		2,913.75	1.33
304800 Struct & Imp Misc	3,119.04		3,437.04	8,110.25
306000 Lake, River & Other Intakes	5,454.04		17,735.57	4,157.18
309000 Supply Mains				212,321.98
310000 Power Generation Equip				122,605.23
311200 Pump Equip Electric	8,396.15		204,608.55	140,477.59
311230 Pumping Equipment SS			130,607.55	140,477.59
311230 Pumping Equipment TD	1,157,434.16CR		1,237,658.91	1,612,010.25
311230 Pumping Equip NonMedia	23,377.89CR			
320000 Diat Reservoirs & Standpipes				
320100 Elevated Tanks & Standpipes				
320200 Ground Level Facilities				
320400 Clearwell	15,645.61		76,046.54	812,089.65
321001 TD Mains Not Classified by	104.98CR			
321100 TD Mains 4in & Less	4,885,502.51CR		727,316.60	5,118,840.92
321200 TD Mains 6in to 8in	2,220,859.28CR		20,807.65	141,574.21
321300 TD Mains 10in to 16in	511,725.66CR		413,672.02	1,488,240.34
321400 TD Mains 18in & Grtr	619,383.25CR		1,356,500.50	1,360,177.85
323000 Services	314,442.11		484,385.02	878,700CR
323000 Meters	872.21		13,667.06	952,385.17
323100 Meters Bronze Case	30,877.21		5,978.26	13,667.06
323110 Meters Plastic Case	23,308.96		8,600.36	8,600.36
323130 Meters Other	1,068.98CR		7,517.12	7,517.12
323200 Meters Other-Rem Rdr Unts	15,765.51		86,059.79	478,215.83
323300 Meter Installations	43,700.75CR		282,534.25	273,545.86
323400 Meter Vaults	43,700.75CR		4,302.14CR	15,333.92
323500 Hydrants	739,732.76		335,413.03	671,451.42
323600 Office Equip	3,672.00		46,326.35	54,053.85
323700 Office Equip - Personal	17,925.29		134,435.72	153,388.74
323800 Comp & Periph Other	11,147.97		9,555.40	31,337.16
323900 Comp Software Personal				
324000 Comp Software Customized				
324100 Comp Software Other				
324200 Trans Equip Lt Duty Trks	1,911.95		31,059.32	97,002.83
324300 Trans Equip Hvy Duty Trks	80,865.89		44,438.73CR	142,190.78
324400 Tools Shop, Garage Equip	38,083.15			
324500 Laboratory Equipment	9,263.09			
324600 Laboratory Equip	72,196.61		3,155.00CR	4,458.89
324700 Comm Equip Non-Telephone	17,554.01		2,197.80CR	4,873.02
324800 Remote Control & Instrument	11,599.38			
324900 Comm Equip Telephone	11,952.06			
325000 Comm Equip Telephone	1,580.72		39.65CR	4,458.89
325100 Misc Equipment	236,002.03		43.02CR	4,873.02
325200 WW Struct & Imp Gen	1,923.00			
325300 WW Collecting Mains	3,327.97			
325400 WW Services Sewer	5,119.77			
325500 WW Laboratory Equipment	1,151.98		40.52CR	4,566.79
325600 WW Power Operated Equip	1,165.09			
B01 Utility Plant Original Cost	5,551,715.50	369,485,720.92	4,938,772.14	345,341,373.77
B02 CWIP				

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83410 American Water Works Company
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 000LR Total Company (USGAAP)
 Trial Balance
 For the period Ending 12/31/2008

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
105050 CWIP Acct-Bldgs	619.14	619.14		
11 CWIP Acct-Bldgs	3,636,668.58CR	288,065.59	536,800.26	774,305.45
21 CWIP Acct-Infra	3,739,449.22	4,656,847.29	1,015,247.16	2,375,345.81
105110 CWIP Acct-Plant				
11 CWIP Acct-Plant		10,021,825.69		10,021,825.69
21 CWIP Acct-Plant		55,389.46CR		5,389.46CR
105125 CWIP Acct-Plant		602,319.28		602,319.28
11 CWIP Acct-Plant		49,192.88		49,192.88
21 CWIP Acct-Plant		773,396.70		568,385.13
105150 CWIP M&S & Purchases		158,831.61		142,931.61
11 CWIP M&S & Purchases		2,451,467.72		447,079.72
21 CWIP M&S & Purchases		316,707.29		19,115,344.78
105175 CWIP Professional Services		26,038,979.61		22,805,763.83
11 CWIP Professional Services		11,787,629.80		8,788,114.06
21 CWIP Professional Services		107,297.89		558,750.76
105200 CWIP Labor		396,329.20		542,362.06
11 CWIP Labor		4,429.33		43,744.50
21 CWIP Labor		1,697,285.02		1,387,099.51
105250 CWIP Labor OH		1,594,849.33		1,594,849.33
11 CWIP Labor OH		4,432,109.55		3,328,515.20
21 CWIP Labor OH		4,761,276.16		3,708,031.91
105260 CWIP Overhead		1,765,848.50		1,765,848.50
11 CWIP Overhead		2,751,952.41		2,751,952.41
21 CWIP Overhead		891.45		2,301,133.24
105270 CWIP Service Chgs		688,754.64		688,754.64
11 CWIP Service Chgs		522.54		174,452.05
21 CWIP Service Chgs		126,467.99		3,938,782.03
105275 CWIP Contracted Services		13,840.55		5,269.73
11 CWIP Contracted Services		30,325.54		543,743.59
21 CWIP Contracted Services		589,921.57		746,911.01
105280 CWIP Retainage		670,916.23		670,916.23
11 CWIP Retainage		3,854.51		26,670,271.06
21 CWIP Retainage		1,665,877.08		715,555.39
105300 CWIP Retainage-Plant		5,326,289.23		36,920,636.27
11 CWIP Retainage-Plant		34,845.95		17,671,869.38
21 CWIP Retainage-Plant		139,650.95		366,817.31
105330 CWIP Paving		22,858.20		22,858.20
11 CWIP Paving		199,028.00		199,028.00
21 CWIP Paving		468.06		468.06
105350 CWIP AFUDC Debt		703,911.94		703,911.94
11 CWIP AFUDC Debt		51,763.27		51,763.27
21 CWIP AFUDC Debt		699,632.76		389,913.80
105375 CWIP AFUDC Equity		1,007,409.98		727,638.15
11 CWIP AFUDC Equity		809,429.26		809,429.26
21 CWIP AFUDC Equity		74,380.19		74,380.19
105390 CWIP Trans Current Yr Chgs		922,034.13		518,716.42
11 CWIP Trans Current Yr Chgs		176,511.62		176,511.62
21 CWIP Trans Current Yr Chgs		562,189.19		562,189.19
105391 CWIP Trans Current Yr Chgs		876,552.73CR		876,552.73CR
11 CWIP Trans Current Yr Chgs		49.51		49.51
21 CWIP Trans Current Yr Chgs		9,866.90		9,866.90
105399 CWIP Prelim Eng-Plant		9,843,395.47CR		9,843,395.47CR
11 CWIP Prelim Eng-Plant		2,618.00		2,618.00
21 CWIP Prelim Eng-Plant		3,526,855CR		376,200CR
105900 CWIP Transfer to UPIS		439,744CR		51,962,726.94CR
11 CWIP Transfer to UPIS		51,962,726.94CR		1,950,652.86CR
21 CWIP Transfer to UPIS		88,576,470.33CR		71,950,652.86CR
105910 CWIP Tran UPIS-Bldgs		1,043,671.95CR		4,941,663.54CR
11 CWIP Tran UPIS-Bldgs		5,223,788.57CR		18,396,835.72CR
21 CWIP Tran UPIS-Bldgs		2,372,573.94		21,309,716.26

B02 CWIP

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American Water Works Company
Kentucky-American Water-
CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2008

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
B03 Accumulated Depreciation				
108105 AD UPIS-Acc Depr-Not Classifd	609,900CR	50,365,291.78CR	212,870CR	50,260,525.56CR
AD UPIS-Acc Depr-Not Classifd	34,201.50CR	2,577,214.87CR	38,128.73CR	2,574,011.30CR
AD UPIS-Acc Depr-Oper Bldgs	17,501.78CR	886,548.81CR	37,855.47CR	37,856,436.29CR
AD UPIS-Acc Depr-Admin Bldgs	322,283.82CR	22,327,491.14CR	40,399.85CR	18,810,108.22CR
AD UPIS-Acc Depr-Infrastruct	103,881.57CR	2,125,712.91CR	58,753.26CR	2,416,733.26CR
AD UPIS-Acc Depr-Off Water E Pl	51,987.90CR	7,422,869.47CR	107,249.71CR	6,720,926.32CR
AD UPIS-Acc Depr-Off Equip	51,159.30CR	53,712.05CR	139,300CR	52,040.45CR
AD UPIS-Acc Depr-Off Cap Develop				
108110 AD UPIS-Removal Cost		2,040,107.64		2,040,107.64
AD UPIS-Salvage				
108115 AD UPIS-Salvage	15,143.00CR	139,706.95CR	743.50CR	96,847.49CR
AD UPIS-Salvage				
108120 AD UPIS-Scrap Meters		23,226.64CR		23,226.64CR
AD UPIS-Scrap Meters				
108122 AD UPIS-Scrap Misc		10,764.38CR		10,764.38CR
AD UPIS-Scrap Misc				
108135 AD UPIS-Salv Trade-In		16,975.00CR		16,975.00CR
AD UPIS-Salv Trade-In				
108140 AD UPIS-Salv Sale		2,490.81CR		2,490.81CR
AD UPIS-Salv Sale				
108145 AD UPIS-Orig Cost-Not Classifd	716,184.77	13,371,940.23	2,956,092.91	10,110,183.06
AD UPIS-Orig Cost-Not Classifd				
108190 Acc Depr Reg Asset	575.00CR	110,389.18CR	575.00CR	103,489.18CR
Acc Depr Reg Asset				
B03 Accumulated Depreciation	106,639.85	84,212,709.09CR	2,609,459.75	80,434,538.71CR
B04 UPAA				
114100 UPAA-ATL		455,951.18		455,951.18
UPAA-ATL				
114300 UPAA Post 1/1/06		6,338.03		
UPAA Post 1/1/06				
115100 Accum Amort UPAA-ATL	1,778.79CR	151,418.58CR	1,765.58CR	139,174.65CR
Accum Amort UPAA-ATL				
B04 UPAA	1,778.79CR	310,870.63	1,765.58CR	326,776.53
B07 Non Utility Property, Net				
121100 NUP-Land		270,192.68		249,737.68
NUP-Land				
121500 NUP-Other		270,192.68		249,737.68
NUP-Other				
B07 Non Utility Property, Net				
B10 Cash & Cash Equivalents				
131312 BB&T				
BB&T				
003 Deutsche Bank				
005 Cash-Mellon Lockbox	6,906.94	6,906.94	24.06	24.06
007 Cash Clear-NSF Checks	293,714.81	246,854.75	35,225.12CR	118,545.74
131998 Cash Clear-NSF Checks			288,307.16	276,226.96
001 Cash Clear-Misc DR/CR	1,270.40CR	50.07	456.24	1,487.34
003 Cash Clear-Misc DR/CR	18.97	21,820.87CR		
004 Cash Clear-ORCOM	21,820.87CR			
005 Cash Clear-Interco	12,000CR	31,336CR	35,740CR	35,740CR
006 Cash Clear-Pinnaci/ARP	13,885.95		8,670.41CR	367,370CR
007 Cash Clear-General		.01CR	9,930CR	9,930CR
008 Cash Clear-ARC DR/CR			818,197.76CR	
009 Petty Cash		600.00		6.14
134100 Petty Cash				
134101 Petty Cash-OTC		1,800.00		2,400.00
Petty Cash-OTC				
B10 Cash & Cash Equivalents	291,423.10	234,378.49	573,351.50CR	398,277.20
B12 Customer Accounts Receivable				
141000 Customer A/R	692,875.54CR	2,344,312.09	114,488.24	1,926,155.18
Customer A/R				
141999 Customer A/R Clearing	11,240CR	1,847.47CR		1,927.29
Customer A/R Clearing				
B12 Customer Accounts Receivable	692,886.78CR	2,342,464.62	114,488.24	1,928,082.47
B13 Allowance for Uncollectible A/				
143000 Accum prov-uncoll accts	12,070.38	273,355.78CR	37,657.34	223,309.20CR
Accum prov-uncoll accts				
B13 Allowance for Uncollectible A/	12,070.38	273,355.78CR	37,657.34	223,309.20CR

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American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2008

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
B14 Accrued Utility Revenue				
144000 Accrued Utility Revenue	238,916.72CR	2,899,825.02	290,931.91	2,562,043.18
Accrued Utility Revenue	238,916.72CR	2,899,825.02	290,931.91	2,562,043.18
B14 Accrued Utility Revenue				
B15 FIT Refund Due From Assoc Co				
145100 SIT Refund Receivable				
SIT Refund Receivable				
B15 FIT Refund Due From Assoc Co				
B16 Miscellaneous Receivables				
146100 Misc A/R System	80,220.91CR	351,530.05	50,560.33CR	59,088.32
Misc A/R System	80,220.91CR	351,530.05	50,560.33CR	59,088.32
001 Misc A/R Manual	698.59CR	698.59	1,928.95	85,762.43
Misc A/R Manual	698.59CR	698.59	1,928.95	85,762.43
146105 Misc A/R Retire Ins	13,880.21CR	43,248.59		
Misc A/R Retire Ins	13,880.21CR	43,248.59		
146115 Misc A/R Medicare Subsidy	9,632.96CR	9,333.80		
Misc A/R Medicare Subsidy	9,632.96CR	9,333.80		
146300 Misc A/R Adv to Employees				
Misc A/R Adv to Employees				
146370 Accum prov-uncoll misc a/r	9,217.38	85,423.69CR	2,233.42	1,730.57CR
Accum prov-uncoll misc a/r	9,217.38	85,423.69CR	2,233.42	1,730.57CR
146500 A/R Assoc Cos				
A/R Assoc Cos				
146520 A/R Div Equiv AM02	97.00	579.00		
A/R Div Equiv AM02	97.00	579.00		
146800 Rents Receivable				
Rents Receivable				
B16 Miscellaneous Receivables	95,214.29CR	412,129.21	46,397.96CR	196,269.12
B17 Materials & Supplies				
151100 Plant Material	38,116.04CR	405,665.34	39,847.81	429,754.10
Plant Material	38,116.04CR	405,665.34	39,847.81	429,754.10
151300 Chemicals	5,408.84	171,441.11	7,756.33	203,413.48
Chemicals	5,408.84	171,441.11	7,756.33	203,413.48
153000 Other Mat & Supplies				
Other Mat & Supplies				
B17 Materials & Supplies	32,707.20CR	577,106.45	49,071.00	634,634.44
B19 Prepayments				
165100 Prepaid Taxes	291,149.74	291,149.74		
Prepaid Taxes	291,149.74	291,149.74		
165200 Prepaid Insurance	54,508.37CR	5,257.28	57,031.59CR	431.66
Prepaid Insurance	54,508.37CR	5,257.28	57,031.59CR	431.66
165300 Prepaid PUC/PSC Assessments	7,050.29CR	42,301.74	6,967.61CR	41,805.66
Prepaid PUC/PSC Assessments	7,050.29CR	42,301.74	6,967.61CR	41,805.66
165500 Prepaid Other	22,781.88	72,091.29	13,630.67	38,471.24
Prepaid Other	22,781.88	72,091.29	13,630.67	38,471.24
174100 Deferred Vacation Pay	191,366.18CR	83,757.27	215,526.23CR	38,090.94
Deferred Vacation Pay	191,366.18CR	83,757.27	215,526.23CR	38,090.94
174200 Curr State Def Tax				
Curr State Def Tax				
174300 Curr Fed Def Tax				
Curr Fed Def Tax				
B19 Prepayments	61,006.78	494,557.32	265,894.76CR	118,799.50
B23 Debt & Preferred Stock Exp				
181110 Unamort Debt Exp-Out	665.38CR	141,472.12	667.03CR	150,023.38
Unamort Debt Exp-Out	665.38CR	141,472.12	667.03CR	150,023.38
181120 Unamort Debt Exp-In	5,285.56CR	154,528.12	5,285.56CR	217,954.84
Unamort Debt Exp-In	5,285.56CR	154,528.12	5,285.56CR	217,954.84
181121 Unamort Debt AM46				
Unamort Debt AM46				
181121 Unamort Debt AM46 NOIAS	1,381.14CR	477,871.25	139.97	455,597.96
Unamort Debt AM46 NOIAS	1,381.14CR	477,871.25	139.97	455,597.96
181512 Pref Stk Exp w/ mandatory	64.24CR	21,520.40	64.24CR	22,291.28
Pref Stk Exp w/ mandatory	64.24CR	21,520.40	64.24CR	22,291.28
B23 Debt & Preferred Stock Exp	7,396.32CR	795,391.89	5,876.86CR	845,867.46
B24 Deferred Rate Proceedings				
182000 Deferred Rate Proceedings	59,548.80	553,892.05	60,856.31CR	485,892.90
Deferred Rate Proceedings	59,548.80	553,892.05	60,856.31CR	485,892.90
B24 Deferred Rate Proceedings	59,548.80	553,892.05	60,856.31CR	485,892.90
B25 Preliminary Survey & Invest				

83410
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American Water Works Company
Kentucky-American Water- CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2008

01/14/09
17:32:58

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
183000 Prelim Survey & Invest		125,657.24		125,657.24
Prelim Survey & Invest		125,657.24		125,657.24
B25 Preliminary Survey & Invest				
B26 Deferred Regulatory Asset				
186030 Reg Asset-APUDC-Reg-CWIP	89,078.68	891,150.84	40,888.74	700,123.65
186035 Reg Asset-APUDC-Eq-CWIP		2,867,070.74		2,495,394.60
186040 Reg Asset-APUDC-Equity		3,664,748.38	33,109.00CR	4,090,748.38
186045 Reg Asset-Pit Flow-Diff	2,008.00	453,145.39CR	2,008.00	477,241.39CR
186055 Reg Asset-Other	5,945.51CR	493,956.95CR	5,282.45CR	423,587.41CR
Reg Asset-Accum Amort				
Reg Asset-Accum	49,641.17	6,475,867.62	4,505.29	6,385,437.83
B27 Other Deferred Debits				
184100 Eng Clearing Dist OH	31,102.60		10,594.01	
184102 Mngmt Study - AMR	81.24		590.17	
184103 Mngmt Study - Pipe Assmnt	1,384.21CR		773.01CR	
185125 RWIP Permits, Fees & Premiums		9.75		9.75
185150 RWIP M & S and Purchases	2,355.19	12,892.30	682.08	12,292.30
21 RWIP M & S and Purchases	160.77CR	10,991.07		5,034.03
21 RWIP Co Labor	3,978.29	248,011.03	357.43CR	248,161.05
21 RWIP Co Labor OH	2,177.09	71,211.62	5,917.61	30,571.04
185260 RWIP Indirect Labor	416.62	126,302.77	287.40CR	126,416.10
185275 RWIP Contracted Services		34,795.02	3,282.16	14,958.90
21 RWIP Contracted Services		1,839.97		
31 RWIP Contracted Services	5,443.75	2,077,128.98	129.21CR	2,076,280.37
185280 RWIP Retainage		63,114.79	985.00	21,486.54
185315 RWIP Salvage	517.50	110,000.00		70,000.00
31 RWIP Salvage		5,093.07		5,093.07
21 RWIP Scrap Meters	3,394.30CR	94,294.86CR	12,705.50CR	80,727.10CR
185222 RWIP Scrap Meters		16,068.70CR		10,664.20CR
21 RWIP Scrap Meters		68,642.80CR	743.50CR	743.50CR
21 RWIP Scrap Misc	804.00CR	1,125.51CR		1,125.51CR
185950 RWIP Reg Liab Reclass	15,143.07	780.00CR		780.00CR
185999 RWIP Clear Removal & Salvage	956.80	1,202.68CR		1,202.68CR
21 RWIP Clear Removal & Salvage	1,848.75CR	2,383.80CR		2,383.80CR
31 RWIP Clear Removal & Salvage	24,857.00CR	15,143.07	187.33CR	1,252.00CR
186401 DDA-Programmed Maint		2,128.24		
186405 DDA-RFA Software Licen		1,736,957.35	135,054.65	1,859,204.78
186426 DDA-FAS2 Costs		61,130.00	427.90CR	
186431 DDA-Depreciation Study	500.09CR			
186432 DDA-Cost of Service Study	2,510.97		456.93CR	61,130.00
186444 DDA-Waste Disposal		24,905.37	19.82CR	26,965.95
186492 DDA-Add'l Security Costs			8,437.50CR	13,300.70
186598 DDA-Oth Reg Assets	4,877.02CR	2,566,249.43	34,348.86CR	92,812.50
186703 DDN-Prelim Financing E			873.50CR	30,118.63

83410
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American Water Works Company
Kentucky-American Water Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2008

01/14/09
17:32:58

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B27 Other Deferred Debits				
186704 DDN-Undistributed Items				
186705 DDN-IC Rec/Pay Clearing	2.95CR		450.15CR	
186711 DDN-Acquisition Costs			27,963.00	
186750 DDN-Engineering Studie				
186898 DDN-Oth LT Assets				
DDN-Oth LT Assets				
B27 Other Deferred Debits	28,886.76	4,412,746.38	122,349.16	5,364,533.91
B33 Common Stock				
201200 Com Stk Subs AW02		36,568,776.50CR		36,568,776.50CR
AW02		36,568,776.50CR		36,568,776.50CR
B33 Common Stock				
B34 Paid In Capital				
205175 Donations stkhld I/C		21,329.44CR		21,329.44CR
AW02				
205300 Gain on res/can I/C		180.00CR		180.00CR
AW02		3,330.00CR		
205310 Gain on res/can min int.				
205440 Misc. PIC Interco	3,109.37CR	24,101,666.04CR		8,034,810.00CR
AW02	3,109.37CR	24,126,505.48CR		8,056,319.44CR
B34 Paid In Capital				
B35 Retained Earnings				
210210 R/E at Acquisition		343,498.00CR		343,498.00CR
AW02				
210240 R/E Since Acquisition		29,515,296.88CR		28,005,584.72CR
R/E Since Acquisition		29,858,794.88CR		28,349,082.72CR
B35 Retained Earnings				
B39 Preferred Stock				
215110 Pref Stk-Outside		1,455,600.00CR		1,455,700.00CR
215410 Pref Stk Sub-Outside		1,455,600.00CR		1,455,700.00CR
Pref Stk Sub-Outside				
B39 Preferred Stock				
B40 Long Term Debt				
215113 Pref Stk-Mand LT		4,500,000.00CR		4,500,000.00CR
221110 Bonds-Outside		23,500,000.00CR		23,500,000.00CR
221120 Bonds-Inside		53,200,000.00CR		56,300,000.00CR
AW46		81,200,000.00CR		84,300,000.00CR
B40 Long Term Debt				
B43 Bank Debt				
231200 Notes Pay-Assoc Cos		51,825,821.33CR	7,136,663.54CR	18,115,916.85CR
AW46		51,825,821.33CR	7,136,663.54CR	18,115,916.85CR
B43 Bank Debt				
B44 Current Portion LTD				
232000 Curr Portion LTD-In		3,100,000.00CR		3,100,000.00CR
AW46		3,100,000.00CR		3,100,000.00CR
B44 Current Portion LTD				
B45 Accounts Payable				
234100 Accts Pay-Gen System		1,823,538.32CR	1,760,576.09CR	2,164,937.83CR
234110 Accts Pay-Pcard		4,107.96CR	3,660.62CR	13,029.35
234125 Accts Pay-Phone Billing				
Accts Pay-Phone Billing				

8
01/14/09
17:32:58

American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2008

83410
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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B45 Accounts Payable				
234200 Accts Pay-Contract Retention	97,565.73CR	1,383,682.48CR	186,019.22CR	1,136,834.89CR
234300 Accts Pay-Misc	8,803.92	169,655.33CR	17,233.18	155,095.79CR
002 Accts Pay-Misc W/O's	1,805.77CR	33,223.70CR	2,750.00CR	2,000.00
006 Accts Pay-Wkbskt Acct	25,634.75	80,317.31	9,171.07CR	39,094.26CR
007 Accts Pay-Pcard Acct	3,034.888.62CR	4,945,532.02CR	12,251.69	16,555.04CR
008 Accts Pay-I/C Loan Clearing	103,399.78CR	92,521.92CR	97,065.93	97,065.93
234350 Accts Pay-Prof Exp Acct	130,900.16CR	7,039.12CR	1,552,047.42CR	3,085,651.26CR
234400 Accts Pay-AWMS	4,382.12	29,381.84CR	3,408.57CR	16,448.66CR
AW03 Accts Pay-AW03	1,028.46	57,860.27CR	12,986.77CR	10,225.70CR
234500 Accts Pay-Assoc Cos	53,259.69CR	8,445,100.70CR	3,433,450.80CR	9,390.86
AW02 Accts Pay AW02				
AW06 Accts Pay AW06				
280999 Intercor Rec/pay	2,656,600.36	2,204.46CR	2,926,747.00CR	6,507,358.29CR
B45 Accounts Payable				
B46 Accrued Taxes				
236120 FUTA	2,609.71CR	2,833.17CR	2,204.46CR	2,226.61CR
236130 FICA	17,607.77CR	51,096.06CR	6,599.09CR	22,686.17CR
236140 SUTA	3,058.00CR	3,334.44CR	1,986.39CR	2,015.36CR
236151 Gen Tax - Property	1,533,723.93	155,002.99CR	241,503.46CR	2,092,039.32CR
236152 Gen Tax Sales/Use	300,071.93CR	4,572.85CR	19,284.14CR	390,486.90
236170 Gen Tax Other	129.59	1,820.00	4,702.44CR	4,702.44CR
236201 FIT Tax Clearing	2,000,354.00	841,464.00CR	2,926,747.00CR	2,920,010.00CR
236210 Acct FIT - Current Yr	2,427,031.00	1,492,843.97	3,677,288.00	1,985,822.97
236213 Acct FIT - Interim Curr	85,263.00CR	599,554.00CR	25,770.00CR	25,770.00CR
236220 Acct FIT - Pr Yrs			308,221.00	
236230 Acct SIT - Current Yr	64,104.00	471,407.86	365,419.00	6,284.00CR
236233 Acct SIT - Interim Curr		69,782.00	50,741.00CR	69,782.00
236240 Acct SIT pr Yrs		12,726.00	13,294.00CR	12,726.00
236310 Curr Def SIT		390,722.32		
236320 Curr Def SIT/LIT	5,616,732.11	5,949,749.46		2,615,096.03CR
B46 Accrued Taxes				
B47 Accrued Interest				
237200 Int Acct-LTD-Outside	420,437.50	311,872.09CR	420,437.50	311,872.09CR
237300 Int Acct-LTD-Outside	311,468.33CR	807,066.83CR	329,215.83CR	800,648.22CR
AW46 Int Acct-LTD-AW46	63,525.00	30,703.75CR	63,525.00	30,703.75CR
241228 Accrued PFD Div Requirements	172,494.17	1,149,642.67CR	154,746.67	1,143,224.06CR
002 Accr PFD Div w/mand				
B47 Accrued Interest				
B51 Misc Current Liabilities				
241100 Accrued Vacation Pay	191,366.18	83,757.27CR	215,526.23	38,090.94CR
241201 Acct Water Purchases	2,876.90	14,063.98CR	63,257.62	14,685.98CR
241202 Acct Power	63,628.03	273,116.11CR	19,711.35	235,527.46CR
241203 Acct Legal	32,880.39CR	73,915.62CR	56,930.04CR	158,899.50CR
241205 Acct TMS License				
241206 Acct TMS License				
241207 Acct Wages	161,336.24	72,003.06CR	195,523.70	21,851.10CR
241207 Acct Insurance				

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American Water Works Company
Kentucky-American Water-
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2008

01/14/09
17:32:58

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
241208 Acct Insurance			50CR	503.77CR
241210 Acct Rents			2,000.00	12,000.00CR
241210 Acct Waste Disposal	4,167.00CR	50,004.00CR	150,000.00	
241211 Acct Retiree Medical Reimb	4,374.48CR	11,249.58CR	1,124.45CR	8,000.00CR
241212 Acct DCP Contribution	1,642.72CR	6,400.03CR	799.85CR	11,077.64CR
241214 Acct Bank Fees	493.07	18,126.40CR	23,687.89CR	50,832.11CR
241220 WH PR-Tax Coll SIT KY	15,196.53CR	30,805.26CR	13,531.13CR	13,531.13CR
001 WH PR-Tax Coll SIT KY	2,039.88CR	2,039.88CR	2,051.41CR	2,051.41CR
002 WH PR-Union Dues	284.90CR	4,084.20CR	1,76.00CR	76.00CR
005 WH PR-Flex Spending Account	1,645.34CR	21,740.94CR	1,231.69CR	3,299.05CR
006 WH PR-401k Contribution	21,740.94CR	4,084.20CR	21,740.94CR	59,871.97CR
010 WH PR-Health Insurance	37,054.58CR	37,054.58CR	33,050.36CR	37,050.36CR
012 WH PR-Tax Coll Pay FIT	10,165.03CR	23,807.46CR	9,820.40CR	25,334.75CR
013 WH PR-Tax Coll Pay FIT	4,154.52CR	4,154.52CR	21,138.72CR	21,138.72CR
014 WH PR-Miscellaneous				
999 WH PR-Miscellaneous				
241227 Acct Employer 401k Match	1,929.97CR	7,521.15CR	2,184.33CR	14,193.47CR
241228 Accrued PFD Div Requirements	6,510.50CR	19,314.48CR	6,559.59CR	19,460.10CR
241229 Acct Construction Costs Pay				
241230 Unclaimed Credits Pay	11,958.59CR	22,872.46CR		22,150.68CR
241232 Outstanding Checks Pay	2,376.88CR	2,376.88CR		20,935.20CR
241234 Unclaimed PFD Div Requirements	9,343.16	351.20CR	113,892.07	224,934.46CR
241236 Unbilled Items-System	80,085.30	4,669.85CR	12,580.11	31,121.82CR
241237 Unbilled Stock C-System	62,467.50	36,107.09CR	56,819.87CR	85,365.52CR
241238 Unbilled Stock E-System	188,520.55	4,786.80CR	193.00CR	65.00CR
241241 CFO-Cust Asst Nonpledged	77.00CR	197.00CR	94.00	34.00CR
005 CFO-Cust Asst Nonpledged	37.00CR	103.00CR	72.00	
241244 CFO-Sales Tax	4,878.66	27,053.89CR	8,144.19	153,695.74CR
241246 CFO-Gross Rcpts Tax	115,219.04CR	387,814.61CR	101,062.40CR	216,921.33CR
241248 CFO-Gross Rcpts Tax	13,131.47	125,911.78CR	10,420.31	111,131.07CR
241249 CFO-Mgmt Contracts				
001 CFO-Mgmt Contracts	198,488.00	3,335,662.37CR	78,393.82	2,395,963.91CR
002 CFO-MC/Swr Rev/Cash	200,349.26CR	2,033,021.27	113,545.46CR	1,301,475.84
004 CFO-MC/Swr A/R	24,630.44	1,146,634.85	20,562.10	1,899,711.99
241250 A/P Check Clearing	887,184.08	1,081,763.92CR	1,132,411.65	1,063,025.98CR
241251 P/R Check Clearing	198,704.21CR	198,837.94CR	177,106.24CR	177,106.24CR
241260 Misc Deposits Payable		8,000.00CR		39,320.48CR
241261 Acct Insurance Retro			2,537.32CR	
241322 Incentive Plan Cash Annual	15,780.92	292,529.77CR		
241398 Other Current Liabilities	78,619.53CR	117,712.23CR	176,531.72	184,903.28CR
252999 Adv for Const-Current Porti	2,500,000.00CR	2,500,000.00CR		
CP Adv for Const-Current Porti	1,372,600.41CR	5,750,303.72CR	1,552,580.83	3,267,524.17CR
B51 Misc Current Liabilities				
B55 Advances for Construction				
252110 Adv for Const-NT Mains	3,648.20CR	48,121.84CR		
252120 Adv for Const-NT Ext	107,105.63	13,264,455.79CR	276,613.66	13,253,240.64CR
252130 Adv for Const-NT Services			1,516.18CR	13,085.00CR
252140 Adv for Const-NT Meters				

10
01/14/09
17:32:58

American Water Works Company
Kentucky-American Water- CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2008

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B55 Advances for Construction				
252150 Adv for Const-NT Hydrants			17,190.79	36,641.02CR
252160 Adv for Const-NT Other			5,200.52	251,968.48CR
252170 Adv for Const-NT WIP	36,403.00CR	1,103,449.59CR	197,861.44CR	1,097,395.81CR
252220 Adv for Const-Tax Ext				759.60CR
252999 Adv for Const-Cur Portion Recl	2,500,000.00	2,500,000.00		
	2,567,054.43	11,916,027.22CR	99,627.35	14,653,090.55CR
B56 Deferred Income Taxes				
253113 Def Int-Interim Def			705,856.00CR	
253203 Def Def-Fit-Norm Property	1,886,054.00CR	1,886,054.00CR		1,935,054.00CR
253301 Def Def-Fit-Other	24,202.00CR	31,145,629.54CR	2,519,970.00CR	29,107,667.54CR
253309 Def Def-Fit-AMT		133,392.00		133,392.00
253613 Def SIT-Interim Def			245,644.00	
253701 Def SIT-Other	16,804.00	5,054,962.88CR	460,790.00CR	4,710,916.88CR
	7,398.00CR	37,953,254.42CR	3,440,972.00CR	35,620,246.42CR
B57 Deferred ITC				
255101 Unamortized ITC - 3%	637.67	94,173.93CR	637.67	101,825.97CR
255102 Unamortized ITC - 4%	525.42	54,854.17CR	565.42	61,159.21CR
255103 Unamortized ITC - 10%	5,903.33	983,986.31CR	5,903.33	1,054,826.27CR
	7,066.42	1,133,014.41CR	7,106.42	1,217,811.45CR
B58 Deferred Regulatory Liability				
256212 Reg Liab-Exc Def Depr FIT	11,733.58	1,284,793.87CR	11,733.58	1,425,596.83CR
256220 Reg Liab-Exc Def Depr FIT	2,296.50CR	251,289.84	2,296.50CR	278,847.84
256232 Reg Liab-Exc Def Depr SIT	4,057.00	1,569,198.50CR	28,836.31CR	1,643,356.75CR
256250 Reg Liab-ARO/WNS	82,662.03CR	9,740,179.29CR	359,698.90CR	8,772,379.89CR
256310 Reg Liab-ITC Gross-Up 3%	432.00	63,800.75CR	432.00	68,984.75CR
256311 Reg Liab-ITC Gross-Up 4%	355.83	37,148.49CR	355.83	41,418.45CR
256312 Reg Liab-ITC Gross-Up 10%	3,252.33	542,109.98CR	3,252.33	581,137.94CR
	80,270.86CR	13,001,084.11CR	375,057.97CR	12,254,026.77CR
B59 Other Deferred Credits				
262120 DCA-Accr Pension Def Benefit	67,034.00CR	1,389,494.20CR	60,076.75CR	2,174,086.20CR
262210 DCA-Accr Pension Def Benefit	62,197.75CR	299,737.00CR	59,674.75CR	299,737.00CR
262215 DCA-Accr OPEB Med Subsidy	565.77	118,413.56CR		84,567.40CR
262313 DCA-FAS 112 Costs		61,130.00CR		61,130.00CR
262315 Accr Div Equivalents	97.00CR	579.00CR		
262317 Def Comp (prior 1/1/08)			24,896.38CR	31,657.20
262322 DCA-Inc Plan Cash Annual	10,734.55	674,440.22CR	10,734.54	280,134.55CR
262398 DCA-Other	118,028.43CR	2,543,793.98CR	133,913.34CR	805,090.91CR
				3,673,088.86CR

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American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2008

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B62 CIAC				
271110 CIAC-NT Mains		15,973,504.55CR	692.69	14,652,257.20CR
271120 CIAC-NT Ext Mains		10,927,250.44CR	324.47CR	10,368,051.01CR
271130 CIAC-NT Exp Dep		15,332,641.09CR	83,493.82CR	14,239,812.09CR
271140 CIAC-NT Services	83,982.00CR	576,081.79CR	12,451.60	521,259.07CR
271150 CIAC-NT Meters	1,141.91CR	1,461,001.83CR	46,326.88CR	1,199,649.35CR
271160 CIAC-NT Hydrants	6,374.90	4,492,897.07CR	148,453.98CR	3,603,117.02CR
271170 CIAC-NT Other	232.26	591,127.52CR	65,887.86CR	637,089.00CR
271180 CIAC-NT WIP	61,088.59CR	249,724.86CR		249,724.86CR
271190 CIAC-NT Non-Util Prop		1,998,493.38CR		1,998,493.38CR
271210 CIAC-Tax Mains		766,585.92CR		766,585.92CR
271220 CIAC-Tax Ext Dep		6,521,994.01CR	13,105.00CR	6,308,695.01CR
271230 CIAC-Tax Services	6,270.00CR	3,299.01CR		3,299.01CR
271240 CIAC-Tax Meters		487,486.50CR		487,486.50CR
271250 CIAC-Tax Hydrants		440,902.80CR		440,902.80CR
271260 CIAC-Tax Other				
271270 CIAC-Tax WIP				
272010 Accum Amort CIAC-Mains		378,786.29		281,286.30
272040 Accum Amort CIAC-Meters		35,022.86		35,022.86
272050 Accum Amort CIAC-Meters		5,907.84		5,907.84
272060 Accum Amort CIAC-Hydrants		12,090,116.44	126,784.69	11,336,270.57
272100 Accum Amort CIAC-Other	90,806.59	497,682.76	29,725.29	232,619.48
272110 Accum Amort CIAC-Taxable	23,041.02	46,815,474.58CR	187,937.74CR	43,585,315.17CR
B62 CIAC	32,027.73CR			
00012 Kentucky-American Water Co.	2,102,362.57CR	2,953,393.65	1,728,821.58CR	1,509,712.16

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American Water Works Company
Kentucky-American Water- CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2009

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December
Activity

Prior Year
Balance

Prior Year
Balance

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
101000 Organization		37,450.43		37,450.43
301000 Franchises		335,511.50		335,511.50
303200 Land & Ld Rights SS		68,183.99		68,183.99
303300 Land & Ld Rights P		1,826.59		1,826.59
303400 Land & Ld Rights TD		1,654.04		1,654.04
304100 Struct & Imp SS	597.56CR	4,019.32	14,636.41	4,019.32
304200 Struct & Imp P	375.84CR	2,215.32	48,037.50CR	2,215.32
304300 Struct & Imp TD	5,285.80CR	9,904.14	22,465.84CR	9,904.14
304400 Struct & Imp AG		388,183.84	10,092.90CR	388,183.84
304500 Struct & Imp Offices		235,443.36	141,187.98CR	235,443.36
304600 Gen Structures - HVAC		10,570.37		10,570.37
304700 Struct & Imp Mtrc, Shop, Gar		83,926.91		83,926.91
304800 Collect & Imp Mounding		1,002.87	3.19	1,002.87
305000 Lake, River & Other Intakes		5,937.09		5,937.09
309000 Power Generation Equip	3,912.67CR	5,141.70	23.69CR	5,141.70
311200 Pump Equip Electric		9,718.47	125,518.88	9,718.47
311300 Pump Equip Diesel		366,413.82		366,413.82
311400 Pump Equip Hydraulic	13,250.00	8,382.96	3,343,635.21	8,382.96
311500 Pumping Equipment SS	42,422.44	176,341.11	1,167,976.50	176,341.11
311600 Pumping Equipment TD		30,237.29		30,237.29
320100 Wt Equip Non-Media		1,682,982.93		1,682,982.93
320200 Dist. Reservoirs & Standpipes	236.64CR	10,112.42	12,882.92	10,112.42
320300 Groundwater Facilities		112,458.91		112,458.91
320400 Clearwells		149,157.76		149,157.76
321001 TD Mains Not Classified by	285,834.82	4,402.74	94,254.42CR	285,834.82
321100 TD Mains 4in & Less	18,946.88	4,424.62	1,044,521.91	18,946.88
321200 TD Mains 6in to 8in	46,983.56	11,624.51	2,616,027.24	46,983.56
321300 TD Mains 10in to 16in		1,963,378.91	1,952,821.05	
321400 TD Mains 18in & Grtr	40,104.37	2,743,789.41	2,678,628.31	40,104.37
323000 Services	208,246.60	42,192.86	2,246,278.70	208,246.60
324100 Meters Bronze Case		138,128.34		138,128.34
324200 Meters Plastic Case	210,791.99CR	699,690.85	346,635.65CR	210,791.99
324300 Meters Other	115,300.75CR	7,273,338.73	62,291.91CR	115,300.75
324400 Meters Other-Rem Rdr Unts	154,262.40	270,927.24	48,280.03	154,262.40
324500 Meter Vaults	15,803.82	16,121.52	59,368.90	15,803.82
325000 Hydrants		11,829.35		11,829.35
329100 Other P/E Intangible		227,159.19		227,159.19
329600 Office P/E CPS		733,353.17		733,353.17
330200 Office Furniture & Equip		89,281.17		89,281.17
340210 Comp & Periph Mainframe		783,669.56		783,669.56
340220 Comp & Periph Personal	59,181.74CR	267,518.58	618.57	59,181.74
340230 Comp & Periph Other		4,547.48	1,000.55CR	
340300 Computer Software		3,240.99		3,240.99
340320 Comp Software Personal		97,249.20		97,249.20
340330 Comp Software Customized		3,444.13		3,444.13
340340 Comp Software Other		88,369.16		88,369.16
340350 Other Office Equipment		1,920,967.62		1,920,967.62
340400 Trans Equip Hc Duty Trks		2,416,926.66		2,416,926.66
340410 Trans Equip Hvy Duty Trks		416,926.66		416,926.66
340420 Trans Equip Other		3,240.99		3,240.99
340430 Stores Equipment		240,675.15		240,675.15
340440 Tools, Shop, Garage Equip	24,786.04	1,828,627.11	2,144.33	24,786.04
344000 Laboratory Equipment		1,922,084.64		1,922,084.64
345000 Power Operated Equipment		1,922,084.64		1,922,084.64
345100 Comm Equip Non-Telephone		240,675.15		240,675.15
346190 Remote Control & Instrument		240,675.15		240,675.15
346200 Comm Equip Telephone		1,138,464.58		1,138,464.58
347000 Misc Equipment	793.00CR	250,464.77		793.00
348000 Other Intangible Property		1,138,464.58		1,138,464.58
353500 WW Land & Ld Rights, Gen		27,233.47		27,233.47
354200 WW Struct & Imp Conl	3,658.52	37,922.30		3,658.52
354300 WW Struct & Imp RDP		2,093,922.30		2,093,922.30
354400 WW Struct & Imp WTP		833,752.48		833,752.48
354500 WW Struct & Imp Gen		33,216.88		33,216.88
356000 WW Collecting Sewers		833,752.48		833,752.48
356100 WW Collecting Mains		33,216.88		33,216.88
356300 WW Services Sewer		33,216.88		33,216.88
356400 WW Flow Measuring Devices		33,216.88		33,216.88

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American Water Works Company
Kentucky American Water Co-12
Total Trial Balance

For the Period Ending 12/31/2009

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
101000 WW Pump Equip Elect		10,707.91		10,707.91
311100 WW Pump Equip Elect		3,646.30		3,646.30
312000 WW Pump Equip Oth Pwr		80,086.34		80,086.34
320000 WW Equipm - Furniture & Equip		35,144.16		35,144.16
321000 WW Office Equipment		27,817.74		27,817.74
322000 WW Tools Shop & Garage Equip		39,065.38		39,065.38
323000 WW Laboratory Equipment		1,396.00		1,396.00
324000 WW Power Operated Equip		20,631.15		20,631.15
325000 WW Communication Equip			1,148.85CR	
326000 WW Misc Equipment			2,197.80	
101099 Completed Const not Classif				
101100 Reg Asset-AFUDC-Debt		272,637.00		272,637.00
103000 Property Held Future Use		114,076.24		114,076.24
104000 Utility Plant Purchased/Sold				
106000 Utility Plant Purchased/Sold				
106000 Struct & Imp SS				
304100 Struct & Imp SS			163.79	30,579.07
304200 Struct & Imp SS			5,172.18	74,119.18
304300 Struct & Imp WT			7,945.23	
304400 Struct & Imp TD			16,721.79CR	
304500 Struct & Imp AG			30,176.30CR	
304600 Struct & Imp Offices			1,161,729.36	1,183,334.36
304700 Struct & Imp Store, Shop, Gar				
304800 Struct & Imp Misc				
309000 Supply Mains		2,351.83	3,19CR	7,805.87
311200 Pump Equip Electric			5,454.04	
311320 Pumping Equipment SS		30,427.33		61,113.36
311330 Pumping Equipment WT		163,923.55	1,157,434.16CR	123,484.68
312000 Misc Equip Non-Media			23,377.89CR	12,734.62
320000 Meters Other-Rem Rdr Units				
321000 Meter Vaults		8,746.68		15,645.61
322000 Meter Vaults		8,939.49		27,738.61
323000 Meters Other-Rem Rdr Units				
324000 Meters Other-Rem Rdr Units				
325000 Meters Other-Rem Rdr Units				
326000 Meters Other-Rem Rdr Units				
327000 Meters Other-Rem Rdr Units				
328000 Meters Other-Rem Rdr Units				
329000 Meters Other-Rem Rdr Units				
330000 Meters Other-Rem Rdr Units				
331000 Meters Other-Rem Rdr Units				
332000 Meters Other-Rem Rdr Units				
333000 Meters Other-Rem Rdr Units				
334000 Meters Other-Rem Rdr Units				
335000 Meters Other-Rem Rdr Units				
336000 Meters Other-Rem Rdr Units				
337000 Meters Other-Rem Rdr Units				
338000 Meters Other-Rem Rdr Units				
339000 Meters Other-Rem Rdr Units				
340000 Meters Other-Rem Rdr Units				
341000 Meters Other-Rem Rdr Units				
342000 Meters Other-Rem Rdr Units				
343000 Meters Other-Rem Rdr Units				
344000 Meters Other-Rem Rdr Units				
345000 Meters Other-Rem Rdr Units				
346000 Meters Other-Rem Rdr Units				
347000 Meters Other-Rem Rdr Units				
348000 Meters Other-Rem Rdr Units				
349000 Meters Other-Rem Rdr Units				
350000 Meters Other-Rem Rdr Units				
B02 CWIP				
105050 CWIP Accr-Bldgs				
11				
B01 Utility Plant Original Cost				
1,062,012.94	384,865,342.75	5,551,715.50	369,485,720.92	
B02 CWIP				
105050 CWIP Accr-Bldgs				
11				
30.67CR	1,004.21	619.14	619.14	

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American Water Works Compan,
Kentucky American Water Co 12
Total Company (USGRAF)
Period Ending 12/31/2009

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For the Period Ending 12/31/2009

Description		December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012	Kentucky-American Water Co.				
B02	CWIP				
105050	CWIP Accr-Infra	1,416,803.88	5,999,424.84	3,636,668.58CR	288,065.59
21	CWIP Accr-Infra	460,240.31CR	1,987,987.59	3,739,449.22	4,656,847.29
31	CWIP Accr-Plant				
105110	CWIP History		10,021,825.69		10,021,825.69
1	CWIP History-Bldgs		51,966.84		51,966.84
1	CWIP History-Infrastr		5,381.46CR		5,381.46CR
21	CWIP History-Plant				
105125	CWIP				
1	Permits & fees		48,192.88		48,192.88
1	CWIP Permits-Bldgs		212,247.61		718,339.00
21	CWIP Permits-Infrastr		4,026,873.40		2,451,467.72
31	CWIP Permits-Plant				
105150	CWIP M&S & Purchases	5,500.00		179,031.00	
1	CWIP M&S & Purchases				
1	CWIP M & S-Bldgs		19,115,344.78		19,115,344.78
21	CWIP M & S-Infrastr	440,799.12	316,707.29	107,297.89	316,707.29
31	CWIP M & S-Plant	179,478.48	28,878,843.42	26,038,979.61	26,038,979.61
105175	CWIP Professional Services		13,137,770.77	396,329.20	11,787,629.80
1	CWIP Professional Services		30,275.65		30,275.65
21	CWIP Prof Svc-Infrastr	85,847.32	1,847,632.05	4,429.33	1,667,285.02
31	CWIP Prof Svc-Plant		73,348.98		73,348.98
105200	CWIP				
1	CWIP Labor-Bldgs		1,594,849.33		1,594,849.33
1	CWIP Labor-Infrastr	47,781.67	5,321,429.09	118,175.47	4,473,108.92
31	CWIP Labor-Plant	66,568CR	770,547.82	1,197.32	4,761,276.16
105250	CWIP				
1	CWIP Labor OH		1,765,848.50		1,765,848.50
1	CWIP Labor OH-Bldgs	25,471.37	3,406,935.90	83,639.95	5,740.11
21	CWIP Labor OH-Infrastr	484,355CR	3,406,935.90	83,639.95	2,751,952.41
31	CWIP Labor OH-Plant				
105260	CWIP Overhead				
1	CWIP Overhead		688,754.64		688,754.64
1	CWIP Overhead-Bldgs	7.91	181,101.10	532.54	179,652.82
21	CWIP Overhead-Infrastr	110,079.95	5,404,900.13	32,773.62	4,545,546.07
31	CWIP Overhead-Plant	23,947.93	1,928,818.01	126,467.59	1,732,663.07
105270	CWIP Service Co Chgs				
1	CWIP Service Co Chgs		5,269.73		5,269.73
21	CWIP AMWSC Chg-Infrastr	3,496.25	672,425.67	13,840.55	589,221.57
31	CWIP AMWSC Chg-Plant	42,508.65	1,487,721.15	30,325.54	961,916.23
105275	CWIP Contracted Services				
1	CWIP Contracted Services		26,670,271.06		26,670,271.06
1	CWIP Contr Svc-Bldgs	1,420.13	80,475,407.20	3,854.51	54,713,409.90
21	CWIP Contr Svc-Infrastr	77.72	98,098,262.30	5,562,876.09	54,525,936.62
31	CWIP Contr Svc-Plant	3,266,333.14			42,757,281.45
105280	CWIP Retainage				
1	CWIP Retainage		366,817.31		366,817.31
1	CWIP Retainage-Bldgs		61,325.00		61,325.00
21	CWIP Retainage-Infrastr	36,640.82	4,965,544.44	134,845.95	4,182,320.04
31	CWIP Retainage-Plant	129,081.83	3,944,889.74	139,650.59	1,589,342.04
105285	CWIP Developer Const Costs				
21	CWIP Developer Const Costs		12,614.00		
105300	CWIP Paving				
1	CWIP Paving		22,858.20		22,858.20
21	CWIP Paving-Infrastr		199,028.00		199,028.00
31	CWIP Paving-Plant		466.06		466.06
105350	CWIP AFUDC Debt				
1	CWIP AFUDC Debt		703,911.94		703,911.94
1	CWIP AFUDC Debt-Bldgs		51,763.27		51,763.27
21	CWIP AFUDC Debt-Infrastr	457,841.38	4,335,913.71	95,358.75	699,632.76
31	CWIP AFUDC Debt-Plant	328.17		12,187.87	1,007,409.98
105375	CWIP AFUDC Equity				
1	CWIP AFUDC Equity		809,429.26		809,429.26
1	CWIP AFUDC Equity-Bldgs		74,380.19		74,380.19
21	CWIP AFUDC Equity-Infrastr	121,166.98	3,130,812.01	124,051.64	23,090.13
31	CWIP AFUDC Equity-Plant	401.31	1,089,996.02	15,855.13	1,284,271.11
105390	CWIP Tran Py Chg-Bldgs				
1	CWIP Tran Py Chg-Bldgs		176,511.62		176,511.62
21	CWIP Tran Py Chg-Infrastr		562,183.19		562,183.19
31	CWIP Tran Py Chg-Plant		876,552.73CR		876,552.73CR
105391	CWIP Trans Current Yr Chgs				
1	CWIP Trans Current Yr Chgs		9,843,395.47CR		9,843,395.47CR
105399	CWIP Prelim Eng-Plant				
31	CWIP Prelim Eng-Plant		2,618.00		2,618.00
105810	CWIP Engineering Clearing				
31	CWIP Engineering Clearing				
105900	CWIP Transfer to UFIS	42,094.86CR			

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American Water Works Company
Kentucky American Water Co 12
Total (Supply Balance)
Period Ending 12/31/2009

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
1 CWIP Transfer to UPIS		3,526.85CR	439.74CR	3,526.85CR
1 CWIP Tran UPIS-Bldgs	1,195,013.24CR	51,962,726.94CR		51,962,726.94CR
21 CWIP Tran UPIS-Infrastr	259,360.56CR	1,950,918.77CR		1,950,918.77CR
31 CWIP Tran UPIS-Plant	5,876,476.83	98,380,036.15CR	1,043,671.95CR	88,576,470.33CR
		34,825,055.94CR	5,223,788.57CR	28,159,931.41CR
B02 CWIP	5,876,476.83	138,797,378.37	2,372,573.94	54,501,123.68
B03 Accumulated Depreciation				
108105 AD UPIS-Acc Dep-Not Classifd				
01 AD UPIS-AccDepr-Not Classifd	3,416.94CR	50,386.825 55CR	609.90CR	50,365,291.78CR
02 AD UPIS-AccDepr-Oper Bldgs	35,000.77CR	1,391,379.06CR	34,201.50CR	2,977,214.87CR
05 AD UPIS-AccDepr-Admin Bldgs	19,855.54CR	1,108,599.79CR	17,501.78CR	2,866,548.81CR
06 AD UPIS-AccDepr-Infrastruct	331,158.02CR	26,445,851.92CR	322,483.62CR	22,527,491.14CR
07 AD UPIS-AccDepr-Op Water Pr	111,181.50CR	11,222,270.73CR	103,881.57CR	9,925,713.94CR
08 AD UPIS-AccDepr-Other Equip	70,398.35CR	5,957,341.00CR	63,821.35CR	5,162,265.94CR
09 AD UPIS-AccDepr-Office Equip	52,139.30CR	8,047,878.85CR	51,387.90CR	7,422,964.47CR
108110 AD UPIS-AccDepr-Cap Develop		55,383.65CR	139.30CR	53,712.05CR
AD UPIS-Removal Cost		2,040,107.64		2,040,107.64
AD UPIS-Salvage		288,692.30CR		139,706.95CR
AD UPIS-Salvage	15,807.98CR		15,143.00CR	
AD UPIS-Salvage		23,226.64CR		23,226.64CR
AD UPIS-Scrap Meters		10,764.38CR		10,764.38CR
AD UPIS-Scrap Misc		16,975.00CR		16,975.00CR
AD UPIS-Salv Trade-In		2,490.81CR		2,490.81CR
AD UPIS-Salv Sale		14,085,136.84	716,184.77	13,371,940.23
AD UPIS-Salv Sale	392,360.86			
AD UPIS-Orig Cost-Not Classifd		117,289.18CR	575.00CR	110,389.18CR
AD UPIS-Orig Cost-Not Classifd	575.00CR			
AD UPIS-Reg Asset		90,949,724.38CR	106,639.85	84,212,703.09CR
AD UPIS-Reg Asset	247,474.42CR			
B03 Accumulated Depreciation				
B04 UPAA				
114100 UPAA-ATL		455,951.18		455,951.18
UPAA-ATL				
UPAA Post 1/1/06				
UPAA Post 1/1/06				
Accum Amort UPAA-ATL	1,765.58CR	171,654.82CR	1,778.79CR	151,418.58CR
Accum Amort UPAA-ATL	1,765.58CR	284,296.36	1,778.79CR	310,870.63
B04 UPAA				
B07 Non Utility Property, Net				
121100 NUP-Land		270,192.68		270,192.68
NUP-Land		270,192.68		270,192.68
B07 Non Utility Property, Net				
B10 Cash & Cash Equivalents				
113112 BB&T		316,080.39CR		
BB&T				
Deutsche Bank		167,777.94	6,906.94	6,906.94
Cash-Mellon Lockbox			293,714.81	246,854.75
Cash Clear-NSF Checks		188.10	1,270.40CR	50.07
Cash Clear-Misc DR/CR		732.18	21,820.87CR	18.97
Cash Clear-Misc DR/CR		43.40		
Cash Clear-Mi's		1,652.91		
Cash Clear-ORCOM				
Cash Clear-Intercor		5,305.18		
Cash Clear-Pinnacle/ARP		3,287.27		
Petty Cash		400.00		
Petty Cash-OTC		2,000.00		
Petty Cash-OTC				
B10 Cash & Cash Equivalents	310,951.62CR	176,258.70	291,423.10	234,378.49
B10 Cash & Cash Equivalents				
B12 Customer Accounts Receivable				
141000 Customer A/R	146,729.61CR	2,610,953.38	692,875.54CR	2,344,312.09
Customer A/R				
141999 Customer A/R Clearing	1,133.54	1,274.25	11.24CR	1,847.47CR
Customer A/R Clearing				
B12 Customer Accounts Receivable	145,596.07CR	2,612,227.63	692,886.78CR	2,342,464.62
B13 Allowance for Uncollectible A/				

83410 GLO12TRBAG 0001R		American Water Works Company Kentucky-American Water-CC 12 Total Company (USGAP) Trial Balance For the Period Ending 12/31/2009			5 01/14/10 09:41:22
Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance	
143000 Accum prov-uncoll acct	27,022.32	277,010.92CR	12,070.38	273,355.78CR	
Accum prov-uncoll acct	27,022.32	277,010.92CR	12,070.38	273,355.78CR	
B13 Allowance for Uncollectible A/					
B14 Accrued Utility Revenue	330,560.87CR	3,230,671.79	238,916.72CR	2,899,825.02	
144000 Accrued Utility Revenue	330,560.87CR	3,230,671.79	238,916.72CR	2,899,825.02	
Accrued Utility Revenue					
B14 Accrued Utility Revenue					
B16 Miscellaneous Receivables	230,991.12	583,358.35	80,320.91CR	351,530.05	
146100 Misc A/R-System	2,468.10	95,780.13	694.59CR	92,861.46	
Misc A/R-System					
001					
146105 Misc A/R-Photo Ins	19,971.73CR	73,652.85	13,880.21CR	43,248.59	
Misc A/R-Photo Ins					
146115 Misc A/R-Retro Ins	3,395.66CR	15,358.20	9,632.96CR	9,333.80	
Misc A/R-Retro Ins					
146130 Misc A/R-Medical Subsidy					
Misc A/R-Adv to Employees					
146300 Misc A/R-Adv to Employees					
Misc A/R-Adv to Employees					
146370 Accum prov-uncoll misc a/r	75,010.12	5,044.59CR	9,217.38	85,423.69CR	
Accum prov-uncoll misc a/r					
146500 A/R Assoc Cos					
A/R Assoc Cos					
AW46					
A/R Assoc Cos-AW46	2,910,855.76CR	3,440,942.01			
146520 A/R Div Equiv AW02	96.00	1,461.00	97.00	579.00	
A/R Div Equiv AW02					
AW02					
146800 Rents Receivable					
Rents Receivable					
147000 IC Rec/Pay Clearing	467.61	467.61			
IC Rec/Pay Clearing					
B16 Miscellaneous Receivables	2,825,190.20CR	4,205,975.56	95,214.29CR	412,129.21	
B17 Materials & Supplies	32,253.83	404,936.38	38,116.04CR	405,665.34	
151100 Plant Material	9,025.67	240,355.74	5,408.84	171,441.11	
Plant Material					
151300 Chemicals	20,928.53CR				
Chemicals					
153000 Other Mat & Supplies	20,350.97	645,292.12	32,707.20CR	577,106.45	
Other Mat & Supplies					
B17 Materials & Supplies					
B19 Prepayments	17,065.30CR	220,046.47	291,149.74	291,149.74	
165100 Prepaid Taxes	60,630.47CR	6,878.16	54,508.37CR	5,257.28	
Prepaid Taxes					
165200 Prepaid Insurance	7,700.97CR	46,205.84	7,050.29CR	42,301.74	
Prepaid Insurance					
165300 Prepaid PUC/PSV Assessments	9,144.58CR	1,180.52			
Prepaid PUC/PSV Assessments					
165400 Prepaid Audit Fees	15,893.58CR	38,554.44	22,781.88	72,091.29	
Prepaid Audit Fees					
165500 Prepaid Other	165,360.20CR	49,945.20	191,366.18CR	83,757.27	
Prepaid Other					
174100 Deferred Vacation Pay					
Deferred Vacation Pay					
174200 Curr State Def Tax					
Curr State Def Tax					
174300 Curr Fed Def Tax					
Curr Fed Def Tax					
B19 Prepayments	275,785.10CR	362,810.63	61,006.78	494,557.32	
B23 Debt & Preferred Stock Exp	665.38CR	133,487.56	665.38CR	141,472.12	
181110 Unamort Debt Exp-Out	5,285.56CR	91,101.40	5,285.56CR	154,528.12	
Unamort Debt Exp-Out					
181120 Unamort Debt Exp-AMT	3,341.53	1,444,501.11	1,381.14CR	477,871.25	
Unamort Debt Exp-AMT					
181121 Unamort Debt AW46 NoIAS					
Unamort Debt AW46 NoIAS					
AW46					
181512 Pref Stk Exp w/ mandatory	64.24CR	20,749.52	64.24CR	21,520.40	
Pref Stk Exp w/ mandatory					
181512 Pref Stk Exp w/ mandatory	2,673.65CR	1,689,839.59	7,396.32CR	795,391.89	
Pref Stk Exp w/ mandatory					
B23 Debt & Preferred Stock Exp					
B24 Deferred Rate Proceedings	13,401.13CR	491,878.35	59,548.80	553,892.05	
182000 Deferred Rate Proceedings	13,401.13CR	491,878.35	59,548.80	553,892.05	
Deferred Rate Proceedings					
B24 Deferred Rate Proceedings					

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American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Iris Balance
For the period ending 12/31/2009

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
B25 Preliminary Survey & Invest				
183000 Prelim Survey & Invest		52,203.63		125,657.24
Prelim Survey & Invest		52,203.63		125,657.24
B25 Preliminary Survey & Invest				
B26 Deferred Regulatory Asset				
186030 Reg Asset-Regulatory Asset	77,402.55	1,823,710.02	89,078.68	891,150.84
Reg Asset-Regulatory Asset				
186035 Reg Asset-Regulatory Asset	38,487.00	3,222,480.73	35,500.00	2,867,070.74
Reg Asset-Regulatory Asset				
186040 Reg Asset-Regulatory Asset	2,008.00	3,202,904.38	2,008.00	3,664,748.38
Reg Asset-Regulatory Asset				
186045 Reg Asset-Regulatory Asset	6,332.12	429,049.39	2,008.00	453,145.39
Reg Asset-Regulatory Asset				
186055 Reg Asset-Regulatory Asset	34,591.43	569,942.39	5,945.51	493,956.95
Reg Asset-Regulatory Asset				
B26 Deferred Regulatory Asset		7,250,103.35	49,641.17	6,475,867.62
B27 Other Deferred Debits				
183280 DEF-Customer Service Project	37,144.79		31,102.60	
DEF-Customer Service Project				
184100 Eng Clearing Dist OH	995.98		81.24	
Eng Clearing Dist OH				
184102 Mngmt Study - AMR	5,946.05		1,384.21	
Mngmt Study - AMR				
184103 Mngmt Study - Pipe Assmnt	42,094.86			
Mngmt Study - Pipe Assmnt				
184199 Eng Clearing Reclass				
Eng Clearing Reclass				
185125 RWIP Permits, Fees & Premiums				
RWIP Permits, Fees & Premiums				
185150 RWIP M & S and Purchases				
RWIP M & S and Purchases				
21 RWIP Labor	3,278.01	12,892.30	2,355.19	12,892.30
RWIP Labor		12,892.30		10,991.07
21 RWIP Co Labor OH	3,398.39	248,095.52	160.77	248,031.02
RWIP Co Labor OH		248,095.52		71,211.62
21 RWIP Co Labor OH	1,440.38	124,712.81	3,975.29	126,302.77
RWIP Co Labor OH		124,712.81		34,785.02
21 RWIP Indirect Labor	971.91	659,985.25	2,177.09	1,839.97
RWIP Indirect Labor		659,985.25		1,839.97
185275 RWIP Contracted Services		11,951.92	416.62	
RWIP Contracted Services		11,951.92		
21 RWIP Contracted Services	425.00	2,077,128.98	5,443.75	2,077,128.98
RWIP Contracted Services		2,077,128.98		63,114.79
185280 RWIP Retainage		80,714.79		110,000.00
RWIP Retainage		80,714.79		110,000.00
185315 RWIP Salvage		5,093.07		5,093.07
RWIP Salvage		5,093.07		5,093.07
31 RWIP Salvage		123,821.81	517.50	94,284.86
RWIP Salvage		123,821.81		16,068.70
185320 RWIP Scrap Meters		16,068.70		
RWIP Scrap Meters		16,068.70		
21 RWIP Scrap Meters		117,787.23	3,394.30	68,642.80
RWIP Scrap Meters		117,787.23		1,125.51
185322 RWIP Scrap Misc		3,975.61		
RWIP Scrap Misc		3,975.61		
21 RWIP Scrap Misc		780.00		780.00
RWIP Scrap Misc		780.00		780.00
31 RWIP Scrap Misc		1,202.68	804.00	1,202.68
RWIP Scrap Misc		1,202.68		2,389.80
185950 RWIP Reg Liab Reclass		7,377.70		
RWIP Reg Liab Reclass		7,377.70		
185999 RWIP Clear Removal & Salvag		12,019.99	15,143.07	15,143.07
RWIP Clear Removal & Salvag		12,019.99		
21 RWIP Clear Removal & Salvag		2,402,400.30	956.80	2,402,500.80
RWIP Clear Removal & Salvag		2,402,400.30		122,317.97
31 RWIP Clear Removal & Salvag		160,576.97	24,857.00	67,140.54
RWIP Clear Removal & Salvag		160,576.97		
186401 DDA-Programmed Maint		44,028.54		
DDA-Programmed Maint		44,028.54		
186405 DDA-RIA Software Licen		1,608,740.00	2,128.24	1,736,957.35
DDA-RIA Software Licen		1,608,740.00		
186426 DDA-RAS 112 Costs		61,130.00		61,130.00
DDA-RAS 112 Costs		61,130.00		61,130.00
186431 DDA-Regulatory Study		17,503.15	500.09	23,504.23
DDA-Regulatory Study		17,503.15		
186432 DDA-Cost Service Study		20,401.76	2,510.97	24,905.37
DDA-Cost Service Study		20,401.76		
186444 DDA-Waste Disposal		7,692.79		
DDA-Waste Disposal		7,692.79		
186598 DDA-Oth Reg Assets		130,777.31		
DDA-Oth Reg Assets		130,777.31		
		2,124,589.32	4,877.02	2,566,249.43

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American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the period Ending 12/31/2009

7
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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co				
B27 Other Deferred Debits				
186704 DDN-Undistributed Items			2.95CR	
186711 DDN-Undistributed Items				
186711 DDN-Acquisition Costs				
186750 DDN-Engineering Studies				
186898 DDN-Oth LT Assets				
187007 Prelim Financing E		1,323.56		
	62,287.97CR	3,964,465.10	28,886.76	4,412,746.38
B27 Other Deferred Debits				
B33 Common Stock				
210200 Com Stk Subs Interco		36,568,776.50CR		36,568,776.50CR
AW02 Com Stk Subs AW02		36,568,776.50CR		36,568,776.50CR
B33 Common Stock				
B34 Paid In Capital				
205175 Donations stkhld I/C		21,329.44CR		21,329.44CR
AW02 Donations stkhld I/C				
205300 Gain on res/can I/C		180.00CR		180.00CR
AW02 Gain on res/can I/C				
205310 Gain on res/can min int.		3,330.00CR		3,330.00CR
AW02 Gain on res/can min int.				
205440 Misc PIC Interco		56,631,205.85CR	3,109.37CR	24,101,666.04CR
AW02 Misc PIC AW02		56,656,045.29CR	3,109.37CR	24,126,505.48CR
B34 Paid In Capital				
B35 Retained Earnings				
210200 R/E Ret Earnings		343,498.00CR		343,498.00CR
AW02 R/E Ret Earnings				
210240 R/E Since Acquisition		32,443,221.53CR		29,515,296.88CR
R/E Since Acquisition		32,786,719.53CR		29,858,794.88CR
B35 Retained Earnings				
B39 Preferred Stock				
215110 Pref Stk-Outside				
215410 Pref Stk Sub Outside		1,455,600.00CR		1,455,600.00CR
Pref Stk Sub Outside		1,455,600.00CR		1,455,600.00CR
B39 Preferred Stock				
B40 Long Term Debt				
215113 Pref Stk-Mand LT		4,500,000.00CR		4,500,000.00CR
Pref Stk-Mand LT		23,500,000.00CR		23,500,000.00CR
221110 Bonds-Outside		121,490,000.00CR		53,200,000.00CR
Bonds-Outside		149,490,000.00CR		81,200,000.00CR
AW46 Bonds-Inside AW46				
B40 Long Term Debt				
B43 Bank Debt				
231200 Notes Pay-Assoc Cos				
AW46 Notes Pay-Assoc Cos		26,452,049.97CR	18,973,481.44CR	51,825,821.33CR
Notes Pay-Assoc Cos		26,452,049.97CR	18,973,481.44CR	51,825,821.33CR
B43 Bank Debt				
B44 Current Portion LTD				
232200 Curr Portion LTD-In		3,100,000.00CR		3,100,000.00CR
AW46 Curr Portion LTD-AW46		3,100,000.00CR		3,100,000.00CR
B44 Current Portion LTD				
B45 Accounts Payable				
234100 Accts Pay-Gen System		857,366.98CR	6,049,464.16	1,823,538.32CR
Accts Pay-Gen System		50,936.46		
234110 Accts Pay-Pcard		10,635.06	24,198.04CR	4,107.96CR
Accts Pay-Pcard		54,348.58		
234120 Accts Pay-Utility Billing		1,578.30		
Accts Pay-Utility Billing				

8
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American Water Works Compay,
Kentucky American Water Works
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2009

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B45 Accounts Payable				
234125 Accts Pay-Phone Billing	159,842.25CR	4,186,565.89CR	13,304.74	1,383,682.48CR
234200 Accts Pay-Phone Billing				
234300 Accts Pay-Misc	28,910.90	86,855.03CR	8,803.92	169,655.33CR
002 Accts Pay-Misc W/O's				
006 Accts Pay-Wrksk Accr	230,755.94	144,268.93CR	1,805.77CR	33,223.70CR
007 Accts Pay-Persd Accr	2,837.32	19,261.93CR	25,634.75	8,256.89CR
008 Accts Pay-I/C Loan Clearing	2,650.38CR	112,231.73	3,034,888.62CR	80,317.31
234350 Accts Pay-Prj Exp Accr	956,532.90CR	6,366,416.64CR	103,399.78CR	4,945,532.02CR
234400 Accts Pay-AWMS				
AW03 Accts Pay-AW03	51,977.66CR	96,452.91CR	130,900.16CR	92,521.92CR
234500 Accts Pay-ASSOC Cos				
AW02 Accts Pay AW02	5,558.40	8,310.42CR	4,382.12	7,039.12CR
AW04 Accts Pay AW04	5,558.40	8,310.42CR	1,028.46	7,039.12CR
280999 Interco Rec/Pay	305,314.42CR	19,927.51	53,259.69CR	57,860.27CR
Interco Rec/Pay	1,104,814.94CR	11,622,704.43CR	2,656,600.36	8,445,100.70CR
B45 Accounts Payable				
B46 Accrued Taxes				
236110 Gross Inc & Receipts Tax	1.00CR	1.00CR		
236120 FUTA	27.69CR	46.20CR	2,609.71CR	2,833.17CR
236130 FICR/FICA	15,373.41	27,213.26CR	17,607.77CR	51,096.06CR
236140 SUTA	48.46CR	125.05CR	3,058.00CR	3,334.44CR
236151 Gen Tax - Property				
236152 Gen Tax - Property	229,073.01CR	2,748,718.16CR	1,533,723.93	155,002.99CR
236152 Gen Tax - Sales/Use				
236170 Gen Tax - Other	3,921.61	13,143.69CR	300,071.93CR	
236201 FIT Tax Clearing	184.20	4,347.18CR	129.59	4,572.85CR
236210 Acct FIT - Current Yr				
236220 Acct FIT - Current Yr	499,837.64	494,788.38CR	2,000,354.00	1,820.00
236230 Acct FIT - Pr Yrs	4,135,214.00CR	116,744.03CR	2,664,186.00	841,464.00CR
236240 Acct SIT - Current Yr	98,891.26CR	224,099.17	85,263.00CR	1,729,998.97
236240 Acct SIT - Pr Yrs	603,817.00CR	277,164.86	117,301.00	599,554.00CR
236310 Curr Def FIT				
236320 Curr Def SIT/LIT	99,181.00	99,181.00	29,399.00	524,604.86
Curr Def SIT/LIT	18,088.00	18,088.00	5,362.00	99,181.00
Curr Def SIT/LIT	4,547,695.56CR	2,786,593.92CR	5,941,845.11	18,088.00
B46 Accrued Taxes				
B47 Accrued Interest				
237200 Int Acct-LTD-Outside	420,437.50	311,872.09CR	420,437.50	311,872.09CR
237300 Int Acct-LTD-Outside				
AW46 Int Acct-LTD-AW46	593,070.84	1,428,633.79CR	311,468.33CR	807,066.83CR
241228 Accrued PFD Div Requirements	63,525.00	31,762.50CR	63,525.00	30,703.75CR
002 Accr PFD Div w/mand	1,077,033.34	1,772,268.38CR	172,494.17	1,149,642.67CR
B47 Accrued Interest				
B49 Accrued Dividends				
240140 Div Decl-Com Stk Inside				
AW02 Div Decl-Com Stk AW02	2,006,260.48CR	2,006,260.48CR		
B49 Accrued Dividends				
B51 Misc Current Liabilities				
241100 Accrued Vacation Pay	155,350.20	49,945.20CR	191,366.18	83,757.27CR
241201 Acct Water Purchases	6,158.00	14,024.41CR	2,876.90	14,063.98CR
241202 Acct Power	42,466.57	259,142.19CR	63,628.03	273,116.11CR
241203 Acct Legal				

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American Water Works Company,
Kentucky American Water Works Co 12
Total Company (USGRAP)
Trial Balance
For the Period Ending 12/31/2009

01/14/10
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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
241205 Accr Legal	22,328.84	3,729.76CR	32,880.39CR	73,915.62CR
241206 Accr TMS License				
241208 Accr Wages	75,346.62CR	100,188.00CR	161,336.24	72,003.06CR
241208 Accr Rents				
241210 Accr Disposal	4,167.00CR		4,167.00CR	50,004.00CR
241211 Accr Retiree Medical Reimb	791.83	10,000.00CR	4,374.48CR	11,249.58CR
241212 Accr DCP Contribution	1,473.68CR	7,353.17CR	1,642.72CR	6,400.03CR
241214 Accr Bank Fees	10,160.33CR	37,818.68CR	493.07	18,126.40CR
241220 WH PR-Tax Coll SIT KY	15,997.16CR	30,936.31CR	15,196.53CR	30,805.26CR
001 WH PR-Tax Coll SIT KY	2,100.89		2,039.88CR	2,039.88CR
002 WH PR-Charity Contribution	1,171.00		284.90CR	4,284.90CR
005 WH PR-401k Spending Account	1,301.17CR		1,870.32CR	4,970.20CR
006 WH PR-401k Contribution	1,707.01		21,976.94CR	21,976.94CR
010 WH PR-Tax Coll Pay FIT	31,839.67		37,046.98CR	37,046.98CR
012 WH PR-Tax Coll Pay FIT	33,169.41CR		10,185.03CR	27,880.47CR
013 WH PR-Tax Coll Pay FICA	21,849.85		23,807.46CR	23,807.46CR
014 WH PR-ESPP	2,479.55CR		4,114.52CR	4,114.52CR
999 WH PR-Miscellaneous				
241227 Accr Employer 401k Match	1,479.16CR	7,587.59CR	1,929.97CR	7,521.15CR
241228 Accrued PFD Div Requirements	6,510.50CR	19,531.50CR	6,510.50CR	19,314.48CR
241229 Accr Construction Costs Pay				
241230 Unclaimed Credits Pay				
241232 Outstanding Checks Pay	149.34CR		11,958.59CR	22,872.46CR
241234 Unclaimed Exp Dep Refund Pay	1,460.42CR		2,376.88CR	2,376.88CR
241236 Unbilled Items-System	314,603.07CR	2,220.02CR	9,343.16	351.20CR
241237 Unbilled Stock C-System	13,812.67CR	333,044.96CR	80,085.30	4,669.85CR
241238 Unbilled Stock E-System	7,736.10CR	77,354.99CR	62,467.50	36,107.09CR
241241 CFO-Cust Asst Nonpledged	51.00CR		188,520.55	4,786.80CR
005 CFO-Cust Asst Nonpledged	37.00CR		77.00CR	193.00CR
241244 CFO-Sales Tax	4,473.38CR	36,294.73CR	4,878.66	27,053.89CR
241246 CFO-Cross Rchts Tax	131,636.03CR	412,398.08CR	115,219.04CR	387,814.61CR
241248 CFO-Multi-Trans Rchts Tax	356.59	144,217.47CR	13,131.47	125,911.78CR
241249 CFO-Mult Contracts				
001 CFO-Mgmt Contracts	325,245.20	3,853,984.66CR	198,488.00	3,335,662.37CR
002 CFO-MC/Swr Rev/Cash	80,372.37CR	2,205,875.01	200,349.26CR	2,033,021.27
004 CFO-MC/Swr Chgoff	30,294.14	1,532,907.97	24,630.44	1,146,634.85
241250 A/P Check Clearing	636,092.75	960,177.75CR	887,184.08	1,081,763.92CR
241251 P/R Check Clearing	199,136.35	1,243.79CR	198,704.21CR	198,837.94CR
241252 Cred Refund A/P Check Clear	5,257.08CR			
241260 Misc Deposits Payable				
241262 Incentive Plan Cash Annual	134,636.28CR	392,856.59CR	15,780.92	8,000.00CR
241500 Accrued Paying-Analyzed	19,003.33CR	45,605.07CR	15,780.92	292,529.77CR
241998 Other Curr Liab Analyzed	71,781.17CR	15,583.51CR	78,619.53CR	117,712.23CR
252999 Adv for Const-Cur Portion Recl CP	225,000.00	1,200,000.00CR	2,500,000.00CR	2,500,000.00CR
B51 Misc Current Liabilities	806,256.62	4,515,437.73CR	1,372,600.41CR	5,750,303.72CR
B55 Advances for Construction				
252110 Adv for Const-NI Mains	3,648.20CR	206,444.61CR	3,648.20CR	48,121.84CR

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American Water Works Company,
Kentucky American Water Co 12
Total Company (USGAAP)
Period Ending 12/31/2009

Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B55 Advances for Construction				
2521120 Adv for Const-NT Ext	84,095.75CR	14,128,924.62CR	107,105.63	13,264,455.79CR
2521130 Adv for Const-NT Services				
2521140 Adv for Const-NT Meters				
2521150 Adv for Const-NT Hydrants				
2521160 Adv for Const-NT Other				
2521170 Adv for Const-NT WIP	113,015.18CR	306,378.75CR	36,403.00CR	1,103,449.59CR
252999 Adv for Const-Cur Portion Recl	225,000.00CR	1,200,000.00	2,500,000.00	2,500,000.00
Adv for Const-Cur Portion R	425,759.13CR	13,441,747.98CR	2,567,054.43	11,916,027.22CR
B55 Advances for Construction				
B56 Deferred Income Taxes				
253203 Def FIT-Norm Property	1,172,185.44CR	41,775,815.46CR	363,699.00CR	1,886,054.00CR
253301 Def FIT-Other				
253309 Def FIT-AMT				
253701 Def FIT-Other	511,716.99	5,608,355.57CR	5,719.00	5,066,047.88CR
	660,468.45CR	47,384,171.03CR	357,980.00CR	38,303,836.42CR
B56 Deferred Income Taxes				
B57 Deferred ITC				
255101 Unamortized ITC - 3%	637.67	86,521.89CR	637.67	94,173.93CR
Unamortized ITC - 4%	525.42	48,549.13CR	525.42	54,854.17CR
Unamortized ITC - 10%	5,903.33	913,146.35CR	5,903.33	983,986.31CR
	7,066.42	1,048,217.37CR	7,066.42	1,133,014.41CR
B57 Deferred ITC				
B58 Deferred Regulatory Liability				
256212 Reg Liab-Exc Depr FIT	11,733.58	1,143,990.91CR	11,733.58	1,284,793.87CR
256220 Reg Liab-Exc Depr FIT	2,296.50CR	223,731.84	2,296.50CR	251,289.84
256232 Reg Liab-Deficit Def FIT	4,057.00	1,520,514.50CR	4,057.00	1,569,198.50CR
256250 Reg Liab-Exc Depr FIT	120,629.62CR	11,097,504.81CR	82,662.03CR	9,740,179.29CR
Reg Liab-Cost of Removal	6,999.15	12,019.99	15,143.07CR	15,143.07CR
Reg Liab-ITC Gross-Up 3%	432.00	58,616.75CR	432.00	63,800.75CR
Reg Liab-ITC Gross-Up 4%	355.83	32,878.53CR	355.83	37,148.49CR
Reg Liab-ITC Gross-Up 10%	3,252.33	503,082.02CR	3,252.33	542,109.98CR
	96,096.23CR	14,120,835.69CR	80,270.86CR	13,001,084.11CR
B58 Deferred Regulatory Liability				
B59 Other Deferred Credits				
256335 Reg Liab-Gain on Debt Extin	10,875.79	543,789.50CR		
256340 Regulatory Liab - Other				
262210 DCA-Accr Pension Def Benefit	139,476.59CR	1,352,928.28CR	67,034.00CR	1,389,494.20CR
262212 DCA-Accr OPRB	100,637.00CR	299,735.34CR	62,197.75CR	299,737.00CR
262215 DCA-Accr OPRB Med Subsidy	3,875.21CR	167,004.77CR	565.77	118,413.56CR
262313 DCA-FAS 112 Costs				
262315 Accr Div Equivalents	96.00CR	61,130.00CR	97.00CR	61,130.00CR
262398 DCA-Other		1,461.00CR		579.00CR
B59 Other Deferred Credits				
	233,209.01CR	2,426,048.89CR	118,028.43CR	2,543,793.98CR

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American Water Works Compan,
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 12/31/2009

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Description	December Activity	December Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B62 CIAC				
271110 CIAC-NT Mains		16,336,190.94CR		15,973,504.55CR
271120 CIAC-NT Ext Dep	22,654.72CR	11,079,000.62CR		10,927,250.44CR
271130 CIAC-NT Services	182,143.08CR	16,507,126.88CR	83,982.00CR	15,332,641.09CR
271140 CIAC-NT Meters	85,497.92CR	702,137.21CR	1,141.94CR	576,081.79CR
271150 CIAC-NT Hydrants	17,754.99CR	1,580,159.29CR	6,374.90	1,461,001.83CR
271160 CIAC-NT Other	31,104.93CR	4,723,695.92CR	232.26	4,492,897.07CR
271170 CIAC-NT WIP	75,923.06CR	403,807.28CR	61,088.59CR	591,127.52CR
271180 CIAC-NT Non-Util Prop		249,724.86CR		249,724.86CR
271210 CIAC-Tax Mains		1,998,493.38CR		1,998,493.38CR
271220 CIAC-Tax Ext Dep		766,585.92CR		766,585.92CR
271230 CIAC-Tax Services	17,664.00CR	6,731,648.01CR	6,270.00CR	6,521,994.01CR
271240 CIAC-Tax Meters		3,299.01CR		3,299.01CR
271250 CIAC-Tax Hydrants		487,486.50CR		487,486.50CR
271260 CIAC-Tax Other		440,902.80CR		440,902.80CR
271270 CIAC-Tax WIP				
272010 Accum Amort CIAC-Mains				378,786.29
272040 Accum Amort CIAC-Meters				35,022.86
272050 Accum Amort CIAC-Hydrants				5,907.84
272060 Accum Amort CIAC-Other	94,814.39	13,626,557.09	90,806.59	12,090,116.44
272100 Accum Amort CIAC-Taxable	23,559.44	777,874.36	23,041.02	497,682.76
	314,368.87CR	47,605,827.17CR	32,027.73CR	46,815,474.58CR
B62 CIAC				
00012 Kentucky-American Water Co.	2,871,641.45CR	2,432,896.95	2,127,831.57CR	2,927,924.65

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American Water Works Company
Kentucky-American Water-Co 12
Total Balance (USGAAP)
Trial Balance
For the Period Ending 01/31/2010

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Description		January Activity	January Balance	Prior Year Activity	Prior Year Balance
00012	Kentucky-American Water Co.				
B01	Utility Plant Original Cost				
101000	Organization		37,450.83		37,450.83
301000	Franchises		331,511.67		331,511.67
303200	Land & Id Rights SS		91,826.50		91,826.50
303300	Land & Id Rights P		68,163.99		68,163.99
303400	Land & Id Rights WT		4,019.85		4,019.85
303500	Land & Id Rights TD		2,673.34		2,673.34
304100	Struct & Imp SS		5,215.32	80.65	5,134.67
304200	Struct & Imp WT	1,288.00	9,897.06	1,827.95	11,725.01
304300	Struct & Imp ID		388,143.84		388,143.84
304400	Struct & Imp AG		5,235.43		5,235.43
304500	Struct & Imp HVAC		10,570.37		10,570.37
304600	Struct & Imp Shop, Gar		933,929.91		933,929.91
304700	Struct & Imp Misc		1,002,087.91	26.29	1,002,114.20
305000	Lake, River & Other Intakes		5,141,560.09		5,141,560.09
306000	Supply Generation Equip		9,385,700.43		9,385,700.43
309000	Power Generation Equip		366,613.82		366,613.82
111200	Pump Equip Electric		8,406,284.67	436,000.00	8,842,284.67
111300	Pump Equip Diesel		30,176,341.11		30,176,341.11
111400	Pump Equip Hydraulic		30,401,624.53		30,401,624.53
111500	Pumping Equipment SS		1,188,568.23		1,188,568.23
111600	Pumping Equipment ID		10,928,619.27		10,928,619.27
111700	WT Equip Pot Media		10,121,583.98		10,121,583.98
111800	WT Equip Pot Media		149,444.59		149,444.59
111900	WT Equip Pot Media		41,413,520.70	8,315.56	41,421,836.26
112000	Elevated Tanks & Standpipes		11,883,378.89	29,964.80	11,913,343.69
112100	Ground Level Facilities		3,663,378.51	933,364.10	4,596,742.61
112200	Clearwell		2,844,324.16	3,315,238.42	6,159,562.58
112300	TD Mains Not Classified by		42,455,145.04	2,678,628.31	45,133,773.35
112400	TD Mains 4in & Less		1,953,882.41	38	1,953,920.41
112500	TD Mains 6in to 8in		1,378,228.34	105,537.30	1,483,765.64
112600	TD Mains 10in to 16in		7,629,232.72	919,108.50	8,548,341.22
112700	TD Mains 18in & Grtr		16,249,021.92	2,703,177.62	18,952,200.54
112800	Services		11,848,977.21	15,330,472.08	27,179,449.29
112900	Meters Bronze Case		22,315,913.81	11,208,370.48	33,524,284.29
113000	Meters Plastic Case		22,315,913.81	11,208,370.48	33,524,284.29
113100	Meters Other-Rem Rdr Units		7,629,232.72	7,194,649.64	14,823,882.36
113200	Meter Installations		16,149,021.92	15,330,472.08	31,479,493.99
113300	Meter Vaults		11,848,977.21	11,208,370.48	23,057,347.69
113400	Hydrants		11,848,977.21	11,208,370.48	23,057,347.69
113500	Other P/E Intangible		22,315,913.81	11,208,370.48	33,524,284.29
113600	Office Furniture & Equip		22,315,913.81	11,208,370.48	33,524,284.29
113700	Comp & Periph Mainframe		89,288.17	7,194,649.64	7,283,937.81
113800	Comp & Periph Personal		785,455.23	836,896.57	1,622,351.80
113900	Comp & Periph Other		267,518.58	207,607.05	475,125.63
114000	Computer Software		4,551,010.27	4,154,777.16	8,705,787.43
114100	Comp Software Personal		93,480.99	97,249.20	190,730.19
114200	Comp Software Customized		52,344.13	52,344.13	104,688.26
114300	Other Software Other		1,883,293.76	1,883,293.76	3,766,587.52
114400	Trans Equip Lt Duty Trks		1,120,997.02	80,865.89	1,201,862.91
114500	Trans Equip Hvy Duty Trks		416,856.81	320,101.91	736,958.72
114600	Trans Equip Autos		33,926.63	33,926.63	67,853.26
114700	Stores Equipment		1,914,538.16	1,805,340.93	3,719,879.09
114800	Tools, Shop, Garage Equip		1,828,024.11	4,632.50	1,832,656.61
114900	Laboratory Equipment		1,528,034.51	1,528,034.51	3,056,069.02
115000	Power Operated Equipment		1,922,087.64	599.38	1,922,687.02
115100	Comm Equip Non-Telephone		1,332,244.65	11,952.06	1,344,196.71
115200	Remote Control & Instrument		240,675.02	9,111.27	249,786.29
115300	Comm Equip Telephone		1,252,481.83	1,252,481.83	2,504,963.66
115400	Misc Equipment Property		1,138,704.58	1,138,704.58	2,277,409.16
115500	WW Land & Id Rights Gen		2,250,000.00		2,250,000.00
115600	WW Struct & Imp SPP		26,729.77		26,729.77
115700	WW Struct & Imp IDP		2,063,366.30	3,358.55	2,066,724.85
115800	WW Struct & Imp TDP		843,754.80		843,754.80
115900	WW Collecting Mains Forced		33,141.88		33,141.88
116000	WW Services Sewer		3,163.69		3,163.69
116100	WW Flow Measuring Devices		2,163.69		2,163.69

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American Water Works Company
Kentucky-American Water-CC 12
Total Balance (USGAAP)
Trial Balance
For the Period Ending 01/31/2010

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Description	January Activity	January Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
101000 WW Pump Equip Elect	10,707.91	10,707.91		10,707.91
371100 WW Pump Equip Elect	3,646.30	3,646.30		3,646.30
371200 WW Pump Equip Oth Pwr	80,086.34	80,086.34		80,086.34
380000 WW ID Equipment	35,144.16	35,144.16		35,144.16
390000 WW Office Furniture & Equip	27,917.74	27,917.74		27,917.74
391100 WW Trans Equip Lt Dty Trks	500.00	500.00		500.00
392000 WW Stores Equipment	34,839.43	34,839.43		34,839.43
393000 WW Tool Shop & Garage Equip	39,965.38	39,965.38		39,965.38
394000 WW Laboratory Equipment	1,396.00	1,396.00		1,396.00
395000 WW Communcation Equip	20,631.15	20,631.15		20,631.15
101099 Completed Const Classified				
101100 Reg Asset-APUDC-Debt	272,637.00	272,637.00		272,637.00
103000 Property Held Future Use	114,076.24	114,076.24		114,076.24
104000 Utility Plant Purchased/Sold				
106000 Utility Plant Purchased/Sol				
106000 Struct & Imp SS				
304100 Struct & Imp SS			80.65CR	
304200 Struct & Imp P			186.30	
304300 Struct & Imp WT			4,063.36	
304400 Struct & Imp ID	1,288.00CR	1,288.00		
304500 Struct & Imp ID	556.25	556.25		
304600 Struct & Imp Offices	7,271.02	7,271.02		
304700 Struct & Imp Store, Shop, Gar			373,363.64	
304800 Struct & Imp Misc			26.29CR	
309000 Supply Mains	2,351.83	2,351.83		7,805.87
311200 Pump Equip Electric	13,110.48	13,110.48		61,113.46
311520 Pumping Equipment SS			.10	
320100 WT Equip Non-Media	633.22	633.22	11,942.75	135,427.43
330000 Dist Reservoirs & Standpipe				12,734.62
330100 Elevated Tanks & Standpipes	8,746.68CR	8,746.68		
330200 Ground Level Facilities				15,645.61
330400 Clearwell				27,728.15
331001 ID Mains Not Classified by	1,281.73CR	1,281.73		
331001 ID Mains 4in & Less	4,963.63	4,963.63		442,102.82
331100 ID Mains 6in to 12in	178,344.7CR	178,344.7		328,916.96
331200 ID Mains 14in to 18in	99,737.84CR	99,737.84		1,913,111.25
331300 ID Mains 18in & Grtr	1,147.84CR	1,147.84		225,173.56
331400 Services	352,270.57CR	352,270.57		1,834,851.74
331410 Meters				3,228,240.42
331411 Meters Bronze Case				15,141.10CR
331412 Meters Plastic Case				419,914.53
331413 Meters Other				3,205.55
334200 Meter Installations	27,696.24	27,696.24	12,343.11CR	468,272.91
334300 Meter Vaults	35,120.12CR	35,120.12		478,564.14
335000 Hydrants	6,215.96CR	6,215.96	351,134.27CR	348,891.11
335600 Other P/E CPS				31,736.46
340100 Office Furniture & Equip	10,697.30	10,697.30	424.10CR	3,251.90
340200 Comp & Periph Personal	26,677.00	26,677.00		17,925.29
340210 Computer Software				11,117.09
340325 Comp Software Customized	3,491.68CR	3,491.68	30.88CR	
340335 Comp Software Other				
341100 Trans Equip Lt Duty Trks	215.33	215.33		80,865.89CR
341200 Trans Equip Hvy Duty Trks				85,957.81
341400 Tools, Shop, Garage Equip	88.16	88.16		43,504.29CR
343000 Laboratory Equipment	1,639.37CR	1,639.37		955.99
344000 Comm Equip Non-Telephone				599.38CR
346100 Remote Control & Instrument	16,934.03CR	16,934.03	11,952.06CR	234,544.57
346200 Comm Equip Telephone	2,240.06CR	2,240.06	11,457.46CR	291.37CR
347000 Misc Equip				3,328.41
354500 WW Struct & Imp Gen			.44	
361100 WW Collecting Mains			9,240.78	10,392.00
365000 WW Services Sewer				1,165.09
395000 WW Power Operated Equip				
B01 Utility Plant Original Cost	505,932.11	385,371,274.86	1,429,838.50	370,915,559.42
B02 CWIP				
105050 CWIP Accr-Bldgs	53.31	1,057.52	619.14CR	
11 CWIP Accr-Bldgs				

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American Water Works Company
Kentucky-American Water Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 01/31/2010

02/17/13
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00012 Kentucky-American Water Co.		January Activity	January Balance	Prior Year Activity	Prior Year Balance
Description					
B02 CWIP					
105050	CWIP Acct-Infra	1,242,134.16	7,241,559.87	4,321,824.51	4,609,890.10
31	CWIP Acct-Infra	330,476.72CR	35,510.80	4,572,142.24CR	84,705.05
105110	CWIP History		10,021,825.69		10,021,825.69
1	CWIP History-Bldgs		51,966.84		51,966.84
21	CWIP History-Infrastr		5,381.46CR		5,381.46CR
31	CWIP History-Plant		602,319.28		602,319.28
105125	CWIP Permits & Fees		49,192.88		49,192.88
1	CWIP Permits-Bldgs		948,521.46		773,596.70
11	CWIP Permits-Infrastr		284,147.61		158,831.61
21	CWIP Permits-Plant		4,023,693.40	189,230.00	2,640,697.72
105150	CWIP M&S & Purchases		19,115,344.78		19,115,344.78
1	CWIP M & S-Bldgs		28,950,376.90		26,339,197.29
11	CWIP M & S-Infrastr		13,145,531.78	513,460.24	12,307,090.04
31	CWIP M & S-Plant				
105175	CWIP Professional Services		30,275.65		30,275.65
1	CWIP Prof Svc-Infrastr		1,865,090.58		1,704,231.57
21	CWIP Prof Svc-Plant		73,348.98		73,348.98
105200	CWIP Labor		1,594,849.33		1,594,849.33
1	CWIP Labor-Bldgs		21,286.17		21,286.17
11	CWIP Labor-Infrastr		5,377,838.62	77,634.60	4,509,744.15
21	CWIP Labor-Plant		770,747.82	84.14	761,360.30
105250	CWIP Labor OH		1,765,848.50		1,765,848.50
1	CWIP Labor OH-Bldgs		3,443,475.83		2,800,769.11
11	CWIP Labor OH-Infrastr		336,429.83	48,256.60	331,898.05
31	CWIP Labor OH-Plant				
105260	CWIP Overhead		688,754.64		688,754.64
1	CWIP Overhead-Bldgs		181,135.21	19.33	179,621.15
11	CWIP Overhead-Infrastr		5,452,733.03	21,403.39	4,566,949.46
21	CWIP Overhead-Plant		1,470.66	18,050.65	1,750,713.72
105270	CWIP Service Co Chgs		5,269.73		5,269.73
1	CWIP Service Co Chgs		676,421.30	6,827.92	596,049.49
11	CWIP AMSC Chg-Infrastr		1,509,403.30	12,962.71	974,878.94
21	CWIP AMSC Chg-Plant				
105275	CWIP Contracted Services		26,670,271.06		26,670,271.06
1	CWIP Contr Svc-Bldgs		80,949,022.67		56,381,867.92
11	CWIP Contr Svc-Infrastr		102,384,317.12	1,814,085.14	46,819,340.54
21	CWIP Contr Svc-Plant				
105280	CWIP Retainage		366,817.31		366,817.31
1	CWIP Retainage-Bldgs		61,325.00		61,325.00
11	CWIP Retainage-Infrastr		5,021,030.15	51,581.03	4,318,511.07
21	CWIP Retainage-Plant		4,120,568.98	162,244.17	1,751,586.21
105285	CWIP Developer Const Costs				
1	CWIP Developer Const Costs		12,614.00		
105300	CWIP Paving		22,858.20		22,858.20
1	CWIP Paving-Infrastr		195,232.52		199,028.00
21	CWIP Paving-Plant		486.06		486.06
105350	CWIP AFUDC Debt		703,911.94		703,911.94
1	CWIP AFUDC Debt		51,763.27		51,763.27
11	CWIP AFUDC Debt-Bldgs		4,817,704.31	112,578.68	812,211.44
21	CWIP AFUDC Debt-Infrastr		859,917.40	16,753.19	1,018,163.17
31	CWIP AFUDC Debt-Plant				
105375	CWIP AFUDC Equity		809,429.26		809,429.26
1	CWIP AFUDC Equity		74,380.19		74,380.19
11	CWIP AFUDC Equity-Bldgs		3,257,404.19	146,452.94	1,068,487.07
21	CWIP AFUDC Equity-Infrastr		1,090,791.05	13,988.75	1,298,259.86
31	CWIP AFUDC Equity-Plant				
105390	CWIP Trans Chg-Bldgs		176,511.62		176,511.62
1	CWIP Trans Chg-Bldgs		876,583.73		562,143.49
11	CWIP Trans Chg-Infrastr				
21	CWIP Trans Chg-Plant				
105391	CWIP Trans Current Yr Chgs		9,843,395.47CR		9,843,395.47CR
1	CWIP Trans Current Yr Chgs				
105399	CWIP Prelim Eng-Plant		2,618.00		2,618.00
31	CWIP Prelim Eng-Plant				
105810	CWIP Engineering Clearing		29,147.47		29,147.47
1	CWIP Engineering Clearing				
105900	CWIP Transfer to UPTs				

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American Water Works Company
Kentucky-American Water-CP 12
Total Company (USGAAP)
Trial Balance

02/17/10
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For the period Ending 01/31/2010

Description	January Activity	January Balance	Prior Year Activity	Prior Year Balance
11 CWIP Transfer to UPIS		3,526.85CR		3,526.85CR
11 CWIP Tran UPIS-Salvage		51,966,918.77CR		51,966,918.77CR
21 CWIP Tran UPIS-Infrastr	506,177.47CR	92,888,213.62CR	633,486.81CR	89,209,357.14CR
31 CWIP Tran UPIS-Plant	60,232.17CR	34,885,288.11CR	848,629.22CR	29,008,560.63CR
105999 Undistributed Items				
Undistributed Items				
B02 CWIP	6,280,895.47	145,078,273.84	5,466,078.25	59,967,207.93
B03 Accumulated Depreciation				
108105 AD UPIS-Acc Depr-Not Classifd				
AD UPIS-Acc Depr-Not Classifd	4,331.85CR	50,391,157.40CR	609.90CR	50,365,901.68CR
AD UPIS-Acc Depr-Oper Bldgs	35,903.81CR	3,426,382.87CR	34,201.50CR	3,011,416.30CR
AD UPIS-Acc Depr-Admin Bldgs	33,324.10CR	1,779,742.87CR	32,504.90CR	504,050.52CR
AD UPIS-Acc Depr-Infrastructure	311,248.02CR	29,338,511.75CR	302,839.64	22,839,691.47CR
AD UPIS-Acc Depr-Office Equip	171,511.05CR	14,028,852.05CR	162,635.80CR	15,324,892.74CR
AD UPIS-Acc Depr-Trade-In	51,909.53CR	8,099,788.44CR	51,139.30CR	7,474,552.17CR
AD UPIS-Acc Depr-Cap Develop	1,139.30CR	8,555,522.95CR	1,139.30CR	7,474,552.17CR
108110 AD UPIS-Removal Cost		2,040,107.64		2,040,107.64
108115 AD UPIS-Salvage				
AD UPIS-Salvage	1,445.37CR	290,137.67CR		139,706.95CR
108120 AD UPIS-Scrap Meters		23,226.64CR		23,226.64CR
108122 AD UPIS-Scrap Misc		10,764.38CR		10,764.38CR
108135 AD UPIS-Scrap Misc		16,975.00CR		16,975.00CR
AD UPIS-Salv Sale		2,490.81CR		2,490.81CR
108140 AD UPIS-Salv Sale				
AD UPIS-Salv Sale	60,477.53	14,145,614.37	52,277.54	13,424,217.77
108145 AD UPIS-Orig Cost-Not Classifd				
AD UPIS-Orig Cost-Not Classifd	575.00CR	117,864.18CR	575.00CR	110,964.18CR
108190 Acc Depr Reg Asset	566,993.61CR	91,516,717.99CR	540,928.83CR	84,753,637.92CR
B03 Accumulated Depreciation				
B04 UPAA				
114100 UPAA-ATL		455,951.18		455,951.18
UPAA-ATL				
114300 UPAA-ATL		173,420.40CR	1,778.79CR	153,197.37CR
UPAA-ATL				
115100 Accum Amort UPAA-ATL		282,530.78	1,778.79CR	309,091.84
Accum Amort UPAA-ATL				
B04 UPAA	1,765.58CR		1,778.79CR	
B07 Non Utility Property, Net				
121100 NUP-Land		270,192.68		270,192.68
NUP-Land				
B07 Non Utility Property, Net				
B10 Cash & Cash Equivalents				
131312 BB&T				
BB&T				
002 Deutsche Bank				
Cash				
003 Cash Mail Lockbox				
Cash				
131998 Cash Clear-NSF Checks		33,629.89CR	83,161.95CR	6,906.94
Cash	126,786.92	294,564.86		163,692.80
001 Cash Clear-NSF Checks	184.46	916.64	50.08CR	7.36
Cash				
002 Cash Clear-Misc PYMT				
Cash				
003 Cash Clear-Misc DR/CR				
Cash				
004 Cash Clear-MI's		187.83	8,983.48	9,002.45
Cash				
005 Cash Clear-ORCOM			21,820.87	191.61CR
Cash				
006 Cash Clear-Interco		1,450.18	4,427.73CR	4,459.09CR
Cash				
134100 Petty Cash		400.00		600.00
Petty Cash				
134101 Petty Cash-OTC		2,000.00		1,800.00
Petty Cash-OTC				
B10 Cash & Cash Equivalents	89,630.92	265,889.62	57,019.65CR	177,358.84
B12 Customer Accounts Receivable				
141000 Customer A/R	400,599.73	3,011,553.11	235,514.09	2,579,826.18
Customer A/R				
141999 Customer A/R Clearing	812.40CR	461.85	95.34	1,752.13CR
Customer A/R Clearing				
B12 Customer Accounts Receivable	399,787.33	3,012,014.96	235,609.43	2,578,074.05

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American Water Works Company
Kentucky-American Water- CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 01/31/2010

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02/17/10
14:51:26

Description	January Activity	January Balance	Prior Year Activity	Prior Year Balance
B13 Allowance for Uncollectible A/ 143000 Accum prov-uncoll accts Accum prov-uncoll accts	5,275.68	271,735.24CR	7,336.81	266,018.97CR
B13 Allowance for Uncollectible A/ 143000 Accum prov-uncoll accts	5,275.68	271,735.24CR	7,336.81	266,018.97CR
B14 Accrued Utility Revenue 144000 Accrued Utility Revenue	387,201.80CR	2,843,469.99	578,410.50CR	2,321,414.52
B14 Accrued Utility Revenue 144000 Accrued Utility Revenue	387,201.80CR	2,843,469.99	578,410.50CR	2,321,414.52
B16 Miscellaneous Receivables 146100 Misc A/R-System 001 Misc A/R-Manual 146105 Misc A/R-Retro Ins 146115 Misc A/R-Retro Ins 146300 Misc A/R-Medicare Subsidy 146300 Misc A/R-Adv to Employees 146370 Misc A/R-Adv to Employees 146500 Accum prov-uncoll misc a/r 146500 A/R-AssoC Cos AW46 A/R-AssoC Cos-AW46 146520 A/R-Div Equiv AW02 AW02 A/R-Div Equiv AW02 146800 Rents Receivable 147000 IC Rec/Pay Clearing	119,295.39CR 29,358.37 3,370.53 3,486.71CR 3,440,421.00CR 107.00 467.61CR 3,530,836.81CR	454,062.96 125,136.50 73,652.85 18,728.73 8,531.30CR 521.01 1,568.00 675,138.75	76,717.48CR 1,982.94 3,832.93 2,637.46CR 7,264.74 155.00 66,119.33CR	274,812.57 94,844.40 43,248.59 13,166.73 88,061.15CR 7,264.74 734.00 346,009.88
B16 Miscellaneous Receivables 151100 Plant Material 151300 Chemicals	2,691.23 16,199.31CR 13,508.08CR	407,627.61 224,156.43 631,784.04	71,026.17 32,422.52 103,448.69	476,691.51 203,863.63 680,555.14
B17 Materials & Supplies B19 Prepayments 165100 Prepaid Taxes 165200 Prepaid Insurance 165300 Prepaid PUC/PSC Assessments 165400 Prepaid Audit Fees 165500 Prepaid Auditor 174100 Deferred Vacation Pay 174200 Curr State Def Tax 174300 Curr Fed Def Tax	270,470.75 7,700.97CR 12,094.42 1,979.86CR 131,222.88	220,046.47 277,348.91 38,504.87 13,274.94 36,574.58 181,168.08	287,696.03 7,050.29CR 30,695.07 96,436.77	291,149.74 292,953.31 35,251.45 102,786.36 180,194.04
B19 Prepayments B23 Debt & Preferred Stock Exp 18110 Unamort Debt Exp-Out 18120 Unamort Debt Exp-In 18191 Unamort Debt Exp-AW46 IAS 18192 Unamort Debt Exp-AW46 NCLAS 18192 Pref Stk Exp w/ mandatory Pref Stk Exp w/ mandatory	404,107.22 665.38CR 5,285.56CR 4,157.02CR 64.24CR 10,172.20CR	766,917.85 132,822.18 85,815.84 1,440,344.09 20,685.28 1,679,667.39	407,777.58 665.38CR 5,285.56CR 1,381.14CR 64.24CR 7,396.32CR	902,334.90 140,806.74 149,242.56 476,490.11 21,456.16 787,995.57
B24 Deferred Rate Proceedings 182000 Deferred Rate Proceedings	6,744.63CR 6,744.63CR	485,133.72 485,133.72	40,868.56 40,868.56	594,760.61 594,760.61

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American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 01/31/2010

02/17/10
14:51:26

Description	January Activity	January Balance	Prior Year Activity	Prior Year Balance
B26 Preliminary Survey & Invest				
183000 Prelim Survey & Invest		52,203.63		125,657.24
Prelim Survey & Invest		52,203.63		125,657.24
B25 Preliminary Survey & Invest				
B26 Deferred Regulatory Asset				
186030 Reg Asset-APUDC-Eg-CWIP	57,304.67CR	1,766,405.35	284,422.31CR	606,728.53
186035 Reg Asset-APUDC-Eg-CWIP	139,923.59	3,362,404.32	355,405.82	3,222,476.56
186040 Reg Asset-APUDC-Eg-CWIP	40,775.00CR	3,162,129.38	38,487.00CR	3,626,261.38
186045 Reg Asset-Other	2,008.00	427,041.39CR	2,008.00	451,137.39CR
186055 Reg Asset-Accum Amort	6,687.26CR	576,629.65CR	5,945.51CR	499,902.46CR
Reg Asset-Accum Amort	37,164.66	7,287,268.01	28,559.00	6,504,426.62
B26 Deferred Regulatory Asset				
B27 Other Deferred Debits				
183280 DEF-Customer Service Project				
184100 Eng Clearing-Dist OH	28,097.57	28,097.57	71,343.07	71,343.07
184102 Mgmt Study-AMR	346.41	346.41	278.30	278.30
184103 Mgmt Study - Pipe Assmnt	703.49	703.49	352.02	352.02
184199 Eng Clearing Reclass	29,147.47CR	29,147.47CR		
185125 RWIP Permits, Fees & Premiums		9.75		9.75
185150 RWIP M & S and Purchases		12,892.30		12,892.30
RWIP M & S and Purchases	165.11	23,291.58		10,991.07
185200 RWIP CO Labor	9,369.41	248,096.52	2,749.86	248,031.03
RWIP CO Labor		134,082.22		73,961.48
185250 RWIP CO Labor OH	6,068.13	126,327.67	1,500.30	126,302.77
185260 RWIP Indirect Labor	1,167.08	76,053.98	229.85	36,205.32
185275 RWIP Contracted Services		13,119.00		2,069.82
RWIP Contracted Services		2,077,128.98		2,077,128.98
RWIP Contracted Services		80,714.79		64,389.79
RWIP Contracted Services		110,000.00		110,000.00
185280 RWIP Retainage		5,093.07		5,093.07
185315 RWIP Salvage				
RWIP Salvage		123,821.81CR		94,294.86CR
RWIP Salvage		16,068.70CR		16,068.70CR
185320 RWIP Scrap Meters				
RWIP Scrap Meters		117,787.23CR		68,642.80CR
RWIP Scrap Meters		3,975.61CR		1,125.51CR
185322 RWIP Scrap Misc				
RWIP Scrap Misc		780.00CR		780.00CR
RWIP Scrap Misc		1,202.68CR		1,202.68CR
RWIP Scrap Misc		8,385.70CR		2,389.80CR
185950 RWIP Reg Liab Reclass	1,008.00CR			
RWIP Reg Liab Reclass	4,287.70	7,732.29CR	15,143.07CR	
185999 RWIP Clear Removal & Salvage				
RWIP Clear Removal & Salvage		2,402,400.30CR		2,402,400.30CR
RWIP Clear Removal & Salvage		180,626.40CR		134,572.27CR
RWIP Clear Removal & Salvage		44,028.54CR		67,140.54CR
186401 DDA-Programmed Maint	223,486.11	1,832,226.11	1,401.82	1,738,359.17
186405 DDA-Software Licen				
186426 DDA-Software Licen				
186431 DDA-Depreciation Study	4,609.91	61,130.00	500.09CR	61,130.00
186432 DDA-Cost of Service Study	120.98CR	22,113.06	1,185.65	23,004.14
186444 DDA-Waste Disposal	7,692.79CR	20,280.78		26,091.02
186598 DDA-Oth Reg Assets	34,349.01CR	123,084.52	16,102.64CR	2,550,146.79

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American Water Works Company
Kentucky-American Water-CP 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 01/31/2010

02/17/10
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Description	January Activity	January Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B27 Other Deferred Debits				
186704 DDN-Undistributed Items				
DDN-Undistributed Items				
186711 DDN-Acquisition Costs				
DDN-Acquisition Costs				
186750 DDN-Engineering Studies				
DDN-Engineering Studies				
186898 DDN-Other Assets				
DDN-Other Assets				
187007 Prelim Financing E	4,052.36	5,375.92	6,715.36	6,715.36
187598 Other LT Asset				
Other LT Asset				
B27 Other Deferred Debits	189,985.60	4,154,450.70	43,131.41	4,455,877.79
B33 Common Stock				
201200 Com Stk Subs Interco				
AW02				
Com Stk Subs AW02				
B33 Common Stock				
B34 Paid In Capital				
205245 Donations stockhold I/C				
Donations Stockhold I/C				
205900 Gain on Res/can I/C				
AW02				
Gain on Res/can I/C				
205910 Gain on Res/can min int.				
AW02				
Gain on Res/can min int.				
205440 Misc PIC Interco				
AW02				
Misc PIC AW02				
B34 Paid In Capital	2,268.89CR	56,633,474.74CR	6,302.37CR	24,107,968.41CR
	2,268.89CR	56,658,314.18CR	6,302.37CR	24,132,807.85CR
B35 Retained Earnings				
210210 R/E at Acquisition				
AW02				
R/E at Acq AW02				
210240 R/E Since Acquisition				
R/E Since Acquisition				
B35 Retained Earnings				
B39 Preferred Stock				
215110 Pref Stk Outside				
AW02				
Pref Stk Outside				
215410 Pref Stk Sub Outside				
AW02				
Pref Stk Sub Outside				
B39 Preferred Stock	1,455,600.00CR	1,455,600.00CR		1,455,600.00CR
		1,455,600.00CR		1,455,600.00CR
B40 Long Term Debt				
215113 Pref Stk-Mand LT				
AW02				
Pref Stk-Mand LT				
221110 Bonds-Outside				
AW02				
Bonds-Outside				
221120 Bonds-Inside				
AW02				
Bonds-Inside AW02				
B40 Long Term Debt	4,500,000.00CR	4,500,000.00CR		4,500,000.00CR
		4,500,000.00CR		4,500,000.00CR
B43 Bank Debt				
231200 Notes pay-Assoc Cos				
AW02				
Notes pay-Assoc Cos				
Notes Pay AW02				
B43 Bank Debt	15,550.70	26,436,499.27CR	4,557,870.08CR	56,383,691.41CR
	15,550.70	26,436,499.27CR	4,557,870.08CR	56,383,691.41CR
B44 Current Portion LTD				
232200 Curr Portion LTD-In				
AW02				
AW02				
232200 Curr Portion LTD-AW02				
AW02				
B44 Current Portion LTD	3,100,000.00CR	3,100,000.00CR		3,100,000.00CR
		3,100,000.00CR		3,100,000.00CR
B45 Accounts Payable				
234100 Accts Pay-Gen System				
AW02				
Accts Pay-Gen System				
234110 Accts Pay-Pcard				
AW02				
Accts Pay-Pcard				
B45 Accounts Payable	21,805.68	835,561.30CR	294,302.71CR	2,117,841.03CR
	1,302.47	11,937.53	10,681.80	6,573.84

83410 American Water Works Company
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 0001R Total Company (USGAAP) 14:51:26

For the Period Ending 01/31/2010

Description	January Activity	January Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B45 Accounts Payable				
234120 Accts Pay-Utility Billing	8.70CR	8.70CR		
234125 Accts Pay-Phone Billing	2,822.16CR	2,822.16CR		
234200 Accts Pay-Contract Retentio	214,976.25CR	4,401,542.18CR	186,571.26CR	1,570,253.74CR
234300 Accts Pay-Misc	73,749.61CR	160,604.64CR	21,779.59	147,875.74CR
002 Accts Pay-Misc W/O's	96,814.32	47,454.61CR	57,865.27CR	24,088.97CR
006 Accts Pay-Wrkbskt Acct	1,013.32	18,248.61CR	14,663.96CR	22,920.85CR
007 Accts Pay-Pcard Acct	52,347.40CR	59,884.33	64,464.67CR	15,852.64
234350 Accts Pay-PFD Exp Acct	911,493.45CR	7,277,910.09CR	250,936.87	4,694,595.15CR
234400 Accts Pay-AMWS Proj Exp Acct	212,775.76	116,322.85	63,889.50	28,632.42CR
234500 Accts Pay-AM03	5,663.26	2,647.16CR	140.98CR	7,180.10CR
234500 Accts Pay-Assoc Cos	1,409.63CR	18,517.88	68,941.80CR	126,802.07CR
234500 Accts Pay-AM46				
280999 Interco Rec/Pay	917,432.43CR	12,540,136.86CR	339,662.89CR	8,784,763.59CR
B45 Accounts Payable	10,000.00CR	10,001.00CR	4,906.48CR	7,739.65CR
B46 Accrued Taxes				
236110 Gross Inc & Receipts Tax	5,899.28CR	5,945.48CR	19,729.34	31,366.72CR
236120 FUTA	14,791.73CR	42,004.99CR	5,909.32CR	9,243.76CR
236130 FICA	10,668.41CR	10,793.46CR	39.88CR	39.88CR
236140 SUTA	228,935.03CR	2,977,653.19CR	174,097.94CR	329,100.93CR
236144 SUTA Payroll Tax Clearing	3,905.16	9,238.53CR	914.34	914.34
236151 Payroll Tax Clearing	4,347.18CR			4,572.85CR
236151 Gen Tax - Property				1,820.00
236152 Gen Tax - Property				81,136.00CR
236152 Gen Tax - Sales/Use				888,534.97
236170 Gen Tax - Other				64,336.00
236201 FIT Tax Clearing				154,949.14CR
236210 Accr FIT Current Yr	103,573.00	391,215.38CR	760,328.00	99,181.00
236220 Accr FIT Pr Yrs	494,798.38CR	611,532.41CR	841,464.00CR	18,088.00
236230 Accr SIT - Current Yr	295,445.44CR	71,346.27CR	663,890.00	454,725.38
236240 Accr SIT - Pr Yrs	224,099.17	501,264.03	679,554.00CR	
236310 Curr Def FIT		99,181.00		99,181.00
236320 Curr Def SIT/LIT		18,088.00		18,088.00
B46 Accrued Taxes	728,950.94CR	3,515,544.86CR	261,109.94CR	454,725.38
B47 Accrued Interest				
237200 Int Accr-LTD Outside	137,712.50CR	449,584.59CR	137,712.50CR	449,584.59CR
237300 Int Accr-LTD Inside	652,002.09CR	2,080,635.88CR	311,468.33CR	1,118,535.16CR
241228 Accrued PFD Div Requirements	31,752.50CR	63,525.00CR	32,821.25CR	63,525.00CR
002 Accr PFD Div w/mand	821,477.09CR	2,593,745.47CR	482,002.08CR	1,631,644.75CR
B47 Accrued Interest				
B49 Accrued Dividends				
240140 Div Decl-Com Stk Inside		2,006,260.48CR		
AW02 Div Decl-Com Stk AW02		2,006,260.48CR		
B49 Accrued Dividends				
B51 Misc Current Liabilities				
241100 Accrued Vacation Pay	131,222.88CR	181,168.08CR	96,436.77CR	180,194.04CR
241201 Accr Water Purchases	84.00	13,940.41CR	1,447.64CR	15,511.62CR

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American Water Works Company
Kentucky-American Water- CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 01/31/2010

Description	January Activity	January Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B51 Misc Current Liabilities				
241202 Accr Power	54,870.42CR	314,012.61CR	24,343.74	248,772.37CR
241203 Accr Legal	25,280.29CR	29,010.05CR	8,360.20	65,555.42CR
241205 Accr TMS License				
241206 Accr Wages	28,762.30CR	128,950.30CR	49,911.22CR	121,914.28CR
241207 Accr Insurance			483.96	483.96
241208 Accr Rents				
241210 Accr Waste Disposal	4,167.00CR	104,175.00CR	4,167.00CR	54,171.00CR
241211 Accr Retiree Medical Reimb	9,249.94	750.06CR	10,541.63	707.95CR
241212 Accr DCP Contribution	252.34CR	7,605.51CR	790.17CR	7,190.20CR
241214 Accr Bank Fees	12,735.29	25,083.39CR	6,427.00CR	24,553.40CR
241220 WH PR-Tax Coll SIT KY	15,108.25	15,828.06CR	621.42	30,183.84CR
001 WH PR-Union Dues	589.50CR		2,039.88	
002 WH PR-Charity Contribution	2,632.02CR		283.79CR	
008 WH PR-401k Contribution			27,748.61CR	
010 WH PR-Garnishments			776.94	
012 WH PR-Tax Coll Pay FIT	766.57CR		1,054.58	
014 WH PR-Tax Coll Pay LIT	12,093.60		5,370.07	
999 WH PR-Tax Coll Pay FICA	2,596.56CR		23,807.46	
241227 Accr Employer 401k Match	1,124.76CR	8,712.35CR	922.85CR	8,444.00CR
241228 Accrued PFD Div Requirements	13,021.00	6,510.50CR	12,804.15	6,510.33CR
241229 Accr Construction Costs Pay				
241230 Unclaimed Credits Pay	245.00			
241232 Outstanding Checks Pay				
241234 Unclaimed Ext Dep Refund Pay				
241236 Unbilled Items-System	326,156.02	6,888.94CR	1,745.84	2,924.01CR
241237 Unbilled Stock C-System	26,839.88	50,515.11CR	37,424.47CR	73,531.56CR
241238 Unbilled Stock E-System	35,901.57	2,946.60CR	73,066.11CR	77,852.91CR
241241 CFO-Cust Asst Nonpledged	95.00		53.00CR	237.00CR
005 CFO-Cust Asst Nonpledged	75.00		37.00CR	144.00CR
241244 CFO-Cust Asst Pledged	112.46	36,182.27CR	1,427.39CR	28,481.28CR
241246 CFO-Gross Rcts Tax	138,121.48CR	550,519.56CR	120,556.05CR	508,370.66CR
241248 CFO-Mun Tax	7,035.75CR	151,253.22CR	5,213.68CR	131,125.46CR
241249 CFO-Mgmt Contracts				
001 CFO-Mgmt Contracts	894,424.15CR	4,748,408.81CR	69,075.27CR	3,404,737.64CR
002 CFO-MC/Swr Rev/Cash	839,199.98	3,045,074.99	53,101.00	2,086,122.27
004 CFO-MC/Swr A/R	36,258.84	1,569,166.81	29,218.63	1,175,853.48
241250 A/P Check Clearing	58,668.64CR	1,018,846.39CR	89,751.67	992,012.25CR
241251 P/P Check Clearing	2,484.31CR	3,728.10CR	196,808.39	2,029.55CR
241252 Cred Refund A/P Check Clear	6,271.24	5,922.38CR		
241260 Misc Deposits Payable	2,000.00CR	13,000.00CR	4,000.00	4,000.00CR
241298 Overhead Clearing				
241322 Incentive Plan Cash Annual	23,392.88CR	416,249.47CR	678.80CR	678.80CR
241500 Accrued Paving-Analyzed	45,605.07		22,380.54CR	314,910.31CR

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American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 01/31/2010

02/17/10
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00012 Kentucky-American Water Co.

Description	January Activity	January Balance	Prior Year Activity	Prior Year Balance
B51 Misc Current Liabilities				
241998 Other Curr Liab Analyzed				
252999 Adv for Const-Cur Portion Recl CP	77,209.62CR	92,793.13CR	82,905.00CR	200,617.23CR
B51 Misc Current Liabilities	76,811.27CR	4,592,249.00CR	73,022.43CR	5,823,326.15CR
B55 Advances for Construction				
252110 Adv for Const-NT Mains	3,648.20CR	210,092.81CR	118,192.57CR	166,314.41CR
252120 Adv for Const-NT EXT	2,462.95CR	14,131,387.57CR	27,315.22CR	13,291,771.01CR
252130 Adv for Const-NT Services				
252140 Adv for Const-NT Hydrants				
252150 Adv for Const-NT Hydrants				
252160 Adv for Const-NT Other				
252170 Adv for Const-NT WIP	1,184.20	305,194.55CR	101,874.15CR	1,205,323.74CR
252999 Adv for Const-Cur Portion Recl		1,200,000.00		2,500,000.00
B55 Advances for Construction	4,926.95CR	13,446,674.93CR	247,381.94CR	12,163,409.16CR
B56 Deferred Income Taxes				
253203 Def FIT-Non-Prop				
253301 Def FIT-Other	26,879.74	41,748,935.72CR	48,467.00CR	1,886,054.00CR
253309 Def FIT-AMT				133,392.00
253701 Def SIT-Other	4,902.07	5,603,453.50CR	7,972.00CR	5,074,019.88CR
B56 Deferred Income Taxes	31,781.81	47,352,389.22CR	56,439.00CR	38,360,275.42CR
B57 Deferred ITC				
255101 Unamortized ITC 3%	637.67	85,884.22CR	637.67	93,536.26CR
255102 Unamortized ITC 4%	525.42	48,023.71CR	525.42	54,328.75CR
255103 Unamortized ITC 10%	5,903.33	907,243.02CR	5,903.33	978,082.98CR
B57 Deferred ITC	7,066.42	1,041,150.95CR	7,066.42	1,125,947.99CR
B58 Deferred Regulatory Liability				
256212 Reg Liab-Exc Def Depr FIT	11,733.58	1,132,257.33CR	11,733.58	1,273,060.29CR
256220 Reg Liab-Exc Def Depr FIT	2,296.50CR	221,435.34	2,296.50CR	248,993.34
256232 Reg Liab-Deficit Def FIT	4,057.00	1,516,457.50CR	4,057.00	1,565,141.50CR
256250 Reg Liab-Cost of Removal	108,607.98CR	11,206,112.89CR	111,399.96CR	9,851,579.25CR
RWTP	432.00	58,184.75CR	432.00	63,368.75CR
256311 Reg Liab-ITC Gross-Up 3%	355.83	32,522.70CR	355.83	36,792.66CR
256312 Reg Liab-ITC Gross-Up 4%	3,252.33	499,829.69CR	3,252.33	538,857.65CR
Reg Liab-ITC Gross-Up 10%	95,361.45CR	14,216,197.14CR	78,722.65CR	13,079,806.76CR
B58 Deferred Regulatory Liability	10,875.79	532,913.71CR	663,564.43CR	663,564.43CR
B59 Other Deferred Credits				
256335 Reg Liab-Gain on Debt Exting				
256340 Regulatory Liab on Debt Exting				
262120 DCA-ACC Pension Def Benefit	109,281.00CR	1,462,209.28CR	135,194.17CR	1,524,688.37CR
262210 DCA-ACC OPEB	92,811.08CR	392,546.42CR	99,397.00CR	399,134.00CR
262215 DCA-ACC OPEB Med Subsidy				

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American Water Works Company
Kentucky-American Water Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 01/31/2010

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Description	January Activity	January Balance	Prior Year Activity	Prior Year Balance
DCA-Accr OPEB Med Subsidy	3,370.53CR	170,375.30CR	3,832.93CR	122,246.49CR
262313 DCA-FAS 112 Costs		61,130.00CR		61,130.00CR
262315 Accr. Div Equivalents	107.00CR	1,568.00CR	155.00CR	734.00CR
262398 DCA-Other			674,440.22	
DCA-Other		2,620,742.71CR	227,703.31CR	2,771,497.29CR
B59 Other Deferred Credits	194,693.82CR			
B62 CIAC				
271110 CIAC-NT Mains		16,336,133.50CR	91,691.22CR	16,065,195.77CR
CIAC-NT Ext Dep	57.44	11,079,000.62CR		10,927,250.44CR
271130 CIAC-NT Services	43,013.35CR	16,550,140.23CR	19,140.00CR	15,351,781.09CR
271140 CIAC-NT Meters		702,137.21CR		576,081.79CR
271150 CIAC-NT Hydrants	4,028.29	1,576,131.00CR	506.63	1,460,495.20CR
271160 CIAC-NT Other	202.47CR	4,723,898.39CR	64,630.26CR	4,557,527.33CR
271170 CIAC-NT WIP	25,976.00CR	429,783.28CR	98,596.14	492,531.38CR
271180 CIAC-NT Non-Util Prop		249,724.86CR		249,724.86CR
271210 CIAC-Tax Mains		1,998,493.38CR		1,998,493.38CR
271220 CIAC-Tax Ext Dep		766,585.92CR		766,585.92CR
271230 CIAC-Tax Services	1,287.00CR	6,732,935.01CR	9,652.00CR	6,531,646.01CR
271240 CIAC-Tax Meters		3,299.01CR		3,299.01CR
271250 CIAC-Tax Hydrants		487,486.50CR		487,486.50CR
271260 CIAC-Tax Other		440,902.80CR		440,902.80CR
271270 CIAC-Tax WIP				
272010 Accum Amort CIAC-Mains				378,786.29
272040 Accum Amort CIAC-Meters				35,022.86
272050 Accum Amort CIAC-Hydrants				5,907.84
272060 Accum Amort CIAC-Other	95,627.38	13,722,184.47	90,845.66	12,180,962.10
272100 Accum Amort CIAC-Taxable	23,607.13	801,481.49	23,067.08	520,749.84
B62 CIAC	52,841.42	47,552,985.75CR	27,902.03	46,787,572.55CR
00012 Kentucky-American Water Co.	660,873.79	660,873.79	94,145.12CR	215,746.57

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American Water Works Company
Kentucky-American Water Co 12
Total Company (USGAAP)
Trial Balance
For the period Ending 02/28/2010

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Description	February		Prior Year	
	Activity	Balance	Activity	Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
1000 Organization				
2000 Franchises				
3000 Land & Ld Rights				
4000 Land & Ld Rights				
5000 Land & Ld Rights				
6000 Structures				
7000 Structures				
8000 Structures				
9000 Structures				
10000 Structures				
11000 Structures				
12000 Structures				
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100000 Structures				

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American Water Works Company
Kentucky-American Water- CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 02/28/2010

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Description	February Activity	February Balance	Prior Year Activity	Prior Year Balance
----- Kentucky-American Water Co. -----				
B01 Utility Plant Original Cost				
101000 WW Flow Measuring Devices		2,168.69		10,707.91
364000 WW Pump Equip Elect		3,646.30		3,646.30
371100 WW Pump Equip Oth Pwr		80,086.34		80,086.34
380000 WW Office Furniture & Equip		35,439.00		439.00
390000 WW Trains Equip Lt Duty Trks		35,144.16		35,144.16
391100 WW Stores Equipment		27,917.74		500.00
392000 WW Tool Shop & Garage Equip		34,839.83		24,599.43
393000 WW Laboratory Equipment		39,063.38		32,199.33
395000 WW Power Operated Equip		20,326.00		37,900.30
396000 WW Miscellaneous Equip		20,631.15		1,586.88
397000 WW Miscellaneous Equip				22,580.88
101099 Completed Const not Classif				
101100 Reg Asset-AFUDC-Debt		272,637.00		272,637.00
103000 Property Held Future Use		114,076.24		114,076.24
104000 Utility Plant Purchased/Sold				
106000 Struct & Imp SS				
304200 Struct & Imp P			30,201.95CR	30,498.42
304300 Struct & Imp WT			4,063.36CR	5,172.19
304400 Struct & Imp WD	10.59CR			44,103.51
304500 Struct & Imp AG				
304600 Struct & Imp Offices				
304700 Struct & Imp Store, Shop, Gar			11,596.04	79,516.01
304800 Supply Main		799,355.85		1,548,314.04
309000 Pump Equip Electric		2,351.83		7,805.87
311200 Pumping Equipment SS			46,158.40CR	14,955.06
311530 Pumping Equipment WT			19,199.00CR	116,228.43
320100 Dist Reservois & Standpipe		9,321.43		12,734.62
330000 Ground Level Facilities				15,645.61
330200 Clearwell			27,728.15CR	442,102.82
330300 TD Mains Not Classified by				
330400 TD Mains 4in & Lrgs	10,250.29CR	104,129.99	39,883.66CR	289,033.30
330500 TD Mains 18in to 36in	162,419.21CR	1,565,404.23	462,652.89CR	1,506,441.36
330600 TD Mains 18in & Grtr	84,161.24	29,773.91	66,480.67	86,480.67
330700 TD Mains 18in & Grtr		376,048.25		
333000 Services	343,724.14CR	3,243,097.17	125,811.82	1,960,563.56
333400 Meters	278,904.06CR	3,233,816.90	2,331,809.98	3,672,084.33
334100 Meters Bronze Case		117,630.16		416,518.36
334130 Meters Other	9,944.92CR	3,202.46	3,396.15CR	3,199.66
334131 Meters Other-Rem Rdr Unts		122,820.62		504,378.28
334200 Meter Installations	64,853.37CR	17,088.85CR	36,195.37	77,757.28
334300 Meter Vaults	21.98CR	74,932.82	58,806.86CR	290,066.42
334500 Hydrant & CFS		49,897.20		74,930.85
334600 Office Furniture & Equip	1,378.92CR	9,152.61		3,231.20
334700 Comp & Periph Personal	5,298.35CR		2.34	11,119.43
334800 Comp & Periph Other				
340320 Comp Software Customized				
340325 Comp Software Other				
340330 Trans Equip Lt Duty Trks	3,128.85	140,222.73	147,334.81CR	28,966.43
341100 Trans Equip Hvy Duty Trks				
341200 Tools, Shop, Garage Equip	59.82	147.98	7,325.64CR	19,383.58
343000 Laboratory Equipment		124.51	12,672.21CR	234,654.93
344000 Comm Equip Telephone		291.37CR	110.36	291.37CR
345000 Misc Equipment				
347000 WW Struct & Imp Gen				
347500 WW Collecting Mains				
348000 WW Services Sewer			10,392.76CR	3,328.41
394000 WW Power Operated Equip		2,640.50		2,640.50
395000 WW Power Operated Equip				
B01 Utility Plant Original Cost	4,909.55	385,376,184.41	331,725.98	371,247,285.40

B02 CWIP				
105050 CWIP Accr-Bldgs		1,063.22	3,621.86	3,621.86
11 CWIP Accr-Infra	5.70	3,967.40	486,040.18	5,095,930.28
21 CWIP Accr-Infra	3,273,886.60CR	3,527,382.01	64,014.68	5,148,719.73
31 CWIP Accr-Plant	491,871.14			
105110 CWIP History				

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American Water Works Company
Kentucky-American Water-CP 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 02/28/2010

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Description	February Activity	February Balance	Prior Year Activity	Prior Year Balance
11 CWIP History-Bldgs		10,021,825.69		10,021,825.69
21 CWIP History-Infrastr		51,966.84		51,966.84
105125 CWIP Permits & Fees	19,861.69	5,381.46CR		5,381.46CR
11 CWIP Permits & Fees	110.00	602,319.28		602,319.28
21 CWIP Permits & Fees		49,192.88		49,192.88
105150 CWIP M&S & Purchases	150,994.94	2,630,334.04	32,945.87	806,542.57
11 CWIP M & S-Bldgs	38,951.12	19,115,344.78	10,363.68CR	2,630,334.04
21 CWIP M & S-Infrastr		29,101,371.64		19,115,344.78
105175 CWIP Professional Services	8,193.20	13,184,482.90	243,847.31	26,376,984.40
21 CWIP Prof Svc-Infrastr		30,275.65		12,452,471.13
105200 CWIP Co Labor	64,276.77	1,873,283.73	62,191.00CR	1,642,082.57
11 CWIP Co Labor-Bldgs		1,534,849.33		1,534,849.33
21 CWIP Co Labor-Infrastr		21,286.17		21,286.17
105250 CWIP Co Labor-Plant	41,187.47	5,442,115.39	85,772.81	4,595,516.96
11 CWIP Labor OH-Bldgs		1,765,848.50		1,765,848.50
21 CWIP Labor OH-Infrastr		3,484,631.11		2,852,431.61
105260 CWIP Overhead	5.68	3,356,429.83	57,234.64	2,832,120.09
11 CWIP Overhead-Bldgs		688,754.64		688,754.64
21 CWIP Overhead-Infrastr		181,140.89		179,672.15
105270 CWIP Service Co Chgs	2,521.26	5,442,955.35	4,606.152.47	4,606,152.47
11 CWIP Service Co Chgs		1,933,809.93		1,751,551.18
21 CWIP AMWSC Chg-Infrastr	3,312.03	5,269.73		5,269.73
105275 CWIP Contracted Services	49,725.46	679,733.33	9,115.03	605,164.52
11 CWIP Contracted Services		1,558,758.48		999,034.45
21 CWIP Contr Svc-Bldgs	76.00	26,670,271.06		26,670,271.06
105280 CWIP Contr Svc-Plant	390,069.14	81,339,056.01	3,725,497.54	719,874.68
11 CWIP Contr Svc-Plant	4,519,429.67	106,903,746.79	3,047,380.57	60,119,561.30
21 CWIP Retainage-Plant		365,817.31		49,666,521.11
105285 CWIP Developer Const Costs	21,552.60	5,092,851.57	121,446.83	365,817.31
11 CWIP Developer Const Costs	162,288.59	4,362,851.57	122,359.81	4,362,851.57
105300 CWIP Paving		12,614.00		1,873,946.02
21 CWIP Paving-Infrastr		22,858.20		22,858.20
105330 CWIP Paving-Plant		195,235.55		199,028.00
11 CWIP AFUDC Debt		195,446.06		466.06
21 CWIP AFUDC Debt		703,911.94		703,911.94
105375 CWIP AFUDC Debt-Bldgs	471,823.65	51,763.27	339,538.44	51,763.27
11 CWIP AFUDC Debt-Infrastr		5,289,537.96		1,151,749.88
21 CWIP AFUDC Debt-Plant		860,593.02		877,445.25
105390 CWIP AFUDC Equity	145,828.93	809,429.26	442,836.27	809,429.26
11 CWIP AFUDC Equity-Bldgs		3,432,252.15		1,574,380.19
21 CWIP AFUDC Equity-Plant		1,059,267.90		1,111,221.15
105399 CWIP Trans Current Yr Chgs	85,857.90	176,511.52	184,039.71CR	176,511.52
11 CWIP Trans Current Yr Chgs		562,183.16		562,183.16
21 CWIP Trans Current Yr Chgs		876,552.73CR		876,552.73CR
105510 CWIP Prelim Eng-Plant		9,843,395.47CR		9,843,395.47CR
11 CWIP Prelim Eng-Plant		2,618.00		2,618.00
21 CWIP Engineering Clearing		115,005.37		
105900 CWIP Transfer to UPIS		3,536.85CR		3,536.85CR
11 CWIP Transfer to UPIS		51,962,726.94CR		51,962,726.94CR
21 CWIP Transfer to UPIS		1,950,918.77CR		1,950,918.77CR
105999 Undistributed Items	9,936.63CR	98,936,150.25CR	738,800.11CR	98,936,150.25CR
11 Undistributed Items	13,913.39CR	34,899,201.50CR	112,342.35CR	34,899,201.50CR
21 Undistributed Items				

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American Water Works Company
Kentucky-American Water-CC 12
Total Balance
Trial Balance
For the Period Ending 02/28/2010

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Description	February Activity	February Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.	3,437,776.34	148,516,050.18	7,743,518.74	67,710,726.67
B02 CWIP				
105999 Undistributed Items				
B02 CWIP				
B03 Accumulated Depreciation				
108105 AD UPIS-Acc Depr-Not Classifd	4,530.87CR	50,395,688.27CR	609.48CR	50,366,511.16CR
AD UPIS-Acc Depr-Not Classifd	35,077.78CR	3,461,409.65CR	34,209.88CR	3,445,629.36CR
AD UPIS-Acc Depr-Oper Bldgs	19,804.10CR	2,148,347.10CR	33,056.40CR	2,172,347.93CR
AD UPIS-Acc Depr-Admin Bldgs	311,247.58CR	27,448,725.33CR	324,286.91CR	27,374,725.47CR
AD UPIS-Acc Depr-Infrastrct	111,542.82CR	16,100,398.87CR	182,644.73CR	15,387,547.46CR
AD UPIS-Acc Depr-Oper Equip	52,202.17CR	8,155,950.61CR	51,139.30CR	7,825,657.39CR
AD UPIS-Acc Depr-Office Equip	139.30CR	2,040,107.64		2,040,107.64
AD UPIS-Removal Cost				
108110 AD UPIS-Removal Cost				
AD UPIS-Removal Cost				
108115 AD UPIS-Salvage	7,594.78CR	297,732.45CR		139,706.95CR
AD UPIS-Salvage				
108120 AD UPIS-Scrap Meters		23,226.64CR		23,226.64CR
AD UPIS-Scrap Meters				
108122 AD UPIS-Scrap Meters		10,764.38CR		10,764.38CR
AD UPIS-Scrap Meters				
108135 AD UPIS-Scrap Misc		16,975.00CR		16,975.00CR
AD UPIS-Scrap Misc				
108135 AD UPIS-Trade-In		2,490.81CR		2,490.81CR
AD UPIS-Salv				
108140 AD UPIS-Salv		14,164,554.84	144,397.66	13,568,615.43
AD UPIS-Salv				
108145 AD UPIS-Orig Cost-Not Classifd	18,940.47	118,439.18CR	575.00CR	111,539.18CR
AD UPIS-Orig Cost-Not Classifd				
108190 Acc Depr Reg Asset	575.00CR	92,132,411.35CR	450,868.98CR	85,204,506.90CR
Acc Depr Reg Asset				
B03 Accumulated Depreciation				
B04 UPAA				
114100 UPAA-ATL		455,951.18		455,951.18
UPAA-ATL				
114300 UPAA Post 1/1/06		175,185.98CR	6,338.03CR	153,999.62CR
UPAA Post 1/1/06				
115100 Accum Amort UPAA-ATL	1,765.58CR	280,765.20	802.25CR	301,951.56
Accum Amort UPAA-ATL				
B04 UPAA				
B07 Non Utility Property, Net				
121100 NUP-Land		270,192.68		270,192.68
NUP-Land				
B07 Non Utility Property, Net				
B10 Cash & Cash Equivalents				
131312 BB&T				
BB&T				
002				
007				
007				
131998 Cash	33,629.89	287,341.75	6,905.64CR	248,392.59
Cash				
001	7,223.11CR		84,699.79	
001				
001				
001				
002	249.25CR	667.39	.01	1,072.06
Cash Clear-NSF Checks				
003	950.98	950.98	1,064.70	863.70CR
Cash Clear-Mixed Pymt				
004	187.83CR		5,003.45CR	
Cash Clear-Misc DR/CR				
005			191.61	6,183.55CR
Cash Clear-ORCOM				
006	1,782.20CR	332.02CR	1,724.46CR	
Cash Clear-Interco				
134100 Petty Cash		400.00		600.00
Petty Cash				
134101 Petty Cash-OTC		2,000.00		1,800.00
Petty Cash-OTC				
B10 Cash & Cash Equivalents	25,138.48	291,028.10	67,458.86	244,817.70
B12 Customer Accounts Receivable				
141000 Customer A/R	146,869.51	3,158,422.62	71,579.18CR	2,508,247.00
Customer A/R				
141999 Customer A/R Clearing	496.51CR	34.66CR		1,752.13CR
Customer A/R Clearing				
B12 Customer Accounts Receivable	146,373.00	3,158,387.96	71,579.18CR	2,506,494.87
B13 Allowance for Uncollectible A/				
143000 Accum prov-uncoll accts				

83410 GLO12TBAGP 00001R	American Water Works Company Kentucky-American Water-Co 12 Total Company (USGAAP) For the Period Ending 02/28/2010	February		Prior Year Balance
		Activity	Balance	
B13 Allowance for Uncollectible A/		25,714.07	246,021.17CR	259,820.68CR
B14 Accrued Utility Revenue		27,272.14	2,870,742.13	2,325,496.44
B16 Miscellaneous Receivables		83,876.29CR	380,186.67	538,567.88
146100 Misc A/R System		128,704.00	253,840.50	103,878.97
001 Misc A/R-Manual				
146105 Misc A/R-Retro Ins			73,652.85	43,248.59
146115 Misc A/R-Medicare Subsidy		5,910.68CR	12,818.05	16,999.66
146300 Misc A/R-Adv to Employees				
146370 Accum prov-uncoll misc a/r		514.30CR	9,045.60CR	89,371.01CR
146500 A/R Assoc Cos		521.01CR	7,264.74CR	
AW46 A/R Assoc Cos AW46		102.00	1,670.00	837.00
AW02 A/R Div-El AW02				
146800 Rents Receivable				
B16 Miscellaneous Receivables		37,983.72	713,122.47	714,261.09
B17 Materials & Supplies		9,408.87	417,036.48	453,577.89
151100 Plant Material		27,947.26CR	196,209.17	270,262.26
151300 Chemicals		18,538.39CR	613,245.65	723,840.15
B17 Materials & Supplies		62,121.90CR	157,924.57	300,071.93
B19 Prepayments		54,664.07CR	222,684.84	239,023.77
165100 Prepaid Taxes				
165200 Prepaid Insurance		7,700.97CR	30,803.90	28,201.16
165300 Prepaid PUC/PSC Assessments		8,849.58CR	4,425.36	
165400 Prepaid Audit Fees		65,474.39	102,048.97	98,067.52
165500 Prepaid Other				
174100 Deferred Vacation Pay				
174200 Curr. State Def Tax				
174300 Curr. Fed Def Tax				
B19 Prepayments		67,862.13CR	699,055.72	845,558.42
B23 Debt & Preferred Stock Exp		665.38CR	132,156.80	140,141.36
181110 Unamort Debt Exp-Out				
181120 Unamort Debt Exp-In		5,285.56CR	80,530.28	143,957.00
AW46 Unamort Debt Exp-AW46				
181121 Unamort Debt Exp-AW46		1,438.823-67	1,438.823-67	475,108.97
AW46 Unamort Debt Exp-AW46				
181512 Prep S&A Exp w/ mandatory		64.24CR	20,621.04	21,391.92
181512 Prep S&A Exp w/ mandatory				
B23 Debt & Preferred Stock Exp		7,535.60CR	1,672,131.79	780,599.25
B24 Deferred Rate Proceedings		28,630.26	513,763.98	613,543.89
182000 Deferred Rate Proceedings		28,630.26	513,763.98	613,543.89
B24 Deferred Rate Proceedings				
B25 Preliminary Survey & Invest				
183000 Prelim Survey & Invest				
B25 Preliminary Survey & Invest				
183000 Prelim Survey & Invest		52,203.63		125,657.24

American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
For the Period Ending 02/28/2010

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American Water Works Company
Kentucky American Water - CO 12
Total (USGAAP)
For the Period Ending 02/28/2010

Description	February Activity	February Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.		52,203.63		125,657.24
B25 Preliminary Survey & Invest				
B25 Preliminary Survey & Invest				
B26 Deferred Regulatory Asset				
B26 Deferred Regulatory Asset				
B27 Other Deferred Debits				
B27 Other Deferred Debits				
18280 DEP Other Service Project				
18280 DEP Other Service Project				
184100 Eng Eng Clearing Dis OH	93,179.21	1,859,584.56	201,890.99	808,619.52
184100 Eng Eng Clearing Dis OH				
184102 Mngmt Study - AMR				
184102 Mngmt Study - AMR				
184103 Mngmt Study - Pipe Assmnt				
184103 Mngmt Study - Pipe Assmnt				
184199 Eng Clearing Reclass				
184199 Eng Clearing Reclass				
185125 RWIP Permits, Fees & Premiums				
185125 RWIP Permits, Fees & Premiums				
185150 RWIP M & S and Purchases				
185150 RWIP M & S and Purchases				
185200 RWIP Labor				
185200 RWIP Labor				
185250 RWIP Labor OH				
185250 RWIP Labor OH				
185260 RWIP Indirect Labor				
185260 RWIP Indirect Labor				
185275 RWIP Contracted Services				
185275 RWIP Contracted Services				
185280 RWIP Retainage				
185280 RWIP Retainage				
185315 RWIP Salvage				
185315 RWIP Salvage				
185320 RWIP Scrap Meters				
185320 RWIP Scrap Meters				
185322 RWIP Scrap Misc				
185322 RWIP Scrap Misc				
21 RWIP Scrap Misc				
21 RWIP Scrap Misc				
185350 RWIP Reg Liab Reclass				
185350 RWIP Reg Liab Reclass				
185399 RWIP Clear Removal & Salvage				
185399 RWIP Clear Removal & Salvage				
21 RWIP Clear Removal & Salvage				
21 RWIP Clear Removal & Salvage				
186401 DDA-Programmed Maint				
186401 DDA-Programmed Maint				
186405 DDA-RIA Software Licen				
186405 DDA-RIA Software Licen				
186426 DDA-FAS 112 Costs				
186426 DDA-FAS 112 Costs				
186431 DDA-Depreciation Study				
186431 DDA-Depreciation Study				
186432 DDA-Cost of Service Study				
186432 DDA-Cost of Service Study				
186444 DDA-Waste Disposal				
186444 DDA-Waste Disposal				
186598 DDA-Oth Reg Assets				
186598 DDA-Oth Reg Assets				

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American Water Works Company
Kentucky-American Water-CP 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 02/28/2010

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Description	February Activity	February Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B27 Other Deferred Debits				
186711 DDN- Acquisition Costs				
186750 DDN- Acquisition Costs				
186898 DDN- Other LT Assets				
187007 Prelim Financing R/E	5,375.92CR			
187598 Other LT Asset				
B27 Other Deferred Debits	3,560.93	4,158,011.63	14,721.87	21,437.23
B33 Common Stock				
201200 Com Stk Subs Interco		36,568,776.50CR		36,568,776.50CR
AW02 Com Stk Subs AW02		36,568,776.50CR		36,568,776.50CR
B34 Paid In Capital				
205175 Donations		21,329.44CR		21,329.44CR
AW02 Gain on res/can I/C		180.00CR		180.00CR
AW02 Gain on Res/Can AW02	3,000.00CR	6,330.00CR		3,330.00CR
205310 Gain on res/can min int.		56,635,387.21CR	2,466.68CR	24,110,435.09CR
205440 Misc PIC Interco	1,912.47CR	56,663,226.65CR	2,466.68CR	24,135,274.53CR
AW02 Misc PIC AW02	4,912.47CR			
B34 Paid In Capital				
B35 Retained Earnings				
210210 R/E at Acquisition		343,498.00CR		343,498.00CR
AW02 R/E at Acq AW02		34,876,118.48CR		32,443,221.53CR
210240 R/E Since Acquisition		35,219,616.48CR		32,786,719.53CR
B35 Retained Earnings				
B39 Preferred Stock				
B40 Long Term Debt				
215110 Pref Stk-Outside	10,000.00	1,445,600.00CR		1,455,600.00CR
AW46 Notes Pay-Assoc Cos	10,000.00	1,445,600.00CR		1,455,600.00CR
B43 Bank Debt				
231200 Notes Pay-Assoc Cos		4,500,000.00CR		4,500,000.00CR
AW46 Notes Pay-Assoc Cos		23,500,000.00CR		23,500,000.00CR
B44 Current Portion LTD				
232200 Curr Portion LTD-In	6,548,123.84CR	32,984,623.11CR	7,408,745.55CR	63,792,436.96CR
AW46 Curr Portion LTD-AW46	6,548,123.84CR	32,984,623.11CR	7,408,745.55CR	63,792,436.96CR
B45 Accounts Payable				
234100 Accts Pay-Gen System		1,147,674.56CR	138,453.92	1,979,387.11CR
234110 Accts Pay-Card		9,967.23	72,618.32CR	66,044.48CR
234120 Accts Pay-Utility Billing				
			8.70	

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American Water Works Company
Kentucky-American Water Co 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 02/28/2010

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Description	February Activity	February Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B45 Accounts Payable				
234125 Accts Pay-Phone Billing	1,233.96	1,588.20CR		
234200 Accts Pay-Phone Billing	89,578.38CR	4,491,120.56CR	228,745.47CR	1,798,999.21CR
234300 Accts Pay-Contract Retention	53,924.90	106,679.74CR	53,266.54CR	201,142.28CR
002 Accts Pay-Misc W/O's	11,428.16	16,026.45CR	43,637.00	47,451.97CR
005 Accts Pay-Wrkskrt Acct	11,371.74CR	18,660.18CR	27,501.84CR	27,501.84CR
007 Accts Pay-PCARD Acct	23,791.63	83,855.96	111,444.12	127,296.76
00A Accts Pay-FC Loan Clearing				
234350 Accts Pay-Prj Exp Acct	2,781,792.46	4,496,117.63CR	553,676.72CR	5,248,271.87CR
234400 Accts Pay-AWWS	91,497.05CR	24,825.80	174,311.34	145,678.92
AW03 Accts Pay-AW03	7,152.64CR	7,152.64CR	8,925.50CR	8,925.50CR
234500 Accts Pay-Assoc Cos	1,167.08CR	3,814.24CR	4,274.81CR	11,454.91CR
AW02 Accts Pay AW02				
AW46 Accts Pay AW46				
280999 Interco Rec/Pay	22,811.68CR	4,293.80CR	127,444.70	642.63
	2,345,517.68	10,194,619.18CR	328,200.12CR	9,112,963.71CR
B45 Accounts Payable				
B46 Accrued Taxes				
236110 Gross Inc & Receipts Tax	60,000.00CR	70,001.00CR		
236120 FUTA	2,167.44CR	8,112.92CR	295.23CR	8,034.88CR
236130 FICA	1,687.21CR	43,692.20CR	123.68CR	31,490.40CR
236140 SUTA	5,263.36CR	16,056.82CR	1,137.93CR	10,381.69CR
236144 Payroll Tax Clearing			39.88	
236151 Gen Tax - Property	334,920.80CR	3,312,573.99CR	228,843.67CR	557,944.60CR
236152 Gen Tax - Sales/Use	437.77CR	9,676.30CR	12,323.30CR	11,408.96CR
236170 Gen Tax - Other		4,347.18CR		4,572.85CR
236201 FIT Tax Clearing				1,820.00
236210 Acct FIT Cur Current Yr				
236220 Acct FIT Pr Yrs		391,215.38CR	255,948.00CR	337,084.00CR
236230 Acct SIT - Current Yr		611,532.41CR		888,534.97
236240 Acct SIT - Pr Yrs		71,346.27CR	49,413.00CR	14,923.00
236310 Curr Def FIT		501,264.03		154,949.14CR
236320 Curr Def SIT/LIT		99,181.00		99,181.00
		18,088.00		18,088.00
	404,476.58CR	3,920,021.44CR	548,044.93CR	93,319.55CR
B46 Accrued Taxes				
B47 Accrued Interest				
237200 Int Acct-Outside	130,412.50	319,172.09CR	130,412.50	319,172.09CR
237300 Int Acct-INT-Outside	652,002.08CR	2,732,637.96CR	311,468.33CR	1,430,003.49CR
AW46 Int Acct-LTD-AW46				
241238 Accrued PFD Div Requirements	31,762.50CR	95,287.50CR	31,762.50CR	95,287.50CR
002 Acct PFD Div w/mand				
	553,352.08CR	3,147,097.55CR	212,818.33CR	1,844,463.08CR
B47 Accrued Interest				
B49 Accrued Dividends				
240140 Div Decl-Com Stk Inside	2,006,260.48			
AW02 Div Decl-Com Stk AW02	2,006,260.48			
B49 Accrued Dividends				
B41 Misc Current Liabilities				
241100 Accrued Vacation Pay		181,168.08CR		181,168.04CR
241201 Acct Water Purchases	956.00	12,984.41CR	2,018.12	13,493.50CR
241202 Acct Power				

83410 American Water Works Company
 GLO12TBAGP Kentucky-American Water-Co 12
 000CR Total Company (USGAP)
 Trial Balance
 For the period Ending 02/28/2010

Description	February Activity	February Balance	Prior Year Activity	Prior Year Balance
Accr Power	40,852.85	273,159.76CR	7,539.87CR	256,312.24CR
241203 Accr Legal	2,395.53	26,614.52CR	26,468.72	39,086.70CR
241205 Accr TMS License				
241206 Accr TMS License				
241207 Accr Wages	2,780.00CR	131,730.30CR	1,131.72CR	123,046.00CR
241208 Accr Insurance			483.96CR	
241210 Accr Rents				
241210 Accr Rents	7,261.00CR	111,436.00CR	4,167.00CR	58,338.00CR
241211 Accr Rents	750.06CR	1,500.12CR	791.73CR	1,499.68CR
241212 Accr DCP Contribution	47.78CR	7,653.29CR	271.23	6,918.97CR
241214 Accr Bank Fees	153.47CR	25,236.86CR	2,012.79CR	26,566.19CR
241220 WH PR-Tax Coll. Sit KY	1,300.23	14,527.83CR	30,183.84	
002 WH PR-Tax Coll. Sit KY	42.00			
005 WH PR-Charity Contribution	19.23CR	3,159.68CR	1,445.98	2,891.96CR
006 WH PR-Flex Spending Account	1,367.25	21,381.36CR	53.67	21,369.06CR
010 WH PR-401k Contribution	766.57			
012 WH PR-Tax Coll. Pay FICA	1,877.59CR	17,139.88CR	3,913.91	18,606.49CR
014 WH PR-Tax Coll. Pay FICA	6,175.28		6,543.14	
999 WH PR-Miscellaneous				
241227 Accr Employer 401k Match	24.40CR	8,736.75CR	12.74CR	8,456.74CR
241228 Accrued PFD Div Requirements	6,427.17CR	12,937.67CR	6,510.50CR	13,020.83CR
241229 Accr Construction Costs Pay				
241230 Unclaimed Credits Pay	2,345.07CR	22,264.33CR		22,872.46CR
241232 Outstanding Checks Pay				
241234 Unbilled Ext Dep Refund Pay		2,281.22CR		2,376.88CR
241236 Unbilled Ext Dep Refund Pa	13,061.11CR	2,220.02CR	2,584.81	351.20CR
241237 Unbilled Ext Dep Refund Pa	20,215.82	19,950.05CR	339.20CR	
241238 Unbilled Stock C-System	23,587.54CR	30,299.29CR	7,932.99CR	81,464.55CR
241238 Unbilled Stock E-System		26,534.14CR	64,755.97	13,096.94CR
241241 CFO-Cust Asst NonPledged	74.00CR	127.00CR	190.00	47.00CR
005 CFO-Cust Asst NonPledged	38.00CR	75.00CR	103.59	40.41CR
241244 CFO-Sales Tax	11,746.13	24,436.14CR	1,502.70	26,978.58CR
241246 CFO-Cross Rcts Tax	286,003.98	264,515.58CR	275,681.77	232,688.89CR
241248 CFO-Cross Rcts Tax	13,629.58	137,623.64CR	8,159.43	122,966.03CR
241249 CFO-Mgmt Contracts				
001 CFO-Mgmt Contracts	4,747.85CR	4,747.85CR	85,966.66	3,318,770.96CR
002 CFO-MC/Swr Rev/Cash	17,573.72CR	3,027,857.17	127,299.18CR	1,958,826.08CR
004 CFO-MC/Swr A/R/Chgoff	26,349.21	1,595,516.02	44,879.04	1,220,732.52
241250 A/P Check Clearing	715,002.97	303,843.42CR	233,820.02	758,192.23CR
241251 P/R Check Clearing	409.75CR	4,137.85CR	3,724.14CR	5,753.69CR
241252 Cred Refund A/P Check Clearing	1,324.87	4,597.51CR		
241260 Misc Deposits Payable		13,000.00CR	1,000.00CR	5,000.00CR
241298 Overhead Clearing			678.80	
241322 Incentive Plan Cash Annual	23,160.19CR	439,409.66CR	21,282.56CR	336,192.87CR
241500 Accrued Paying-Analyzed	48,145.61CR			
241998 Other Curr Liab Analyzed	138,292.59	45,499.46	202,545.35	1,928.12
252999 Adv for Const-Cur Portion Recl CP		1,200,000.00CR		2,500,000.00CR
Bsl Misc Current Liabilities	1,119,612.12	3,472,636.88CR	807,879.57	5,015,446.58CR

83410 GL01 TBAGP 0001R	American Water Works Company Kentucky American Water Co. 12 Total Company (USGAAP) Trial Balance	February Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B55 Advances for Construction				
252110 Adv for Const-NT Mains	3,648.20CR	213,741.01CR	3,648.20CR	169,962.61CR
252120 Adv for Const-NT Ext	80,443.81CR	14,211,831.38CR	134,799.17	13,156,971.84CR
252130 Adv for Const-NT Services				
252140 Adv for Const-NT Netw				
252150 Adv for Const-NT Hydrants				
252160 Adv for Const-NT Other				
252170 Adv for Const-NT WIP	2,362.98	302,831.57CR	58,408.95CR	1,263,732.69CR
252999 Adv for Const-Cur Portion Recl		1,200,000.00		2,500,000.00
Adv for Const-Cur Portion R	81,729.03CR	13,528,403.96CR	72,742.02	12,090,667.14CR
B55 Advances for Construction				
B56 Deferred Income Taxes				
253203 Def. FIT-Norm Property				1,886,054.00CR
253301 Def. FIT-Norm Property	41,748.935.72CR		137,407.00CR	31,671,000.54CR
253309 Def. FIT-AMT				133,392.00
253701 Def. FIT-Other	5,603.453.50CR		23,871.00CR	5,097,890.88CR
Def. FIT-Other	47,352,389.22CR		161,278.00CR	38,521,553.42CR
B56 Deferred Income Taxes				
B57 Deferred ITC				
255101 Unamortized ITC - 3%	637.67	85,246.55CR	637.67	92,898.59CR
255102 Unamortized ITC - 4%	525.42	47,498.29CR	525.42	53,803.33CR
255103 Unamortized ITC - 10%	5,903.33	901,339.69CR	5,903.33	972,179.65CR
Unamortized ITC - 10%	7,066.42	1,034,084.53CR	7,066.42	1,118,881.57CR
B57 Deferred ITC				
B58 Deferred Regulatory Liability				
256212 Reg Liab-Exc Def Depr FIT	11,733.58	1,120,523.75CR	11,733.58	1,261,326.71CR
256220 Reg Liab-Deficit Def FIT	2,296.50CR	219,138.84	2,296.50CR	246,696.84
256232 Reg Liab-Exc Def Depr SIT	4,057.00	1,512,400.50CR	4,057.00	1,561,084.50CR
256250 Reg Liab-Cost of Removal	111,363.96CR	11,317,476.76CR	127,733.79CR	9,979,313.04CR
RWIP	5,618.02	13,350.31		
256310 Reg Liab-ITC Gross-Up 3%	432.00	57,752.75CR	432.00	62,936.75CR
256311 Reg Liab-ITC Gross-Up 4%	355.83	32,166.87CR	355.83	36,436.83CR
256312 Reg Liab-ITC Gross-Up 10%	3,252.33	496,577.36CR	3,252.33	535,605.32CR
Reg Liab-ITC Gross-Up 10%	88,211.70CR	14,504,408.84CR	110,199.55CR	13,190,006.31CR
B58 Deferred Regulatory Liability				
B59 Other Deferred Credits				
256335 Reg Liab-Cap on Debt Exting	10,875.79	522,037.92CR	652,547.40CR	652,547.40CR
256340 Regulatory Liab - Other			663,564.43	
262120 DCA-Accr Pension Def Benefit	150,521.00	1,311,688.28CR	208,673.83	1,316,014.54CR
262210 DCA-Accr OPEB	185,621.92	206,924.50CR	198,793.00	200,341.00CR
262215 DCA-Accr OPEB Med Subsidy	3,370.53CR	173,745.83CR	3,832.93CR	126,079.42CR
262313 DCA-FAS 112 Costs		61,130.00CR		61,130.00CR
262315 Accr Div Equivalents	102.00CR	1,670.00CR	103.00CR	837.00CR
262398 DCA-Other				
B59 Other Deferred Credits	343,546.18	2,277,196.53CR	414,547.93	2,356,949.36CR

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American Water Works Company
Kentucky American Water Co. 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 02/28/2010

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American Water Works Company
Kentucky-American Water-Co L2
Total Company (USGAAP)
Trial Balance
For the Period Ending 02/28/2010

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Description	February Activity	February Balance	Prior Year Activity	Prior Year Balance
B62 CIAC				
271110 CIAC-NT Mains	316,982.19CR	16,653,115.69CR	214,811.46CR	16,280,007.23CR
271120 CIAC-NT Ext Dep		11,079,000.62CR		10,927,250.44CR
271130 CIAC-NT Services	73,001.23CR	16,623,141.46CR	113,975.02CR	15,465,756.11CR
271140 CIAC-NT Meters	6,941.03CR	709,078.24CR	946.54CR	577,028.33CR
271150 CIAC-NT Hydrants	10,620.84CR	1,586,751.84CR	30,215.55CR	1,490,710.75CR
271160 CIAC-NT Other	246.24CR	4,724,144.63CR	105,414.06CR	4,662,941.39CR
271170 CIAC-NT WIP	349,600.28	80,183.00CR	324,524.00	168,007.38CR
271180 CIAC-NT Non-Util Prop		249,724.86CR		249,724.86CR
271210 CIAC-Tax Mains		1,998,493.38CR		1,998,493.38CR
271220 CIAC-Tax Ext Dep		766,585.92CR		766,585.92CR
271230 CIAC-Tax Services		6,741,212.01CR	9,652.00CR	6,541,298.01CR
271240 CIAC-Tax Meters	8,277.00CR			3,299.01CR
271250 CIAC-Tax Hydrants		487,486.50CR		487,486.50CR
271260 CIAC-Tax Hydrants		440,902.80CR		440,902.80CR
271270 CIAC-Tax WIP				
272010 Accum Amort CIAC-Mains				378,786.29
272040 Accum Amort CIAC-Meters				35,022.86
272050 Accum Amort CIAC-Hydrants				5,907.84
272060 Accum Amort CIAC-Other	95,738.08	13,817,922.55	91,958.82	12,272,920.92
272100 Accum Amort CIAC-Taxable	23,610.61	825,092.10	23,093.19	543,843.03
	52,880.44	47,500,105.31CR	35,438.62CR	46,823,011.17CR
B62 CIAC				
00012 Kentucky-American Water Co.	1,277,766.00	1,938,639.79	737,551.78	953,298.35

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American Water Works Company
Kentucky American Water Co 12
Total Company (USGAAP)
Fiscal Balance
For the Period Ending 03/31/2010

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Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
19000 Organization				
20000 Land & Int Rights SS	37,450.43	37,450.43		37,450.43
20020 Land & Int Rights P	335,216.50	335,216.50		335,216.50
20030 Land & Int Rights WT	21,183.34	21,183.34		21,183.34
20040 Land & Int Rights TD	4,013.04	4,013.04		4,013.04
20050 Structure & Imp SS	3,573.06	3,573.06		3,573.06
20060 Structure & Imp WT	9,857.17	9,857.17		9,857.17
20070 Structure & Imp TD	3,041.44	3,041.44		3,041.44
20080 Structure & Imp Off	5,774.57	5,774.57		5,774.57
20090 Gen Structures - HVAC	1,000.00	1,000.00		1,000.00
20100 Structure & Imp Misc	822,432.94	822,432.94		822,432.94
20110 Collect & Imp Ponding	1,025.97	1,025.97		1,025.97
20120 Sxely Mains & Other Intakes	5,337.03	5,337.03		5,337.03
20130 Power Generation Equip	5,435.47	5,435.47		5,435.47
20140 Pump Equip Diesel	9,718.77	9,718.77		9,718.77
20150 Pump Equip Hydraulic	8,472.37	8,472.37		8,472.37
20160 Pump Equip Electric	30,408.94	30,408.94		30,408.94
20170 Pumping Equipment	1,528.27	1,528.27		1,528.27
20180 Pumping Equip Media	1,272.02	1,272.02		1,272.02
20190 Wt Equip Filter Media	374,341.70	374,341.70		374,341.70
20200 Dist Pexers & Standpipe	6,399.91	6,399.91		6,399.91
20210 Elevated Tanks & Standpipes	10,272.38	10,272.38		10,272.38
20220 Ground Level Facilities	121,027.39	121,027.39		121,027.39
20230 Clewical Not Classified by	149,048.83	149,048.83		149,048.83
20240 TD Mains 4in to 18in	41,567.09	41,567.09		41,567.09
20250 TD Mains 10in to 18in	13,757.99	13,757.99		13,757.99
20260 TD Mains 18in & Gttr	82,381.85	82,381.85		82,381.85
20270 Meters	227,658.65	227,658.65		227,658.65
20280 Meters Bronze Case	33,277.74	33,277.74		33,277.74
20290 Meters Plastic Case	416.51CR	416.51CR		416.51CR
20300 Meters Other-Rem Rdr Unts	1,387.96CR	1,387.96CR		1,387.96CR
20310 Meter Installations	42,439.87	42,439.87		42,439.87
20320 Hydrants				
20330 Other P/E Intangible	1,177.03CR	1,177.03CR		1,177.03CR
20340 Office Furniture & Equip	132,539.12CR	132,539.12CR		132,539.12CR
20350 Comp & Periph Personal	3,073.60CR	3,073.60CR		3,073.60CR
20360 Comp & Periph Other	8,399.73CR	8,399.73CR		8,399.73CR
20370 Comp & Periph Capital Lease				
20380 Computer Software Personal				
20390 Comp Software Customized				
20400 Comp Software Other				
20410 Other Equip Lt Duty Trks				
20420 Trans Equip Hvy Duty Trks				
20430 Trans Equip Autos				
20440 Trans Equip Other				
20450 Tools Equip				
20460 Tools Shop, Carriage Equip				
20470 Laboratory Equipment				
20480 Power Operated Equipment				
20490 Comm Equip Non-Telephone				
20500 Remote Control & Instrument				
20510 Comm Equip Telephone				
20520 Misc Equipment				
20530 Other Tangible Property				
20540 WW Land & Imp Coll				
20550 WW Struct & Imp SPP				
20560 WW Struct & Imp TDP				
20570 WW Struct & Imp Gen				
20580 WW Collecting Mains				
20590 WW Services Sewer				

American Water Works Company
Kentucky American Water Co 12
Total Company (USGAAP)
For the Period Ending 03/31/2010

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Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B01 Utility Plant Original Cost				
101000 WW Flow Measuring Devices		2,168.69		10,707.91
301100 WW Flow Measuring Devices		10,707.91		3,646.30
301200 WW Pump Equip Elect		3,646.30		80,086.34
301300 WW Pump Equip Oth Pwr		80,086.34		35,444.16
301400 WW Office Equipment		35,444.16		500.00
301500 WW Trains Equip Lc Dty Trks		500.00		24,539.43
301600 WW Stores Equipment		27,547.74		32,139.33
301700 WW Tool Shop & Garage Equip		34,832.83		39,062.38
301800 WW Laboratory Equipment		39,062.38		1,336.00
301900 WW Power Operated Equip		1,336.00		22,580.88
302000 WW Communication Equip		20,631.15		
101099 Completed Const not Classified				
101100 Reg Asset-ACU/Debt		272,637.00		272,637.00
103000 Property Held Future Use		114,076.24		114,076.24
104000 Utility Plant Purchased/Sold				
106000 Struct & Imp SS				
304100 Struct & Imp P	11,213.13		30,498.42CR	
304200 Struct & Imp MT	13.44		5,172.18CR	
304300 Struct & Imp TD			17,550.95CR	29,852.60
304400 Struct & Imp AG			10,002.21CR	1,700.82
304500 Struct & Imp AC			50,124.52CR	2,391.92
304600 Struct & Imp Offices			42,842.84	1,551,156.88
304700 Struct & Imp Store, Shop, Gar				2,351.83
304800 Supply Main Electric	6,748.28		5,454.04CR	
304900 Pumping Equipment SS			14,955.06CR	
305000 Pumping Equipment	9,321.43CR		81,584.01CR	34,644.42
305100 Wt Equip Pwr Med	167,603.85		12,734.62CR	15,645.61
305200 Disinfectant Pwr & Standpipe			442,102.82CR	288,593.86
305300 TD Mains 4in to 18in	4,608.92		196,201.41CR	1,303,636.69
305400 TD Mains 18in to 36in	102,758.82		11,982.46	
305500 TD Mains 4in to 18in	508,995.49		15,100.01	1,975,763.57
305600 TD Mains 18in to 36in	390,273.39		391.52	3,413,471.78
305700 Services	107,721.14		2,800.00	550,822.43
305800 Meters Bronze Case	85,723.84		46,447.99	322,847.70
305900 Meters Other-Rem Pdr Unts	17,043.61		32,130.98CR	74,860.46
306000 Meters Other-Installations	16,889.58		32,130.98CR	11,694.00
306100 Meter Vaults	35,905.61		3,251.00	24,337.28
306200 Hydrants	16,889.58		44,900.23	56,019.66
306300 Office Furniture & Equip	8,903.25CR		28,978.58CR	12.15CR
306400 Comp & Periph Mainframe	14,140.00		19,383.58CR	22,604.52
306500 Comp & Periph Personal	12,889.43		22,604.52	22,604.52
306600 Comp Software Customized	2,744.98		11,213.09	234,654.93
306700 Tools Equip Lt Duty Trks	1,367.09		5,119.75CR	2,996.93
306800 Labor Shop, Garage Equip	1,132.57CR		5,240.78CR	9,240.78CR
306900 Power Operated Equipment	1,609.93		3,518.31	3,318.31
307000 Comm Equip Non-Telephone	291.37		1,165.09CR	2,640.50
307100 Comm Equipment				
307200 Misc Collecting & Imp Gen				
307300 WW Collecting Sewer				
307400 WW Tool Shop & Garage Equip				
307500 WW Power Operated Equip				
B01 Utility Plant Original Cost	1,368,803.74	386,744,988.15	876,688.69	372,123,974.09
B02 CWIP				
105050 CWIP Accr-Bldgs				
21 CWIP Accr-Bldgs	1,171,656.04	1,063.22	607.34CR	3,014.52
31 CWIP Accr-Infra	499,083.64CR	5,282,288.37	1,206,737.99	6,302,668.27
31 CWIP Accr-Plant			383,671.89	6,532,391.62

Description		March Activity	March Balance	Prior Year Activity	Prior Year Balance
00012	Kentucky-American Water Co.				
B02	CWIP				
105110	CWIP History		10,021,825.69		10,021,825.69
11	CWIP History-Bldgs		51,962.84		51,962.84
21	CWIP History-Infrastr		5,381.46		5,381.46
31	CWIP History-Plant		602,319.28		602,319.28
105125	CWIP Permits & Fees		49,192.88		49,192.88
11	CWIP Permits-Bldgs	3,123.00	971,402.19		971,402.19
21	CWIP Permits-Infrastr	94.00	281,391.15		281,391.15
31	CWIP Permits-Plant	61.00	4,023,864.61		4,023,864.61
105150	CWIP M&S & Purchases		19,115,344.78		19,115,344.78
11	CWIP M & S-Bldgs	395,240.55	312,707.28		312,707.28
21	CWIP M & S-Infrastr	215,799.15	29,496,612.39		29,496,612.39
31	CWIP M & S-Plant		13,400,276.05		13,400,276.05
105175	CWIP Professional Services		30,275.52		30,275.52
11	CWIP Prof Svc-Infrastr	3,026.50	1,876,348.98		1,876,348.98
21	CWIP Prof Svc-Plant		73,751,348.98		73,751,348.98
105200	CWIP Labor		1,594,849.33		1,594,849.33
11	CWIP Labor-Bldgs	74,044.34	21,982.17		21,982.17
21	CWIP Labor-Infrastr		5,516,959.73		5,516,959.73
31	CWIP Labor-Plant		770,547.82		770,547.82
105250	CWIP Labor OH		1,765,848.50		1,765,848.50
11	CWIP Labor OH-Bldgs	45,881.93	1,765,848.50		1,765,848.50
21	CWIP Labor OH-Infrastr		3,530,545.23		3,530,545.23
31	CWIP Labor OH-Plant		336,429.83		336,429.83
105260	CWIP Overhead		688,754.64		688,754.64
11	CWIP Overhead-Bldgs	51,477.38	181,140.89		181,140.89
21	CWIP Overhead-Infrastr	15,737.37	550,442.73		550,442.73
31	CWIP Overhead-Plant		1,948,547.30		1,948,547.30
105270	CWIP Service CO Chgs		5,269.73		5,269.73
21	CWIP Service CO Chgs	3,299.00	683,032.33		683,032.33
31	CWIP AMWSC Chg-Plant	59,630.03	1,618,388.51		1,618,388.51
105275	CWIP Contracted Services		26,670,271.06		26,670,271.06
11	CWIP Contr Svc-Bldgs	224,688.51	735,939.20		735,939.20
21	CWIP Contr Svc-Infrastr	2,539,506.31	81,563,784.52		81,563,784.52
31	CWIP Contr Svc-Plant		109,443,253.10		109,443,253.10
105280	CWIP Retainage		366,817.31		366,817.31
11	CWIP Retainage-Bldgs	9,631.51	61,325.00		61,325.00
21	CWIP Retainage-Infrastr	118,762.43	5,052,814.26		5,052,814.26
31	CWIP Retainage-Plant	88,069.04	4,421,154.00		4,421,154.00
105285	CWIP Developer Const Costs		100,683.04		100,683.04
21	CWIP Paving		22,858.20		22,858.20
31	CWIP Paving-Infrastr		195,235.55		195,235.55
105300	CWIP AFUDC Debt		703,911.94		703,911.94
11	CWIP AFUDC Debt	488,937.74	51,763.27		51,763.27
21	CWIP AFUDC Debt-Bldgs		5,778,465.70		5,778,465.70
31	CWIP AFUDC Debt-Infrastr		861,347.55		861,347.55
105375	CWIP AFUDC Equity		809,429.26		809,429.26
11	CWIP AFUDC Equity	159,922.80	74,380.19		74,380.19
21	CWIP AFUDC Eqty-Bldgs		3,562,718.20		3,562,718.20
31	CWIP AFUDC Eqty-Infrastr		1,092,540.18		1,092,540.18
105390	CWIP Tran Py Chg-Bldgs		176,511.62		176,511.62
11	CWIP Tran Py Chg-Bldgs	7,207.84	562,183.19		562,183.19
21	CWIP Tran Py Chg-Infrastr		876,552.73		876,552.73
31	CWIP Tran Py Chg-Plant		9,843,395.47		9,843,395.47
105391	CWIP Trans Current Yr Chgs		2,618.00		2,618.00
11	CWIP Trans Current Yr Chgs		122,213.21		122,213.21
21	CWIP Prelim Eng-Plant		3,526.85		3,526.85
31	CWIP Prelim Eng-Plant		51,962,726.94		51,962,726.94
105399	CWIP Engineering Clearing		1,950,918.77		1,950,918.77
11	CWIP Engineering Clearing		2,618.00		2,618.00
21	CWIP Transfer to UPIS		206,375.58		206,375.58
31	CWIP Transfer to UPIS		3,526.85		3,526.85
105900	CWIP Transfer to UPIS		1,950,918.77		1,950,918.77
11	CWIP Tran UPIS-Bldgs		3,526.85		3,526.85
21	CWIP Transfer to UPIS		1,950,918.77		1,950,918.77
31	CWIP Transfer to UPIS		2,618.00		2,618.00

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American Water Works Company
Kentucky American Water CO 12
Total Company (USGAAP)
For the Period Ending 03/31/2010

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Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B02 CWIP				
105900 CWIP Tran UPIS-Infrastr	1,361,507.71CR	100,257,657.96CR	607,359.73CR	90,556,116.98CR
31 CWIP Tran UPIS-Plant	232,865.66CR	35,132,067.16CR	222,583.67CR	29,343,486.65CR
105999 Undistributed Items				
Undistributed Items	3,583,821.19	152,099,871.37	9,545,087.24	77,255,813.91
B02 CWIP				
B03 Accumulated Depreciation				
108105 AD UPIS-ACC Depr-Non Classifd	4,558.81CR	50,400,247.08CR	608.04CR	50,367,119.20CR
01 AD UPIS-ACC Depr-Net Plassifi	34,922.45CR	1,128,223.10CR	34,312.23CR	3,078,938.49CR
02 AD UPIS-ACC Depr-Chem Plassifi	19,972.50CR	1,128,223.10CR	18,028.22CR	3,078,938.49CR
05 AD UPIS-ACC Depr-Infrastr	303,007.85CR	27,412,903.23CR	323,828.56CR	23,490,244.51CR
06 AD UPIS-ACC Depr-Plant	140,172.22CR	11,584,913.53CR	103,980.26CR	10,238,549.10CR
07 AD UPIS-ACC Depr-Ph Water Pli	71,826.71CR	1,172,228.52CR	63,705.65CR	2,329,253.10CR
08 AD UPIS-ACC Depr-Offi Equip	52,139.30CR	8,204,407.23CR	51,345.95CR	7,577,042.44CR
09 AD UPIS-ACC Depr-Cap Develop		55,801.55CR	139.30CR	7,577,042.44CR
108110 AD UPIS-Removal Cost		2,040,107.64		2,040,107.64
108115 AD UPIS-Salvage		301,332.44CR		139,706.95CR
108120 AD UPIS-Scrap Meters	3,599.99CR	23,226.64CR		23,226.64CR
108122 AD UPIS-Scrap Misc		10,764.38CR		10,764.38CR
108135 AD UPIS-Salv Trade-In		16,975.00CR		16,975.00CR
108140 AD UPIS-Salv Sale		2,490.81CR		2,490.81CR
108145 AD UPIS-Orig Cost-Not Classifd	225,569.63	14,390,124.47	46,745.29CR	13,521,870.14
108190 Acc Depr Reg Asset	575.00CR	119,014.18CR	575.00CR	112,114.18CR
Acc Depr Reg Asset	404,959.25CR	92,537,370.60CR	643,335.99CR	85,847,842.89CR
B03 Accumulated Depreciation				
B04 UPAA				
114100 UPAA-ATL		455,951.18		455,951.18
UPAA-ATL		176,951.56CR		155,778.41CR
115100 Accum Amort UPAA-ATL	1,765.58CR	278,999.62	1,778.79CR	300,172.77
Accum Amort UPAA-ATL	1,765.58CR		1,778.79CR	
B04 UPAA				
B07 Non Utility Property, Net				
121100 NUP-Land		270,192.68		270,192.68
NUP-Land		270,192.68		270,192.68
B07 Non Utility Property, Net				
B10 Cash & Cash Equivalents				
131312 BB&T		316,958.78		181,199.72
BB&T		316,958.78	67,192.87CR	181,199.72
003 Deutsche Bank		53.00		
007 Cash-Mellon Lockbox				
131998 Cash Clear-NSF Checks	29,617.03			
Cash Clear-NSF Checks	614.39CR			
001 Cash Clear-Mixed Pymt		17,190.00		
002 Cash Clear-Misc DR/CR		1,946.17CR		
003 Cash Clear-MI's		31.22		
004 Cash Clear-Interco		400.00		
006 Cash Clear-Interco		400.00		
134100 Petty Cash		2,000.00		
Petty Cash		2,000.00		
134101 Petty Cash-OTC		317,479.64		
Petty Cash-OTC		317,479.64		
B10 Cash & Cash Equivalents				
B12 Customer Accounts Receivable				
141000 Customer A/R	842,364.62CR	2,316,058.00	587,186.11CR	1,921,060.89
Customer A/R	34.66		40.00CR	1,792.13CR
141999 Customer A/R Clearing				
Customer A/R Clearing	842,329.96CR	2,316,058.00	587,226.11CR	1,919,268.76
B12 Customer Accounts Receivable				
B13 Allowance for Uncollectible A/				

American Water Works Company Kentucky-American Water- CO 12 Total Company (USGAAP) For the period Ending 03/31/2010				5 04/10/10 14:00:28
Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
143000 Accum prov-uncoll accts	21,779.87	224,241.30CR	14,917.32	244,903.36CR
B13 Allowance for Uncollectible A/	21,779.87	224,241.30CR	14,917.32	244,903.36CR
B14 Accrued Utility Revenue	269,894.87	3,140,637.00	231,961.91	2,557,458.35
144000 Accrued Utility Revenue	269,894.87	3,140,637.00	231,961.91	2,557,458.35
B14 Accrued Utility Revenue				
B16 Miscellaneous Receivables				
146100 Misc A/R System	305,652.19	685,838.86	166,581.79CR	472,086.09
Misc A/R System	121,492.37CR	132,348.13	4,970.22CR	98,908.75
001 Misc A/R- Manual				
146105 Misc A/R- Parts	60,813.58	134,466.43	11,456.66	54,705.25
Misc A/R- Parts				
146115 Misc A/R- Medicare	3,370.53	16,188.58	5,921.64	22,921.30
Misc A/R- Medicare				
146300 Misc A/R- Adv to Employees				
Misc A/R- Adv to Employees				
146370 Accum prov-uncoll misc a/r	407.00	8,638.60CR	5,400.72CR	94,771.73CR
146500 A/R Assoc Cos				
A/R Assoc Cos				
146520 A/R Div Equiv AW02	108.00	1,778.00	257.00CR	580.00
A/R Div Equiv AW02				
146800 Rents Receivable				
Rents Receivable				
B16 Miscellaneous Receivables	248,858.93	961,981.40	159,831.43CR	554,429.66
B17 Materials & Supplies				
151100 Plant Material	73,200.78	490,237.26	31,694.43CR	421,883.46
Plant Material				
151300 Chemicals	17,353.02	213,562.19	67,722.46	337,984.72
Chemicals				
B17 Materials & Supplies	90,553.80	703,799.45	36,028.03	759,868.18
B19 Prepayments				
165100 Prepaid Taxes	156,924.57CR	1,000.00	5,546.95	305,618.88
Prepaid Taxes				
165200 Prepaid Insurance	57,094.54	279,779.38	58,970.51CR	180,053.26
Prepaid Insurance				
165300 Prepaid PUC/PSC Assessments	7,700.97CR	23,102.93	7,050.29CR	21,150.87
Prepaid PUC/PSC Assessments				
165400 Prepaid Audit Fees	11,799.42	16,224.78		
Prepaid Audit Fees				
165500 Prepaid Other	18,385.28CR	83,663.69	9,060.10CR	89,007.42
Prepaid Other				
174100 Deferred Vacation Pay	82,993.00CR	98,175.08	75,449.33CR	104,744.71
Deferred Vacation Pay				
174200 Curr State Def Tax				
Curr State Def Tax				
174300 Curr Fed Def Tax				
Curr Fed Def Tax				
B19 Prepayments	197,109.86CR	501,945.86	144,983.28CR	700,575.14
B23 Debt & Preferred Stock Exp				
181110 Unamort Debt Exp-Out	132,156.80CR		665.38CR	139,475.98
Unamort Debt Exp-Out				
181111 Unamort Debt Exp NOIAS	131,491.42	131,491.42		
Unamort Debt Exp NOIAS				
181120 Unamort Debt Exp-In	80,530.28CR		5,285.56CR	138,671.44
Unamort Debt Exp-In				
AW46 Unamort Debt AW46				
181121 Unamort Debt AW46 NOIAS	70,950.45	1,509,774.12	1,381.14CR	473,727.83
Unamort Debt AW46 NOIAS				
AW46 Unamort Debt AW46				
181512 Pref Stk Exp w/ mandatory	64.24CR	20,556.80	64.24CR	21,327.68
Pref Stk Exp w/ mandatory				
B23 Debt & Preferred Stock Exp	10,309.45CR	1,661,822.34	7,396.32CR	773,202.93
B24 Deferred Rate Proceedings				
182000 Deferred Rate Proceedings	65,052.91	578,816.89	9,012.67CR	604,531.22
Deferred Rate Proceedings				
B24 Deferred Rate Proceedings	65,052.91	578,816.89	9,012.67CR	604,531.22
B25 Preliminary Survey & Invest				

Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
183000 Prelim Survey & Invest		52,203.63		125,657.24
Prelim Survey & Invest		52,203.63		125,657.24
B25 Preliminary Survey & Invest				
B26 Deferred Regulatory Asset				
186030 Reg Asset-AFUDC-Eq-CWIP	102,327.87	1,961,912.43	144,327.41	952,946.93
186035 Reg Asset-AFUDC-Equity		3,362,404.32		3,222,480.73
186040 Reg Asset-AFUDC-Diff	40,775.00CR	3,080,579.38	38,487.00CR	3,549,287.38
186045 Reg Asset-Plt Flow-Diff	2,008.00	423,025.39CR	2,008.00	447,121.39CR
186055 Reg Asset-Accum Amort	6,687.26CR	590,004.17CR	6,391.25CR	513,130.70CR
Reg Asset-Accum Amort	56,873.61	7,391,866.57	101,457.16	6,764,462.95
B26 Deferred Regulatory Asset				
B27 Other Deferred Debits				
183280 DEF Customer Service Project				
184100 Eng Eng Clearing Dist OH	5,709.69	116,392.26	60,409.82	206,031.16
184102 Mngmt Study-AMR	432.72	2,734.40	1,225.09CR	688.28CR
184103 Mngmt Study-Pipe Assmnt	1,065.43	3,086.55	343.47	1,032.70
184199 Eng Eng Clearing Recl Class	7,207.84CR	122,213.21CR	206,375.58CR	206,375.58CR
185125 RWIP Permits Fees & Premi		9.75		9.75
185150 RWIP M & S and Purchases	869.78	12,892.30	1,161.15	12,892.30
185200 RWIP CO Labor	65.49CR	24,151.36		12,152.22
185250 RWIP CO Labor OH	6,455.18	248,031.03	3,135.85	248,031.03
185260 RWIP Indirect Labor	24.90CR	149,835.02		83,080.67
185275 RWIP Contracted Services	3,205.79	126,302.77	2,214.04	126,302.77
185280 RWIP Retainage	870.70	84,481.12	367.54	42,699.76
185315 RWIP Salvage		15,180.05		2,882.01
185320 RWIP Scrap Meters	3,600.00CR	2,077,128.98	2,950.00	2,072,128.98
185322 RWIP Scrap Misc		82,214.79		67,764.79
185950 RWIP Reg Clear Removal & Salvag		110,000.00		110,000.00
185999 RWIP Clear Removal & Salvag		5,093.07		5,093.07
186401 DDA-Programmed Maint		127,421.81CR		94,294.86CR
186405 DDA-RIA Software Licen		16,068.70CR		16,068.70CR
186426 DDA-FAS 112 Costs		117,787.23CR	4,922.11CR	73,564.91CR
186431 DDA-Depreciation Study		3,975.61CR		1,125.51CR
186432 DDA-Cost of Service Study				780.00CR
186444 DDA-Waste Disposal		780.00CR		1,202.88CR
186598 DDA-Oth Reg Assets		2,210.68CR		2,389.80CR
186711 DDN-Acquisition Costs		7,377.70CR		
DDN-Acquisition Costs		17,125.30CR	13,051.90	13,051.90
DDA-Programmed Maint		2,402,400.30CR		2,397,400.30CR
DDA-RIA Software Licen		200,499.37CR		142,121.95CR
DDA-FAS 112 Costs		39,753.54CR		67,140.54CR
DDA-Depreciation Study		1,878,954.38	19,325.34CR	1,701,019.64
DDA-Cost of Service Study				
DDA-Waste Disposal		61,130.00		61,130.00
DDA-Oth Reg Assets		31,722.88	500.09CR	22,003.96
DDN-Acquisition Costs		31,924.80	521.85CR	25,047.32
DDN-Acquisition Costs		107,698.94		
DDN-Acquisition Costs		2,021,542.29	9,506.44CR	2,554,592.83

Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B27 Other Deferred Debits				
186750 DDN-Engineering Studie				
186898 DDN-Oth LT Assets	5,610.90	5,610.90	1,377.50	1,377.50
187007 Prelim Financing E			15,201.94	36,639.17
187598 Other LT Asset	19,427.44CR	4,138,584.19	148,453.77CR	4,401,810.42
B27 Other Deferred Debits				
B33 Common Stock				
201200 Com Stk Subs Interco		36,568,776.50CR		36,568,776.50CR
AW02		36,568,776.50CR		36,568,776.50CR
B33 Common Stock				
B34 Paid In Capital				
205175 Donations stkhld I/C		21,329.44CR		21,329.44CR
AW02				
205300 Gain on res/can I/C		180.00CR		180.00CR
AW02		6,330.00CR		3,330.00CR
205310 Gain on res/can AW02		56,637,712.20CR	22,503,383.99CR	46,613,819.08CR
205440 Misc PIC Interco	2,324.99CR	56,665,551.64CR	22,503,383.99CR	46,638,658.52CR
AW02	2,324.99CR	56,665,551.64CR		
B34 Paid In Capital				
B35 Retained Earnings				
210210 R/E at Acq AW02		343,498.00CR		343,498.00CR
AW02		34,876,118.48CR		32,443,221.53CR
210240 R/E Since Acquisition		35,219,616.48CR		32,786,719.53CR
R/E Since Acquisition				
B35 Retained Earnings				
B39 Preferred Stock				
215110 Pref Stk Outside		1,445,600.00CR		1,455,600.00CR
215410 Pref Stk Sub Outside		1,445,600.00CR		1,455,600.00CR
B39 Preferred Stock				
B40 Long Term Debt				
215113 Pref Stk-Mand LT		4,500,000.00CR		4,500,000.00CR
221110 Bonds-Outside		23,500,000.00CR		23,500,000.00CR
221120 Bonds-Inside	3,100,000.00	118,390,000.00CR	3,100,000.00	50,100,000.00CR
AW46	3,100,000.00	146,390,000.00CR	3,100,000.00	78,100,000.00CR
B40 Long Term Debt				
B43 Bank Debt				
231200 Notes Pay-Assoc Cos		38,745,766.96CR	11,079,908.73	52,712,528.23CR
AW46	5,761,143.85CR	38,745,766.96CR	11,079,908.73	52,712,528.23CR
B43 Bank Debt				
B44 Current Portion LTD				
232200 Curr Portion LTD-In		3,100,000.00CR		3,100,000.00CR
AW46	5,761,143.85CR	3,100,000.00CR		3,100,000.00CR
B44 Current Portion LTD				
B45 Accounts Payable				
234100 Accts Pay-Gen System	377,444.39	770,230.17CR	1,028,283.21	951,103.90CR
234110 Accts Pay-Pcard	8,695.88CR	1,271.35	75,723.16	9,678.68
234120 Accts Pay-Utility Billing				
234125 Accts Pay-Phone Billing	1,588.20	9.43CR		

Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B45 Accounts Payable				
234200 Accts Pay-Contract Retention	26,647.06CR	4,517,767.62CR	252,698.62CR	2,051,697.83CR
234300 Accts Pay-MISC	80,123.20CR	186,802.94CR	20,126.22CR	221,268.50CR
006 Accts Pay-WrkDskt Acctr	35,645.10CR	71,672.55CR	14,927.97CR	61,479.24CR
006 Accts Pay-Forward Acctr	1,347.09CR	19,957.44CR	1,565.19	23,339.50CR
006 Accts Pay-1/2 Loan Clearing	57,437.59CR	26,238.37	356,208.15	483,504.51
234350 Accts Pay-Prod Exp Acctr	672,572.40CR	5,168,690.03CR	1,589,802.54CR	6,838,074.41CR
234400 Accts Pay-AWMS	57,977.28CR	33,151.48CR	73,892.51CR	71,786.41
234500 Accts Pay-Assocs Cos	155,615.30CR	155,616.30CR	8,925.50	6,170.96CR
AW01 Accts Pay AMS	6,152.64	12,773.61CR	5,283.95	
AW02 Accts Pay AW02	8,959.37CR			
AW04 Accts Pay AW46				
280999 Interco Rec/Pay	17,232.97CR	21,526.77CR	6,199.10CR	5,556.47CR
Interco Rec/Pay	736,079.44CR	10,930,698.62CR	480,757.80CR	9,593,721.51CR
B45 Accounts Payable				
B45 Accrued Taxes				
236110 Gross Inc & Receipts Tax	70,001.00			7,902.10CR
Gross Inc & Receipts Tax	75,001.00CR	75,001.00CR	132.78	13,034.31CR
236111 Gross Receipts - Income Tax	332.69	7,780.23CR	18,456.09	15,713.36CR
236120 FUTA	21,422.60	15,515.17CR	5,331.67CR	687,061.07CR
236130 FICA	541.65	3,594,570.90CR	5,593.16	5,815.80CR
236140 SUTA	281,996.91CR	13,117.88CR		4,572.85CR
236151 Gen Tax - Property	2,458,947.71	4,347.18CR	1,820.00CR	
236152 Gen Tax - Sales/Use	180,244.00CR	1,782,797.76	631,573.00	294,489.00
236170 Gen Tax - Other	438,207.38	791,776.41CR	1,820.00	890,354.97
236201 FIT Tax Clearing	435,875.00	325,535.66	122,140.00	137,063.00
236210 Acct FIT Current Yr	89,374.00	997,139.03		154,949.14CR
236220 Acct FIT pr Yrs	16,299.00	188,555.00		99,181.00
236230 Acct SIT Current Yr	2,990,317.54	34,387.00		18,088.00
236240 Acct SIT pr Yrs		1,195,963.92CR	643,446.89	550,127.34
236320 Curr Def SIT/LIT				
Curr Def SIT/LIT				
Curr Def SIT/LIT				
B46 Accrued Taxes				
B47 Accrued Interest				
237200 Int Accr-LTD-Outside	137,712.50CR	456,884.59CR	137,712.50CR	456,884.59CR
237300 Int Accr-LTD-Inside	256,247.01	2,476,390.95CR	8,578.24	1,421,425.25CR
AW46 Int Accr-LTD-AW46	63,525.00	31,762.50CR	63,525.00	31,762.50CR
241228 Accrued PFD Div Requirements	182,059.51	2,965,038.04CR	65,609.26CR	1,910,072.34CR
002 Accr PFD Div w/mand				
B47 Accrued Interest				
B51 Misc Current Liabilities				
241100 Accrued Vacation Pay	82,993.00	98,175.08CR	75,449.33	104,744.71CR
241201 Acct Water Purchases	305.43	12,678.98CR	2,162.00CR	15,655.50CR
241202 Acct Power	62,255.62CR	335,415.38CR	26,179.50CR	282,491.74CR
241203 Acct Legal	33,459.56CR	60,074.08CR	24,545.60	14,541.10CR
241205 Acct TMS License				
241206 Acct Wages	85,961.38CR	217,691.68CR	47,336.80CR	170,382.80CR
241208 Acct Rents				

Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
Accr Rents				
241210 Accr Waste Disposal	4,286.00CR	115,722.00CR	4,167.00CR	62,505.00CR
241211 Accr Waste Disposal	1,249.88CR	2,750.00CR	1,125.32CR	2,625.00CR
241212 Accr Retiree Medical Reimb	3,449.26	4,204.03CR	833.53CR	7,752.50CR
241214 Accr DCP Contribution	4,400.76CR	29,637.62CR	681.30CR	27,247.49CR
241220 WH PR-Tax Coll SIT KY	279.79CR	14,807.62CR	14,254.54CR	14,254.54CR
002 WH PR-Tax Coll SIT KY	22.00CR	3,159.58CR		2,891.96CR
005 WH PR-Charity Contribution		21,381.36	627.01	20,742.05CR
006 WH PR-Flex Spending Account		10,489.71CR	8,414.13CR	27,020.62CR
012 WH PR-401k Contribution		2,253.12CR	2,562.28CR	2,562.28CR
014 WH PR-ESPP				
999 WH PR-Miscellaneous				
241227 Accr Employer 401k Match	2,764.95	5,971.80CR	1,316.37CR	9,773.11CR
241228 Accrued PFD Div Requirements	6,468.83CR	19,406.50CR	6,510.67CR	19,531.50CR
241229 Accr Construction Costs Pay				
241230 Unclaimed Credits Pay		22,264.33CR	9,694.36	13,178.10CR
241232 Outstanding Checks Pay		2,281.22CR		2,376.88CR
241234 Unclaimed Ext Dep Refund Pay		2,220.02CR	9,694.36CR	10,045.56CR
241236 Unbilled Items-System	132,788.84CR	152,738.89CR	30,066.64CR	30,405.84CR
241237 Unbilled Stock C-System	915.20CR	31,214.49CR	39,449.06	42,015.49CR
241238 Unbilled Stock H-System	63,911.79CR	90,445.93CR	12,646.94	450.00CR
241241 CFO-Cust Asst Nonpledged	58.00CR	195.00CR	102.00CR	149.00CR
005 CFO-Cust Asst Nonpledged	39.00CR	114.00CR	37.00CR	77.41CR
006 CFO-Cust Asst Pledged				
241244 CFO-Sales Tax	8,438.68CR	32,874.82CR	9,505.50	17,473.08CR
241246 CFO-Gross Rcts Tax	128,215.63CR	392,731.21CR	108,074.93CR	340,763.82CR
241248 CFO-Multi Tax	1,889.95CR	139,513.59CR	5,752.87	117,213.16CR
241249 CFO-Multi Tax				
001 CFO-Multi Contracts	569,373.73	4,178,451.33CR	288,993.35	3,029,777.63CR
002 CFO-MC/Swr Rg/Cash	654,380.17CR	2,363,157.90	329,274.85CR	1,632,555.26
003 CFO-MC/Swr A/R	27,054.32	1,622,570.34	19,603.13	1,240,335.65
241250 A/P Check Clearing	7,542.24CR	311,385.66CR	57,946.75CR	816,138.98CR
241251 P/R Check Clearing	8,096.73	3,958.88	1,455.19	4,298.50CR
241252 Cred Refund A/P Check Clearing	4,855.30CR	9,452.81CR		5,000.00CR
241260 Misc Deposits Payable		13,000.00CR		72,040.83CR
241322 Incentive Plan Cash Annual	365,995.38	73,414.28CR	264,152.04	
241500 Accrued Paying-Analyzed	420.83	47,724.78CR		
241998 Other Curr Liab Analyzed	64,209.57CR	18,710.11CR	70,020.58CR	68,092.46CR
252999 Adv for Const-Cur Portion Recl CP		1,200,000.00CR	350,000.00	2,150,000.00CR
B51 Misc Current Liabilities	206,546.03CR	3,679,182.91CR	384,113.85	4,631,332.73CR
B55 Advances for Construction				
252110 Adv for Const-NT Mains	3,648.20CR	217,389.21CR	3,648.20CR	173,610.81CR
252120 Adv for Const-NT Ext	10,944.90CR	14,222,776.28CR	112,150.99	13,044,820.85CR
252130 Adv for Const-NT Ext				
252140 Adv for Const-NT Services				
252150 Adv for Const-NT Meters				
252160 Adv for Const-NT Hydrants				
252160 Adv for Const-NT Other				

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American Water Works Company
Kentucky-American Water- CO 12
Total Company (USGAAP)
Trial Balance
For the Period Ending 03/31/2010

Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
00012 Kentucky-American Water Co.				
B55 Advances for Construction				
252170 Adv for Const-NT WIP	460,463.02CR	763,294.59CR	207,310.02CR	1,471,042.71CR
252999 Adv for Const-Cur Portion Recl		1,200,000.00	350,000.00CR	2,150,000.00
Adv for Const-Cur Portion R		14,003,460.08CR	448,807.23CR	12,539,474.37CR
B55 Advances for Construction	475,056.12CR			
B56 Deferred Income Taxes				
253203 Def Int Norm Property		43,021,173.48CR	783,183.00CR	1,886,054.00CR
253301 Def Int Norm Property				32,454,183.54CR
253309 Def Int Other				133,392.00
253701 Def Int Other	910,172.45CR	6,540,678.61CR	150,034.00CR	5,247,924.88CR
Def Int Other		49,561,852.09CR	933,217.00CR	39,454,770.42CR
B56 Deferred Income Taxes	2,034,071.37CR			
B57 Deferred ITC				
255101 Unamortized ITC - 3%	637.67	84,608.88CR	637.67	92,260.92CR
Unamortized ITC - 3%				
255102 Unamortized ITC - 4%	525.42	46,972.87CR	525.42	53,277.91CR
Unamortized ITC - 4%				
255103 Unamortized ITC - 10%	5,903.33	895,436.36CR	5,903.33	966,276.32CR
Unamortized ITC - 10%				
7,066.42	7,066.42	1,027,018.11CR	7,066.42	1,111,815.15CR
B57 Deferred ITC				
B58 Deferred Regulatory Liability				
256212 Reg Liab-Exc Def Depr FIT	11,733.58	1,108,790.17CR	11,733.58	1,249,593.13CR
Reg Liab-Exc Def Depr FIT				
256220 Reg Liab-Deficit Def Depr FIT	2,296.50CR	216,842.34	2,296.50CR	244,400.34
Reg Liab-Deficit Def Depr FIT				
256232 Reg Liab-Exc Def Depr SIT	4,057.00	1,508,343.50CR	4,057.00	1,557,027.50CR
Reg Liab-Exc Def Depr SIT				
256250 Reg Liab-Cost of Removal RW	122,652.37CR	11,440,129.13CR	118,154.93CR	10,097,467.97CR
Reg Liab-Cost of Removal RW				
256310 Reg Liab-ITC Gross-Up 3%	3,774.99	17,125.30	13,051.90CR	13,051.90CR
Reg Liab-ITC Gross-Up 3%				
256311 Reg Liab-ITC Gross-Up 4%	432.00	57,320.75CR	432.00	62,504.75CR
Reg Liab-ITC Gross-Up 4%				
256312 Reg Liab-ITC Gross-Up 10%	355.83	31,811.04CR	355.83	36,081.00CR
Reg Liab-ITC Gross-Up 10%				
3,252.33	3,252.33	493,325.03CR	3,252.33	532,352.99CR
Reg Liab-ITC Gross-Up 10%				
101,343.14CR	101,343.14CR	14,405,751.98CR	113,672.59CR	13,303,678.90CR
B58 Deferred Regulatory Liability				
B59 Other Deferred Credits				
256335 Reg Liab-Gain on Debt Exting	10,875.79	511,162.13CR	10,875.79	641,671.61CR
Reg Liab-Gain on Debt Exting				
256340 Regulatory Liab - Other				
Regulatory Liab - Other				
262120 DCA-Accr Pension Def Benefit	196,841.00	1,114,847.28CR	148,041.43CR	1,464,055.97CR
DCA-Accr Pension Def Benefit				
262210 DCA-Accr OPEB	92,811.08CR	299,735.58CR	100,637.00CR	300,978.00CR
DCA-Accr OPEB				
262215 DCA-Accr OPEB Med Subsidy	3,370.53CR	177,116.36CR	5,921.64CR	132,001.06CR
DCA-Accr OPEB Med Subsidy				
262313 DCA-FAS 112 Costs		61,130.00CR		61,130.00CR
DCA-FAS 112 Costs				
262315 Accr Div Equivalents	108.00CR	1,778.00CR	257.00	580.00CR
Accr Div Equivalents				
262398 DCA-Other				
DCA-Other				
265800 FIN 48 Reserve - Federal	1,596,492.00CR	1,596,492.00CR		
FIN 48 Reserve - Federal				
265810 FIN 48 Reserve - State	287,434.00CR	287,434.00CR		
FIN 48 Reserve - State				
1,772,498.82CR	1,772,498.82CR	4,049,695.35CR	243,467.28CR	2,600,416.64CR
B59 Other Deferred Credits				
B62 CIAC				
271110 CIAC-NT Mains		16,653,115.69CR	22,879.39CR	16,302,886.62CR
CIAC-NT Mains				
271120 CIAC-NT Ext Dep		11,079,000.62CR	119,523.90CR	11,046,774.34CR
CIAC-NT Ext Dep				
271130 CIAC-NT Services				

American Water Works Company
 Kentucky-American Water-
 Total Company (USGAAP)
 Trial Balance
 For the Period Ending 03/31/2010

Description	March Activity	March Balance	Prior Year Activity	Prior Year Balance
271140 CIAC-NT Services	63,769.95CR	16,686,911.41CR	50,154.00CR	15,515,910.11CR
271140 CIAC-NT Meters		709,078.24CR		577,028.33CR
271150 CIAC-NT Hydrants	.02	1,586,751.82CR	24,589.14CR	1,515,299.89CR
271160 CIAC-NT Other		4,724,144.63CR	35,978.37CR	4,698,919.76CR
271170 CIAC-NT WIP	27,233.00CR	107,416.00CR	62,640.01	105,367.37CR
271180 CIAC-NT Non-Util Prop		249,724.86CR		249,724.86CR
271210 CIAC-Tax Mains		1,998,493.38CR		1,998,493.38CR
271220 CIAC-Tax Ext Dep		766,585.92CR		766,585.92CR
271230 CIAC-Tax Services		6,763,292.01CR	67,241.00CR	6,608,539.01CR
271240 CIAC-Tax Meters	22,080.00CR			
271250 CIAC-Tax Hydrants		3,299.01CR		3,299.01CR
271260 CIAC-Tax Other		487,486.50CR		487,486.50CR
271270 CIAC-Tax WIP		440,902.80CR		440,902.80CR
272010 Accum Amort CIAC-Mains				378,786.29
272040 Accum Amort CIAC-Meters				35,022.86
272050 Accum Amort CIAC-Hydrants				5,907.84
272060 Accum Amort CIAC-Other	96,405.72	13,914,338.27	92,031.03	12,364,951.95
272100 Accum Amort CIAC-Taxable	23,632.96	848,725.06	23,135.15	566,978.18
B62 CIAC	6,955.75	47,493,149.56CR	142,559.61CR	46,965,570.78CR
00012 Kentucky-American Water Co.	546,475.62CR	950,512.65	678,273.06CR	275,025.29

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller

12. Accounting Manuals. Please provide a complete copy of all of the Company's internal accounting manuals, directives, policies and procedures.

Response:

The policies/procedures responsive to this question are confidential and proprietary, and, therefore, the Company has filed a Petition for Confidential Treatment contemporaneously with these responses. The Company will provide copies of the requested documents to all parties in this case upon execution of an appropriate confidentiality agreement.

Any new policies/procedures were provided under Confidential Treatment in response to KAW_R_PSCDR1#2_031610.pdf.

For the electronic version of this response, refer to KAW_R_AGDR1#12_CONF_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Michael A. Miller**

13. Please provide a list of all internal audit reports for 2008 through 2010 to date for departments and/or operations which charge costs to KAWC.

Response:

See the list below:

<u>Date</u>	<u>Functional Area</u>	<u>Subject</u>
1-23-08	Benefit Services Center	Pension
3-27-08	AWWSC	Supply Chain-Procurement
4-21-08	General Accounting	Property Tax
5-09-08	ITS	IS Policy Compliance-JDE & ECIS
6-30-08	ITS	IT Infrastructure Change Control
8-01-08	HR	HR Performance Management
9-15-08	Customer Service Center	Accts. Rec./Reporting
10-03-08	Operations	Operations Performance of Call Center Generated Work
10-31-08	All	P-Card Follow-up
11-03-08	ITS	Disaster Recovery
11-19-08	All	Capital Expend. Program & Project Management
1-08-09	AWWSC	Allocations
3-30-09	AWWSC	AWWSC Financial Reporting, including Hyperion System
7-09-09	All	Physical Security of Facilities

For the electronic version, refer to KAW_R_AGDR1#13_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Sheila Miller

14. Gross Revenue Conversion Factor (GRCF). Refer to Exhibit 37, Schedule H.
- a. Show in detail how the Uncollectibles factor was derived. Include all supporting calculations in Excel. Include all supporting workpapers and documentation.
 - b. Show in detail how the PSC Fees factor was derived. Include all supporting calculations in Excel. Include all supporting workpapers and documentation.

Response:

- a. The uncollectibles factor was derived by dividing the year ending 2009 uncollectible account balance by the 2009 billed revenues. The hard copy workpapers can be found in response to KAW_R_PSC1#1a_WP3-10_031610 pages 5 and 6 of 9. The excel calculations can be found in response to KAW_R_AGDR1#1_042610 on the enclosed CD in the file labeled as Customer Acctg 10.xls
- b. The PSC fee factor was derived by dividing the current year PSC fee paid by the prior year gross revenues. The Company calculated the last three years and utilized a three year average PSC fee factor which was applied to the forecasted revenues. The hard copy workpaper can be found in response to KAW_R_PSCDR1#1a_WP5-2_031610 page 1 of 11. The excel calculation can be found in response to KAW_R_AGDR1#1_042610 on the enclosed CD in the file labeled as GENTAXES10.XLS.

For the electronic version of this response, refer to KAW_R_AGDR1#14_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller

15. Please provide a copy of all incentive compensation/bonus plans and provide the level of related bonus payments included in 2008, 2009, 2010 and for the forecast test year. In addition, please provide the level of bonus payments included in the Company's future test year cost of service.

Response:

Attached are the incentive plans and the level of incentive plan payments included in 2008, 2009, 2010 and for the test year and future test year. Also attached are the Service Company incentive plan expenses included in Management Fees and charged to KAWC for the years 2008, 2009, the test year and future test year. For recap of the stock based compensation amounts see the response to KAW_R_AGDR1#47_042610.

For the electronic version of this response, refer to KAW_R_AGDR1#15_042610.pdf.

Kentucky American Water Company
Data Request AG 15 Attachment A
Incentive Plan Payments

Employee #	Employee Name	BU #	Job Title	2008			2009	2010	Future
				AIP	LTIP	Ret/Compl	AIP	AIP	Test Year AIP
12000086	Anderson, Richard T.	120114	Specialist Engrg (N)	2,429			2,313		
12000114	Ballard, Patricia L.	120121	Exec Secretary (N)	2,612			584		
12000101	Braxton, Donna L.	120118	Mgr Human Resources				11,933	18,157	14,766
12000128	Bridwell, Linda C.	120114	Mgr Engrg - Project Delivery	19,351			17,256	25,160	21,767
12000017	Brumfield, Robert	120114	Specialist Engrg (N)	2,896			2,793		
12000080	Buchanan, Richard A.	123301	Supvr Opns I	7,429			7,502	9,150	7,837
12000002	Buckner, William S.	120206	Supvr Field Operations	6,709				4,891	7,859
12000125	Buehler, Pamela	120118	Specialist Human Resources (N)	2,237			2,189		
50066495	Carr, Shana D.	125001	Specialist Water Quality	2,320			2,309	2,245	2,812
50085740	Cartier, Keith	120105	VP Operations (Large)	19,579			22,450	39,148	29,428
12000096	Cole, Rachel S.	120105	Supvr Business Process	6,472			6,386	10,785	7,675
12000142	Combs, Mitzi R.	120251	Supvr Production	5,758			5,773	7,518	7,372
12000117	Coy, Timothy	120201	Supvr Production	2,443			2,435	5,826	5,673
12000005	Farmer, Danny R.	120114	Supvr Storeroom	5,011			4,779	1,612	
12000075	Felts, Jon W.	120206	Specialist Operations (N)				2,233		
12000123	Floyd, Elizabeth A.	120206	Specialist Operations (N)	2,382			2,326		
50271711	Galavotti, Michael D.	120114	Sr Project Engr	11,609			11,484	14,043	13,754
50395960	Golden, Ray	120121	Manager External Affairs						13,844
50299154	Golden, Virginia-Bibb W.	120114	Supvr Storeroom	5,609			5,636	6,788	6,640
12000120	Griffin, Dillard	120206	Mgr Field Operations	14,639			18,731	30,879	23,439
50413314	Hack, John-Mark B.	120122	Dir Govt Affairs (State)				10,785	24,290	23,814
12000068	Hawthorne, Richard B.	120114	Specialist Engrg (N)	2,380			2,328		
50285333	Hurt, Jason M.	120114	Engineering Project Manager	6,196			6,155	7,472	7,345
12000127	Jackson, Jarold T.	120206	Supvr Field Operations	8,337				8,849	8,647
12000038	Johnson, Dorothy J.	123017	Specialist Water Quality	2,639			2,591	3,160	2,903
50273918	Kruchinski, Ronald K.	120252	Supvr Production WTP	2,397			2,387	7,923	6,975
12000073	Mattingly, Marion W.	120206	Supvr Field Operations	6,973			6,563	6,855	8,192
50491468	Money, Mary G.	120105	Mgr Finance (State)					4,976	14,766
12000103	Mullins, Mark E.	120201	Supvr Production	6,110			6,021	5,148	7,201
12000143	Owens, Stacy R.	120206	Supvr Field Operations	5,491			5,954		
50329350	Ramey, Karin J.	120114	Specialist Operations (N)	1,869			2,062		
12000067	Roney, Roy K.	120217	Sr Specialist Cross Connect(N)	1,854			2,246		
12000076	Rookard, Paul E.	120206	Supvr Field Operations	5,850					
50059079	Ross Sr., Frank A.	120119	Supvr Loss Control	6,777			6,377	4,726	7,557
12000052	Rowe, Nick O.	120105	President (States)	50,183	110,077	76,000			
12004012	Shehee, David B.	123017	Supvr Wtr Qlty & Envrn Cmpl	6,468			6,454	7,729	7,519
12000147	Shryock, Michael W.	120113	Sr Spec Computer Supp ITS (N)				5,908		
12000100	Siler, Bryan V.	120206	Specialist Operations (N)	5,825			2,766		
12000036	Slone, Peggy A.	120105	Exec Asst (N)	2,577			2,548		
50230952	Swope, Valeria R.	120121	Specialist Communications	2,579					
12007090	Tomko, Gregory V.	120114	Engineering Project Manager	6,507			6,449	5,750	7,572
12007318	Tudor, Carol F.	123305	Specialist Service Delivery	2,565			2,490	2,677	2,702
	Vacant	120114	Engineer						6,153
	Vacant	120201	Mgr Production						22,645
	Vacant	120114	Planning Engineer						7,282
12007131	Walker, Shannyn C	120206	Supvr Field Operations	5,962			5,876	8,397	7,284
3016239	Walker, Takisha D.	120206	Supvr Field Operations					2,884	7,059
12000156	Walters, Mark A.	120206	Supvr Field Operations	3,085			4,329	5,016	6,027
12000066	White, Joe C.	120101	Supvr Production	6,803			6,677	4,706	
12000047	White, William F.	120206	Supt Field Operations	9,514					
12000116	Whitehouse, David M.	120122	Dir Govt Affairs (State)	-					
50416677	Williams, Lance E.	120114	Dir Engineering (Large)				10,475	25,394	25,020
12000159	Witherite, Richard L.	120206	Clerk Opns (N)				1,793		
50401265	Wright, Brian F.	120121	Mgr Ext Affairs (State)				7,060		
Total				278,428	110,077	76,000	245,403	312,153	349,529

**Kentucky American Water Company
Data Request AG 15 Attachment B
Incentive Plan Expense**

Service Company Incentive Plan Expense Charged to KAWC:

	<u>AIP</u>	<u>LTIP</u>	<u>Ret/Compl</u>	<u>Total</u>
2008	304,619	(4,812)	25,328	325,135
2009	359,440			359,440
Test Year	420,548	11,918	99	432,564
Future Test Year	391,863			391,863



AMERICAN WATER

2009 Annual Incentive Plan Highlights Brochure

February 2009

Table of Contents

THE 2009 AMERICAN WATER ANNUAL INCENTIVE PLAN	1
Your Performance — Your Award	1
Eligibility	2
Why Change?	3
DETERMINING AIP AWARDS.....	4
Step 1: Establish initial award pool based on overall corporate performance	4
Step 2: Allocate overall corporate funding to organizational groups/ functional areas, and adjust specific organizational group/functional area funding to reflect results	6
Step 3: Determine individual AIP award based on (a) individual performance, and (b) available organizational group/functional area funding; awards are paid from applicable organizational group/functional area award pool	7
WHAT THE 2009 AIP MEANS FOR YOU.....	8
Performance Ratings	8
Award Payout Examples	9
Receiving Your AIP Award.....	11
FREQUENTLY ASKED QUESTIONS.....	12

THE 2009 AMERICAN WATER ANNUAL INCENTIVE PLAN

Your Performance — Your Award

At American Water, your performance counts. We rely on our employees' knowledge and skills to help the Company achieve its business objectives.

The American Water 2009 Annual Incentive Plan (AIP) is designed to give eligible exempt employees an annual opportunity to earn a cash award that recognizes and rewards their contributions to the Company's success. We have made significant changes to the AIP design to reinforce the link between Company and individual performance and award payouts. This means that Company and individual performance are both taken into account to determine cash awards under the plan. Starting with the 2009 AIP:

- We are adopting a **new approach to AIP funding** that directly ties the amount of available cash for AIP payouts to Company performance against specific metrics. Additionally, AIP funding for all eligible, exempt employees — regardless of role — will depend on the Company's achieving its financial and non-financial goals.
- Your **individual performance will play a greater role in determining the amount of your payout**. Employees who exceed their performance targets could receive significantly higher payouts. Conversely, employees who underperform and do not meet their performance targets could receive lower payouts or no payout at all. In short, *your* performance directly impacts the amount of *your* award.

The 2009 AIP is designed to challenge and motivate you to perform at your highest level, and promote the creation of shareholder value. Read this brochure to learn about how the 2009 plan works and what it means for you and your AIP award going forward.

The 2009 AIP	
What's Changing	What's Staying the Same
<ul style="list-style-type: none"> ■ Awards are more closely aligned with the Company's ability to fund the award and with individual performance. ■ AIP award pool funding is based on overall corporate performance against specific financial and non-financial goals (represented by the Corporate Multiplier), then allocated across organizational groups/functional areas — at senior management's discretion — depending on organizational group/functional area results. <ul style="list-style-type: none"> ■ AIP funding for all employees — regardless of your role or position in the Company — depends on the Company achieving its financial as well as non-financial goals. ■ Financial metrics updated to reflect Diluted Earnings per Share. ■ Individual award payouts will be based on individual performance against specific goals (represented by the Individual Performance Factor) and paid from available organizational group/functional area funding. ■ For 2009, the Individual Performance Factor range has been changed from 0%-120% to 0%-200%. Individual payouts will be capped at 200% of AIP target award. 	<ul style="list-style-type: none"> ■ Award opportunity (Target Award) is still expressed as a percentage of base salary. (See Attachment B). <ul style="list-style-type: none"> ■ Actual payout may be lower or higher than target depending on Company and individual performance against specific goals. ■ Individual performance is assessed by your manager and measured against your pre-determined performance goals. ■ Your AIP will be distributed as a cash award in March. <ul style="list-style-type: none"> ■ You must be actively employed with American Water on the date awards are made to receive your 2009 AIP payout. ■ If you are disabled, retire, experience a layoff or die, you or your beneficiary may be eligible to receive an award prorated to reflect your service during the plan year.

Eligibility

- You are eligible for an AIP award opportunity if you are a full-time exempt employee of American Water. Eligible exempt employees who join American Water on or before September 30, 2009 are also eligible to participate in the AIP on a prorated basis. Employees transferred from nonexempt to exempt status on or after September 30th are not eligible in the transfer year.

- You must be an active employee with American Water on the date the payout is made in order to receive the award. In certain circumstances, such as disability, retirement, layoff or death, an award may be made — prorated to reflect your service during the plan year.
- If you are promoted during the plan year to a position with a *higher* AIP target level, or if you are reclassified to a position with a *lower* AIP target level, your award payout will be based on your new target level as of December 14, 2009.
- If your performance or Company performance falls below “Adequate” or “Too Soon to Rate,” you will not receive a payout.

Why Change?

Since the value (as reflected in our share price and our return to shareholders) and success of our business depend on the achievement of annual Company and individual performance goals, American Water recognizes the need to differentiate and reward the performance of employees who enable us to reach these goals. The 2009 AIP is designed to ensure that award payouts are directly tied to measurable contributions — both Company and individual — to American Water’s success.

DETERMINING AIP AWARDS

AIP award payouts depend on individual performance; they also depend on overall corporate performance and organizational group/functional area results (which determine award pool funding).

AIP awards will be determined according to the following three-step process:

Step 1:	Establish initial award pool based on overall corporate performance
Step 2:	Allocate overall corporate funding to organizational groups/functional areas, and adjust specific organizational group/functional area funding to reflect results
Step 3:	Determine AIP award based on individual performance; awards are paid from available organizational group/functional area funding

Step 1: Establish initial award pool based on overall corporate performance

Each year, American Water establishes funding for the AIP award pool. Starting in 2009, the funding will be directly tied to Company performance and represented by the **Corporate Multiplier**. The

Corporate Multiplier can range from 0% to 150% depending on how well the

Company performed against the financial and non-financial goals described below. Note that a pre-

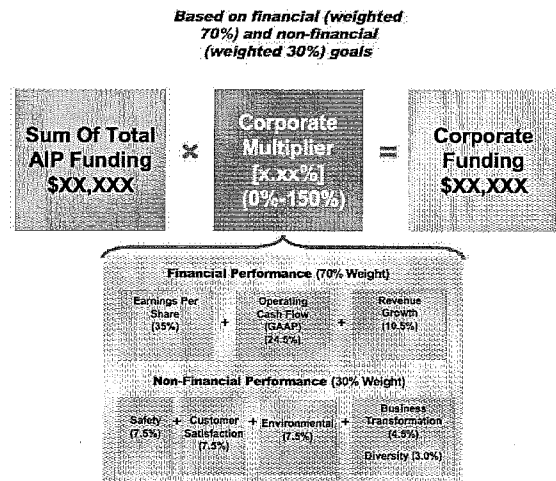
determined **threshold** for Company performance - **2009 Diluted Earnings**

Per Share (EPS) must be at least

90.9% of target - must be met in order

for funding and any award to be

provided under the AIP.



■ **Financial Metrics (Weighted 70%) (See Attachment A)**

- *Diluted Earnings Per Share (35%)* is a widely tracked measure of financial performance/profitability, and is calculated as follows:

$$\begin{array}{r}
 \text{Net Income to Common Stockholders} \\
 \div \\
 \text{Average Outstanding Shares (including dilutive securities such as} \\
 \text{stock options)} \\
 = \\
 \text{Diluted Earnings per Share}
 \end{array}$$

- *Operating Cash Flow (GAAP) (24.5%)* reflects the amount of cash generated from our operations and is used as an additional measure of profitability. Operating cash flow is calculated as follows:

$$\begin{array}{r}
 \text{Net Income} \\
 + \\
 \text{Depreciation and Amortization} \\
 - \\
 \text{Deferred Expenses} \\
 +/- \\
 \text{Changes in Payables and Receivables} \\
 = \\
 \text{Operating Cash Flow}
 \end{array}$$

- *Revenue Growth (10.5%)* is a measure of how quickly our business is growing and reflects the percentage of planned increase in revenues achieved.

■ **Non-Financial Metrics (Weighted 30%)***

- Safety (7.5%)
- Environmental (7.5%)
- Customer Satisfaction (7.5%)
- Business Transformation (4.5%)
- Diversity (3.0%)

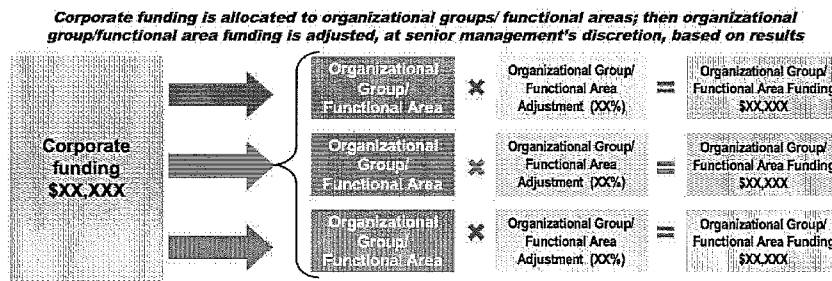
**These outcomes are based on a combination of surveys, end-of-year results, data and other annual reports (see Attachment A at the back of this brochure).*

Please note that AIP funding for all employees (regardless of role or position) will depend on how well the Company achieves its financial goals as well as non-financial goals.

The financial and non-financial metrics are added together to determine the Corporate Multiplier. So, even if certain metrics are not achieved, the funding may be reduced, but not eliminated altogether. However, if the Company's financial performance does not meet the threshold, the Corporate Multiplier will be reduced to zero, which would eliminate your award payout (as indicated in the examples on page 10). The Corporate Multiplier (and thus funding for payouts) may be adjusted to take into account "uncontrollable events" including — but not limited to — severe weather conditions that significantly impact financial results (i.e., hurricanes), impairment charges, dissolution or acquisition of businesses or costs related to public offerings.

Step 2: Allocate overall corporate funding to organizational groups/ functional areas, and adjust specific organizational group/functional area funding to reflect results

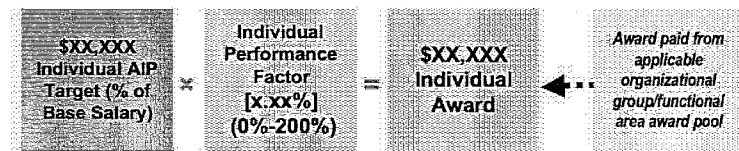
Once the overall corporate funding is determined as described under Step 1, senior management will allocate the Corporate funding to American Water's organizational groups and functional areas. The funding for each organizational group/functional area may be increased or decreased, at senior management's discretion, to reflect specific organizational group/functional area results.



Step 3: Determine individual AIP award based on (a) individual performance, and (b) available organizational group/functional area funding; awards are paid from applicable organizational group/functional area award pool

Your **AIP target award** (i.e., your award opportunity) is based on your role or position with the Company and is expressed as a percentage of your base salary. Your actual award payout may be higher or lower than target depending on whether individual and Company performance goals have been met, and your organizational group's/functional area's results. Contact your manager for information on your individual AIP Target Award.

Your individual performance factor is based on: (a) your performance against specific targets, and (b) the amount of organizational group/functional area funding available.



The sum of individual awards for a specific organizational group/functional area must equal the funding allocated to that organizational group/functional area.

The **Individual Performance Factor** represents how well you achieve your annual individual performance goals. Your Individual Performance Factor can range from 0% to 200%, depending on your performance for the plan year and the amount of organizational group/functional area funding available. This performance factor will then be multiplied by your Target Award to determine your 2009 AIP award payout. Individual payouts will be capped at 200% of AIP target award.

Individual AIP awards are then paid from the applicable organizational group/functional area award funding. The sum of all individual awards within a given organizational group/functional area may not exceed its allocated pool of dollars.

WHAT THE 2009 AIP MEANS FOR YOU

Performance Ratings

Most people are motivated to do their best; therefore the better you perform, the greater your potential award will be under the Plan. It is your responsibility to maximize your award opportunity by achieving or exceeding your goals.

Each year, you and your manager identify four to six high priority and challenging performance targets, which represent where you can directly impact the Company's success. These performance targets and their weightings should be specific, measurable and aligned with the Company's performance targets. During your year-end performance review, you and your manager will discuss how well you performed against the established targets, and rate your performance using one of the following performance ratings:

2009 Performance Rating Scale	
Rating	Description
Exceptional	Contributions are widely recognized as extraordinary. Results far exceed all defined expectations, producing important and substantial impact on the Company, Division, Operating Company, Line of Business or Function.
Significant	Contributions are widely recognized as distinguished. Results exceed all or most expectations, producing a tangible and material impact on the Company, Division, Operating Company, Line of Business or Function.
Commendable	Contributions are widely recognized as meaningful. Results meet, and in some cases exceed expectations, producing a positive and desirable impact on the Company, Division, Operating Company, Line of Business or Function.
Adequate	Contributions are widely recognized as limited. Results meet and in some cases fall slightly short of expectations, producing inconsistent and marginal impact on the Company, Division, Operating Company, Line of Business or Function.
Unacceptable	Contributions are widely recognized as unsatisfactory. Results fall considerably short of expectations, producing negligible or no impact on the Company, Division, Operating Company, Line of Business or Function.
Too Soon to Rate	Contributions cannot be measured at this time because more time is needed to see a result.

Later, during the AIP process, your manager will use your rating to determine your Individual Performance Factor. Depending on how you performed during the year, you could potentially earn a higher payout than in previous years — or you could earn a lower payout or no payout at all (as the examples on the following page demonstrate). In other words, the new AIP design gives you more power than ever before to impact the size of your award. It also means that you are more accountable than ever before for meeting your goals.

Award Payout Examples

Let’s calculate possible award payouts for a sample AIP participant, under four possible scenarios:

AIP Participant Assumptions				
Salary Level	L07			
Annual Base Salary	\$90,000			
Individual AIP Target	\$13,500 (15% of Base Salary)			
Total of all AIP Targets	\$20,000,000			
Total AIP for Organizational Group	\$2,000,000			
	Performance			
	Scenario 1	Scenario 2	Scenario 3	Scenario 4
■ Company	Above Target	Target	Threshold	Below Threshold
— Financial Performance Factor	1.39	0.94	0.50	0.00
— Non-Financial Performance Factor	0.77	1.12	0.50	0.00
■ Individual	Adequate	Significant	Adequate	Commendable
— Individual Performance Factor	0.80	1.50	0.40	1.00

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
STEP 1: Establish corporate funding based on overall corporate performance				
Total of AIP Targets (A)	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000
Financial Performance Factor (i) (70% weight)	$1.39 \times 0.70 =$ 0.97	$0.94 \times 0.70 =$ 0.66	$0.50 \times 0.70 =$ 0.35	$0.00 \times 0.70 =$ 0.00
Non-Financial Performance Factor (ii) (30% weight)	$0.77 \times 0.30 =$ 0.23	$1.12 \times 0.30 =$ 0.34	$0.50 \times 0.30 =$ 0.15	$0.00 \times 0.30 =$ 0.00
i + ii = Corporate Multiplier (B)	1.20	1.00	0.50	0.00
A × B = Corporate Funding	$\$20,000,000 \times 1.20 =$ $= \$24,000,000$	$\$20,000,000 \times 1.00 =$ $= \$20,000,000$	$\$20,000,000 \times 0.50 =$ $= \$10,000,000$	$\$20,000,000 \times 0.00 =$ $= \$0$
STEP 2: Allocate overall corporate funding to organizational groups/functional areas; adjust specific organizational group/functional area funding to reflect results				
Organizational Group Pool (C) (Allocated from corporate funding)	\$2,400,000	\$2,000,000	\$1,000,000	\$0
Organizational Group Adjustment (D)	1.00 (Target)	.80 (Below Target)	1.20 (Above Target)	1.00 (Target)
C × D = Organizational Group Pool (adjusted based on results)	$\$2,400,000 \times 1.00 =$ $= \$2,400,000$	$\$2,000,000 \times 0.80 =$ $= \$1,600,000$	$\$1,000,000 \times 1.20 =$ $= \$1,200,000$	$\$0 \times 1.00 =$ $= \$0$
STEP 3: Determine individual award based on individual performance and available organizational group/functional area funding; awards are paid from applicable organizational group/functional area award pool				
Individual AIP Target (E)	\$13,500	\$13,500	\$13,500	\$13,500
Individual Performance Factor (F) (Range of 0 – 2.00)	0.80 (Adequate)	1.50 (Significant)	0.40 (Adequate)	1.00 (Commendable)
E×F = Individual Award	$13,500 \times 0.80 =$ \$10,800 (80% of AIP target)	$13,500 \times 1.50 =$ \$20,250 (150% of AIP target)	$13,500 \times 0.40 =$ \$5,400 (40% of AIP target)	$13,500 \times 1.00 =$ $= \$13,500$ however, payout will be \$0 since award pool = \$0

As you can see, both Company and individual performance can significantly impact your final payout. Also, remember that the sum of individual awards for a specific organizational group/functional area must equal the funding allocated to that organizational group/functional area.

Please discuss the new AIP process with your manager to ensure you clearly understand how the new formula works and how your performance impacts your potential award payout.

Receiving Your AIP Award

Awards will be paid in cash by March 15 of the year following the year in which they are earned. If you're eligible for an award payout, please keep in mind that:

- The payout will be based on your salary as of December 14, 2009 and subject to all federal, state and local income tax withholdings.
- The American Water Board, or its Designee, reserves the right to determine whether awards are payable to any individual or group of individuals; the Board may withhold all award payouts in certain circumstances.

Remember, it's your performance — and your award: The contributions you make to American Water's success throughout the year ultimately impact the size of your payout. Be sure to carefully review this brochure; then speak with your manager about the new AIP and about what you can do to improve your performance and share the financial rewards of American Water's success.

FREQUENTLY ASKED QUESTIONS

Question	Answer
<p>Why is American Water making changes to the AIP?</p>	<p>American Water changed the AIP to allow us to differentiate and reward the performance of employees who contribute to the achievement of the Company's goals. The 2009 AIP directly ties award payouts to measurable contributions (Company and individual) to American Water's success.</p>
<p>Who is eligible for the AIP?</p>	<p>All full-time exempt employees are eligible to participate. If you join American Water on or before September 30, 2009, you are also eligible to participate in the plan on a prorated basis.</p>
<p>What do I have to do to receive an AIP award?</p>	<p>If you are eligible for an AIP award opportunity, any payout you receive will depend largely on your performance, as well as on Company performance (including financial and non-financial), which determines funding.</p> <p>If your performance is rated "Adequate" or higher, you may receive an award payout — but only if threshold Company performance metrics have been met. If your performance or Company performance falls below "Adequate" or "Too Soon to Rate," you will not receive a payout. To maximize your award opportunity, it's important to meet with your manager to establish meaningful performance goals, then work hard throughout the year to achieve those goals.</p>
<p>How is my AIP target award opportunity determined? How can I find out what it is?</p>	<p>Your AIP target award opportunity is based on your role and expressed as a percentage of your base salary. Please see your manager to learn more about your target award opportunity for 2009.</p>
<p>How will my AIP award payout be calculated? How does this differ from the 2008 award calculation?</p>	<p>The size of the pool which funds your award is determined based on overall corporate performance, adjusted to reflect specific organizational group/functional area results. AIP funding for all employees, regardless of role or position, will depend on the Company achieving its non-financial as well as financial goals. Once individual awards are calculated, they are paid from the applicable organizational group/functional area funding.</p> <p>Under the 2008 AIP, financial, non-financial and individual results were weighted and the results were <i>added</i> together to determine the final payout. Also, non-financial goals did not</p>

Question	Answer
	<p>apply to all employees in all roles and positions.</p> <p>All AIP payouts are subject to approval by the American Water Board.</p>
<p>What is the minimum and maximum that could be paid under the plan (as a percent of target)?</p>	<p>AIP award payouts could range from zero, to a maximum of two times the participant's target award (i.e., Individual Performance Factor of 200%). Payouts are capped at 200% of AIP target award.</p>
<p>Will I receive an award payout if I meet my individual performance goals but the Company <i>does not</i> achieve minimum (threshold) performance?</p>	<p>No. Award payouts will be made only if both the Company and the individual have met the minimum (or threshold) performance goals for the year.</p>
<p>What happens if I leave American Water before I receive my award payout?</p>	<p>To receive the award payout to which you are entitled, you must be actively employed with American Water on the date the payment is to be made. If you are disabled, retire, experience a layoff or die during the plan year, you or your beneficiary may be eligible to receive an award, prorated to reflect your service during the year.</p>
<p>Do the AIP changes for 2009 affect my 2008 award?</p>	<p>No. The changes to the AIP for 2009 will be reflected in your March 2010 award payout.</p>
<p>What happens if I change job positions within American Water during the plan year?</p>	<p>If you are promoted during the plan year to a position with a <i>higher</i> AIP target level, or if you are reclassified to a position with a <i>lower</i> AIP target level, your award payout will be based on your salary and target level percentage as of December 14, 2009.</p>

This brochure provides an overview of the 2009 American Water Annual Incentive Plan. The American Water Board or its Designee, whose decisions will be final and binding, will determine interpretations of the Plan. The Company reserves the right to amend, modify, or discontinue the Plan during the plan year or at any time in the future. Participation in the Plan does not convey any commitment to ongoing employment. If there are any differences between the information contained here and the Plan Document, the Plan Documents will govern.

2009 AIP FINANCIAL PAYOUT CURVE

Diluted Earnings Per Share (EPS), Operating Cash Flow, Revenue Growth

<u>% Target Achieved</u>	<u>% Payout</u>
115%	150%
112%	140%
109%	130%
106%	120%
103%	110%
100%	100%
98.2%	90%
96.4%	80%
94.5%	70%
92.7%	60%
90.9%	50%
<90.9%	0%

2009 AIP NON-FINANCIAL MEASURES

Environmental Compliance

For determining environmental compliance, AW will count Notices of Violation (NOV) for which the Company is responsible as described in the Environmental Non-Compliance Reporting Practice. For 2009 AW will continue to use the NOV target of 21.

NOVs	Award
11	150%
13	140%
15	130%
17	120%
19	110%
21	100%
23	90%
25	80%
27	70%
29	60%
30	50%
>30	0%

Safety Performance

Safety performance will be determined using the total OSHA Recordable Incident Rate (ORIR) for American Water. ORIR measures all injuries and illnesses requiring treatment beyond first aid for every 200,000 hours worked. For 2009 the target has been set at 5.5 which is 5% below the Bureau of Labor Statistics (BLS) Water Utility Average ORIR of 5.8.

ORIR	Award
4.5	150%
4.7	140%
4.9	130%
5.1	120%
5.3	110%
5.5	100%
5.7	90%
5.9	80%
6.1	70%
6.3	60%
6.5	50%
>6.5	0%

2009 AIP NON-FINANCIAL MEASURES

Service Quality

This metric is measured by the Service Quality Survey (SQS) which is conducted throughout the year for customers having had recent contact with an AW Customer Service Representative (CSR) or Field Service Representative (FSR). The score is based on SQS Q29: "Overall, how satisfied were you with the outcome of your service contact?" taking the top two response categories (extremely satisfied or very satisfied) of a 5 point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied). The AW target for 2009 is 85% which is 2% higher than the 2008 target.

SQS %	Award
90	150%
89	140%
88	130%
87	120%
86	110%
85	100%
84	90%
83	80%
82	70%
81	60%
80	50%
< 80	0%

Customer Satisfaction

This metric measures overall customer satisfaction through an annual survey containing the following question, "Overall, how satisfied have you been with (Company Name) in general during the past twelve months", which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied), response percentages in the top three categories are indicative of overall customer satisfaction levels and a 90% target has been set.

CSS%	Award
95	150%
94	140%
93	130%
92	120%
91	110%
90	100%
89	90%
88	80%
87	70%
86	60%
85	50%
<85	0%

2009 AIP NON-FINANCIAL MEASURES

Business Transformation

- Approval and sign-off by each process area's Advisory Council. Each Council includes at least two state presidents, process owners, and significant internal customers.
- Also, approval and sign-off required by Business Transformation Steering Committee that includes President of AW Regulated Operations, President of AW Services Company, SVP & Chief Financial Officer, and SVP Human Resources.

Diversity

- Complete diversity awareness training for all ML-4 and above
- 25% of selection pool for L-5 positions will be diversity candidates
- 50% of strategic sourcing events will include a pre-qualified diverse supplier/contractor

2009 ANNUAL INCENTIVE PLAN TARGETS

EXEMPT POSITIONS	
Grade	AIP %
L5 – L6	20%
L7	15%
L8-L9	10%
L10 – L12	5%

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN

AMERICAN WATER WORKS COMPANY, INC.

2007 OMNIBUS EQUITY COMPENSATION PLAN

1. Purpose

The purpose of the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") is to provide (i) designated employees of American Water Works Company, Inc. (the "Company") and its subsidiaries and (ii) non-employee members of the board of directors of the Company with the opportunity to receive grants of stock options, stock units, stock awards, stock appreciation rights and other stock-based awards. The Company believes that the Plan will encourage the participants to contribute materially to the growth of the Company, thereby benefiting the Company's stockholders, and will align the economic interests of the participants with those of the stockholders.

2. Definitions

Whenever used in this Plan, the following terms will have the respective meanings set forth below:

(a) "*Board*" means the Company's Board of Directors.

(b) "*Change of Control*" shall be deemed to have occurred if:

(i) Any "person" (as such term is used in sections 13(d) and 14(d) of the Exchange Act) becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the voting power of the then outstanding securities of the Company; provided that a Change of Control shall not be deemed to occur as a result of (A) a transaction in which the Company becomes a subsidiary of another corporation and in which the stockholders of the Company, immediately prior to the transaction, will beneficially own, immediately after the transaction, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the parent corporation would be entitled in the election of directors, (B) the initial public offering of the Company Stock, or (C) any subsequent offering of shares of the Company Stock;

(ii) The consummation of (A) a merger or consolidation of the Company with another corporation where the stockholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the surviving corporation would be entitled in the election of directors, (B) a sale or other disposition of all or substantially all of the assets of the Company, or (C) a liquidation or dissolution of the Company; or

(iii) After the Effective Date, directors are elected such that a majority of the members of the Board shall have been members of the Board for less than one year, unless the

) election or nomination for election of each new director who was not a director at the beginning of such one-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

Notwithstanding the foregoing, the Committee may provide for a different definition of a "Change of Control" in a Grant Agreement if such Grant is subject to the requirements of section 409A of the Code and the Grant will become payable on a Change of Control.

(c) "*Code*" means the Internal Revenue Code of 1986, as amended.

(d) "*Committee*" means (i) with respect to Grants to Employees, the Compensation Committee of the Board or another committee appointed by the Board to administer the Plan, (ii) with respect to Grants made to Non-Employee Directors, the Board, and (iii) with respect to Grants that are intended to be "qualified performance-based compensation" under section 162(m) of the Code, a committee that consists of two or more persons appointed by the Board, all of whom shall be "outside directors" as defined under section 162(m) of the Code and related Treasury regulations.

(e) "*Company*" means American Water Works Company, Inc. and any successor corporation.

(f) "*Company Stock*" means the common stock of the Company, par value \$0.01 per share.

(g) "*Dividend Equivalent*" means an amount calculated with respect to a Stock Unit, which is determined by multiplying the number of shares of Company Stock subject to the Stock Unit by the per-share cash dividend, or the per-share fair market value (as determined by the Committee) of any dividend in consideration other than cash, paid by the Company on its Company Stock. If interest is credited on accumulated dividend equivalents, the term "Dividend Equivalent" shall include the accrued interest.

(h) "*Effective Date*" of the Plan shall mean the day immediately preceding the date of the Underwriting Agreement is executed and the Company Stock is priced for the initial public offering of such Company Stock.

(i) "*Employee*" means an employee of the Employer (including an officer or director who is also an employee), but excluding any person who is classified by the Employer as a "contractor" or "consultant," no matter how characterized by the Internal Revenue Service, other governmental agency or a court. Any change of characterization of an individual by the Internal Revenue Service or any court or government agency shall have no effect upon the classification of an individual as an Employee for purposes of this Plan, unless the Committee determines otherwise.

(j) "*Employer*" means the Company and its subsidiaries.

(k) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

(l) "*Exercise Price*" means the per share price at which shares of Company Stock may be purchased under an Option, as designated by the Committee.

(m) "*Fair Market Value*" of Company Stock means, unless the Committee determines otherwise with respect to a particular Grant, (i) if the principal trading market for the Company Stock is a national securities exchange, the last reported sale price of Company Stock on the relevant date or (if there were no trades on that date) the latest preceding date upon which a sale was reported, (ii) if the Company Stock is not principally traded on such exchange, the mean between the last reported "bid" and "asked" prices of Company Stock on the relevant date, as reported on the OTC Bulletin Board, or (iii) if the Company Stock is not publicly traded or, if publicly traded, is not so reported, the Fair Market Value per share shall be as determined by the Committee.

(n) "*Grant*" means an Option, Stock Unit, Stock Award, SAR or Other Stock-Based Award granted under the Plan.

(o) "*Grant Agreement*" means the written instrument that sets forth the terms and conditions of a Grant, including all amendments thereto.

(p) "*Incentive Stock Option*" means an Option that is intended to meet the requirements of an incentive stock option under section 422 of the Code.

(q) "*Non-Employee Director*" means a member of the Board who is not an Employee.

(r) "*Nonqualified Stock Option*" means an Option that is not intended to be taxed as an incentive stock option under section 422 of the Code.

(s) "*1933 Act*" means the Securities Act of 1933, as amended.

(t) "*Option*" means an option to purchase shares of Company Stock, as described in Section 7.

(u) "*Other Stock-Based Award*" means a grant that is based on, measured by or payable in Company Stock (other than an Option, Stock Unit, Stock Award or SAR), as described in Section 11.

(v) "*Participant*" means an Employee or Non-Employee Director designated by the Committee to participate in the Plan.

(w) "*Plan*" means this American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan, as may be amended from time to time.

(x) "*SAR*" means a stock appreciation right as described in Section 10.

(y) "*Stock Award*" means an award of Company Stock as described in Section 9.

(z) “*Stock Unit*” means an award of a phantom unit representing a share of Company Stock, as described in Section 8.

(aa) “*Underwriting Agreement*” means the agreement between the Company and the underwriter or underwriters managing the initial public offering of the Company Stock.

3. Administration

(a) Committee. The Plan shall be administered and interpreted by the Committee. Ministerial functions may be performed by an administrative committee comprised of Company employees appointed by the Committee.

(b) Committee Authority. The Committee shall have the sole authority to (i) determine the Participants to whom Grants shall be made under the Plan, (ii) determine the type, size and terms and conditions of the Grants to be made to each such Participant, (iii) determine the time when the Grants will be made and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability, (iv) amend the terms and conditions of any previously issued Grant, subject to the provisions of Section 18 below, and (v) deal with any other matters arising under the Plan.

(c) Committee Determinations. The Committee shall have full power and express discretionary authority to administer and interpret the Plan, to make factual determinations and to adopt or amend such rules, regulations, agreements and instruments for implementing the Plan and for the conduct of its business as it deems necessary or advisable, in its sole discretion. The Committee’s interpretations of the Plan and all determinations made by the Committee pursuant to the powers vested in it hereunder shall be conclusive and binding on all persons having any interest in the Plan or in any awards granted hereunder. All powers of the Committee shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated Participants.

4. Grants

(a) Grants under the Plan may consist of Options as described in Section 7, Stock Units as described in Section 8, Stock Awards as described in Section 9, SARs as described in Section 10 and Other Stock-Based Awards as described in Section 11. All Grants shall be subject to such terms and conditions as the Committee deems appropriate and as are specified in writing by the Committee to the Participant in the Grant Agreement.

(b) All Grants shall be made conditional upon the Participant’s acknowledgement, in writing or by acceptance of the Grant, that all decisions and determinations of the Committee shall be final and binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under such Grant. Grants under a particular Section of the Plan need not be uniform as among the Participants.

5. **Shares Subject to the Plan**

(a) **Shares Authorized.** The total aggregate number of shares of Company Stock that may be issued under the Plan is 6,000,000 shares, subject to adjustment as described in subsection (d) below.

(b) **Source of Shares; Share Counting.** Shares issued under the Plan may be authorized but unissued shares of Company Stock or reacquired shares of Company Stock, including shares purchased by the Company on the open market for purposes of the Plan. If and to the extent Options or SARs granted under the Plan terminate, expire, or are canceled, forfeited, exchanged or surrendered without having been exercised, and if and to the extent that any Stock Awards, Stock Units, or Other Stock-Based Awards are forfeited or terminated, or otherwise are not paid in full, the shares reserved for such Grants shall again be available for purposes of the Plan. Shares of Stock surrendered in payment of the Exercise Price of an Option, and shares withheld or surrendered for payment of taxes, shall not be available for re-issuance under the Plan. If SARs are granted, the full number of shares subject to the SARs shall be considered issued under the Plan, without regard to the number of shares issued upon exercise of the SARs and without regard to any cash settlement of the SARs. To the extent that a Grant of Stock Units is designated in the Grant Agreement to be paid in cash, and not in shares of Company Stock, such Grants shall not count against the share limits in subsection (a).

(c) **Individual Limits.** All Grants under the Plan shall be expressed in shares of Company Stock. The maximum aggregate number of shares of Company Stock with respect to which all Grants may be made under the Plan to any individual during any calendar year shall be 500,000 shares, subject to adjustment as described in subsection (d) below. The individual limits of this subsection (c) shall apply without regard to whether the Grants are to be paid in Company Stock or cash. All cash payments (other than with respect to Dividend Equivalents) shall equal the Fair Market Value of the shares of Company Stock to which the cash payments relate. A Participant may not accrue Dividend Equivalents during any calendar year in excess of \$750,000.

(d) **Adjustments.** If there is any change in the number or kind of shares of Company Stock outstanding (i) by reason of a stock dividend, spinoff, recapitalization, stock split, or combination or exchange of shares, (ii) by reason of a merger, reorganization or consolidation, (iii) by reason of a reclassification or change in par value, or (iv) by reason of any other extraordinary or unusual event affecting the outstanding Company Stock as a class without the Company's receipt of consideration, or if the value of outstanding shares of Company Stock is substantially reduced as a result of a spinoff or the Company's payment of an extraordinary dividend or distribution, the maximum number of shares of Company Stock available for issuance under the Plan, the maximum number of shares of Company Stock for which any individual may receive Grants in any year, the kind and number of shares covered by outstanding Grants, the kind and number of shares issued and to be issued under the Plan, and the price per share or the applicable market value of such Grants shall be equitably adjusted by the Committee, in such manner as the Committee deems appropriate, to reflect any increase or decrease in the number of, or change in the kind or value of, the issued shares of Company Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under the

Plan and such outstanding Grants; provided, however, that any fractional shares resulting from such adjustment shall be eliminated. In addition, in the event of a Change of Control of the Company, the provisions of Section 16 of the Plan shall apply. Any adjustments to outstanding Grants shall be consistent with section 409A or 422 of the Code, to the extent applicable. Any adjustments determined by the Committee shall be final, binding and conclusive.

6. Eligibility for Participation

(a) Eligible Persons. All Employees and Non-Employee Directors shall be eligible to participate in the Plan.

(b) Selection of Participants. The Committee shall select the Employees and Non-Employee Directors to receive Grants and shall determine the number of shares of Company Stock subject to each Grant.

7. Options

(a) General Requirements. The Committee may grant Options to an Employee or Non-Employee Director upon such terms and conditions as the Committee deems appropriate under this Section 7. The Committee shall determine the number of shares of Company Stock that will be subject to each Grant of Options to Employees and Non-Employee Directors.

(b) Type of Option, Price and Term.

(i) The Committee may grant Incentive Stock Options or Nonqualified Stock Options or any combination of the two, all in accordance with the terms and conditions set forth herein. Incentive Stock Options may be granted only to Employees of the Company or its parents or subsidiaries, as defined in section 424 of the Code. Nonqualified Stock Options may be granted to Employees or Non-Employee Directors.

(ii) The Exercise Price of Company Stock subject to an Option shall be determined by the Committee and may be equal to or greater than the Fair Market Value of a share of Company Stock on the date the Option is granted. However, an Incentive Stock Option may not be granted to an Employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary, as defined in section 424 of the Code, unless the Exercise Price per share is not less than 110% of the Fair Market Value of the Company Stock on the date of grant.

(iii) The Committee shall determine the term of each Option, which shall not exceed ten years from the date of grant. However, an Incentive Stock Option that is granted to an Employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary, as defined in section 424 of the Code, may not have a term that exceeds five years from the date of grant.

(c) Exercisability of Options.

(i) Options shall become exercisable in accordance with such terms and conditions as may be determined by the Committee and specified in the Grant Agreement. The Committee may grant Options that are subject to achievement of performance goals or other conditions. The Committee may accelerate the exercisability of any or all outstanding Options at any time for any reason.

(ii) The Committee may provide in a Grant Agreement that the Participant may elect to exercise part or all of an Option before it otherwise has become exercisable. Any shares so purchased shall be restricted shares and shall be subject to a repurchase right in favor of the Company during a specified restriction period, with the repurchase price equal to the lesser of (A) the Exercise Price or (B) the Fair Market Value of such shares at the time of repurchase, or such other restrictions as the Committee deems appropriate.

(iii) Options granted to persons who are non-exempt employees under the Fair Labor Standards Act of 1938, as amended, may not be exercisable for at least six months after the date of grant (except that such Options may become exercisable, as determined by the Committee, upon the Participant's death, disability or retirement, or upon a Change of Control or other circumstances permitted by applicable regulations).

(d) Termination of Employment or Service. Except as provided in the Grant Agreement, an Option may only be exercised while the Participant is employed as an Employee or providing service as a Non-Employee Director. The Committee shall determine in the Grant Agreement under what circumstances and during what time periods a Participant may exercise an Option after termination of employment or service.

(e) Exercise of Options. A Participant may exercise an Option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company. The Participant shall pay the Exercise Price for the Option (i) in cash, (ii) if permitted by the Committee, by delivering shares of Company Stock owned by the Participant and having a Fair Market Value on the date of exercise equal to the Exercise Price or by attestation to ownership of shares of Company Stock having an aggregate Fair Market Value on the date of exercise equal to the Exercise Price, (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. Shares of Company Stock used to exercise an Option shall have been held by the Participant for the requisite period of time to avoid adverse accounting consequences to the Company with respect to the Option. Payment for the shares pursuant to the Option, and any required withholding taxes, must be received by the time specified by the Committee depending on the type of payment being made, but in all cases prior to the issuance of the Company Stock.

(f) Limits on Incentive Stock Options. Each Incentive Stock Option shall provide that, if the aggregate Fair Market Value of the stock on the date of the grant with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year, under the Plan or any other stock option plan of the Company or a parent or

subsidiary, as defined in section 424 of the Code, exceeds \$100,000, then the Option, as to the excess, shall be treated as a Nonqualified Stock Option. An Incentive Stock Option shall not be granted to any person who is not an Employee of the Company or a parent or subsidiary, as defined in section 424 of the Code.

8. Stock Units

(a) General Requirements. The Committee may grant Stock Units to an Employee or Non-Employee Director, upon such terms and conditions as the Committee deems appropriate under this Section 8. Each Stock Unit shall represent the right of the Participant to receive a share of Company Stock or an amount based on the value of a share of Company Stock. All Stock Units shall be credited to bookkeeping accounts on the Company's records for purposes of the Plan.

(b) Terms of Stock Units. The Committee may grant Stock Units that are payable on terms and conditions determined by the Committee, which may include payment based on achievement of performance goals. Stock Units may be paid at the end of a specified vesting or performance period, or payment may be deferred to a date authorized by the Committee. The Committee shall determine the number of Stock Units to be granted and the requirements applicable to such Stock Units.

(c) Payment With Respect to Stock Units. Payment with respect to Stock Units shall be made in cash, in Company Stock, or in a combination of the two, as determined by the Committee. The Grant Agreement shall specify the maximum number of shares that can be issued under the Stock Units.

(d) Requirement of Employment or Service. The Committee shall determine in the Grant Agreement under what circumstances a Participant may retain Stock Units after termination of the Participant's employment or service, and the circumstances under which Stock Units may be forfeited.

(e) Dividend Equivalents. The Committee may grant Dividend Equivalents in connection with Stock Units, under such terms and conditions as the Committee deems appropriate. Dividend Equivalents may be paid to Participants currently or may be deferred. All Dividend Equivalents that are not paid currently shall be credited to bookkeeping accounts on the Company's records for purposes of the Plan. Dividend Equivalents may be accrued as a cash obligation, or may be converted to additional Stock Units for the Participant, and deferred Dividend Equivalents may accrue interest, all as determined by the Committee. The Committee may provide that Dividend Equivalents shall be payable based on the achievement of specific performance goals. Dividend Equivalents may be payable in cash or shares of Company Stock or in a combination of the two, as determined by the Committee.

9. Stock Awards

(a) General Requirements. The Committee may issue shares of Company Stock to an Employee or Non-Employee Director under a Stock Award, upon such terms and conditions as the Committee deems appropriate under this Section 9. Shares of Company Stock issued

pursuant to Stock Awards may be issued for cash consideration or for no cash consideration, and subject to restrictions or no restrictions, as determined by the Committee. The Committee may establish conditions under which restrictions on Stock Awards shall lapse over a period of time or according to such other criteria as the Committee deems appropriate, including restrictions based upon the achievement of specific performance goals. The Committee shall determine the number of shares of Company Stock to be issued pursuant to a Stock Award.

(b) Requirement of Employment or Service. The Committee shall determine in the Grant Agreement under what circumstances a Participant may retain Stock Awards after termination of the Participant's employment or service, and the circumstances under which Stock Awards may be forfeited.

(c) Restrictions on Transfer. While Stock Awards are subject to restrictions, a Participant may not sell, assign, transfer, pledge or otherwise dispose of the shares of a Stock Award except upon death as described in Section 15(a). If certificates are issued, each certificate for a share of a Stock Award shall contain a legend giving appropriate notice of the restrictions in the Grant. The Participant shall be entitled to have the legend removed when all restrictions on such shares have lapsed. The Company may retain possession of any certificates for Stock Awards until all restrictions on such shares have lapsed.

(d) Right to Vote and to Receive Dividends. The Committee shall determine to what extent, and under what conditions, the Participant shall have the right to vote shares of Stock Awards and to receive any dividends or other distributions paid on such shares during the restriction period. The Committee may determine that dividends on Stock Awards shall be withheld while the Stock Awards are subject to restrictions and that the dividends shall be payable only upon the lapse of the restrictions on the Stock Awards, or on such other terms as the Committee determines. Dividends that are not paid currently shall be credited to bookkeeping accounts on the Company's records for purposes of the Plan. Accumulated dividends may accrue interest, as determined by the Committee, and shall be paid in cash, shares of Company Stock, or in such other form as dividends are paid on Company Stock, as determined by the Committee.

10. Stock Appreciation Rights

(a) General Requirements. The Committee may grant SARs to an Employee or Non-Employee Director separately or in tandem with an Option. The Committee shall establish the number of shares, the terms and the base amount of the SAR at the time the SAR is granted. The base amount of each SAR shall be not less than the Fair Market Value of a share of Company Stock as of the date of grant of the SAR.

(b) Tandem SARs. The Committee may grant tandem SARs either at the time the Option is granted or at any time thereafter while the Option remains outstanding; provided, however, that, in the case of an Incentive Stock Option, SARs may be granted only at the date of the grant of the Incentive Stock Option. In the case of tandem SARs, the number of SARs granted to a Participant that shall be exercisable during a specified period shall not exceed the number of shares of Company Stock that the Participant may purchase upon the exercise of the

) related Option during such period. Upon the exercise of an Option, the SARs relating to the Company Stock covered by such Option shall terminate. Upon the exercise of SARs, the related Option shall terminate to the extent of an equal number of shares of Company Stock.

(c) Exercisability. A SAR shall become exercisable in accordance with such terms and conditions as may be specified. The Committee may grant SARs that are subject to achievement of performance goals or other conditions. The Committee may accelerate the exercisability of any or all outstanding SARs at any time for any reason. The Committee shall determine in the Grant Agreement under what circumstances and during what periods a Participant may exercise a SAR after termination of employment or service. A tandem SAR shall be exercisable only while the Option to which it is related is exercisable.

(d) Grants to Non-Exempt Employees. SARs granted to persons who are non-exempt employees under the Fair Labor Standards Act of 1938, as amended, may not be exercisable for at least six months after the date of grant (except that such SARs may become exercisable, as determined by the Committee, upon the Participant's death, Disability or retirement, or upon a Change of Control or other circumstances permitted by applicable regulations).

(e) Exercise of SARs. When a Participant exercises SARs, the Participant shall receive in settlement of such SARs an amount equal to the value of the stock appreciation for the number of SARs exercised. The stock appreciation for a SAR is the amount by which the Fair Market Value of the underlying Company Stock on the date of exercise of the SAR exceeds the base amount of the SAR as specified in the Grant Agreement.

(f) Form of Payment. The Committee shall determine whether the stock appreciation for a SAR shall be paid in the form of shares of Company Stock, cash or a combination of the two. For purposes of calculating the number of shares of Company Stock to be received, shares of Company Stock shall be valued at their Fair Market Value on the date of exercise of the SAR. If shares of Company Stock are to be received upon exercise of a SAR, cash shall be delivered in lieu of any fractional share.

11. Other Stock-Based Awards

The Committee may grant other awards not specified in Sections 7, 8, 9 or 10 above that are based on or measured by Company Stock to Employees and Non-Employee Directors, on such terms and conditions as the Committee deems appropriate. Other Stock-Based Awards may be granted subject to achievement of performance goals or other conditions and may be payable in Company Stock or cash, or in a combination of the two, as determined by the Committee in the Grant Agreement.

12. Qualified Performance-Based Compensation

(a) Designation as Qualified Performance-Based Compensation. The Committee may determine that Stock Units, Stock Awards, Dividend Equivalents or Other Stock-Based Awards granted to an Employee shall be considered "qualified performance-based compensation" under section 162(m) of the Code, in which case the provisions of this Section 12 shall apply.

(b) Performance Goals. When Grants are made under this Section 12, the Committee shall establish in writing (i) the objective performance goals that must be met, (ii) the period during which performance will be measured, (iii) the maximum amounts that may be paid if the performance goals are met, and (iv) any other conditions that the Committee deems appropriate and consistent with the requirements of section 162(m) of the Code for “qualified performance-based compensation.” The performance goals shall satisfy the requirements for “qualified performance-based compensation,” including the requirement that the achievement of the goals be substantially uncertain at the time they are established and that the performance goals be established in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the performance goals have been met. The Committee shall not have discretion to increase the amount of compensation that is payable, but may reduce the amount of compensation that is payable, pursuant to Grants identified by the Committee as “qualified performance-based compensation.”

(c) Criteria Used for Objective Performance Goals. The Committee shall use objectively determinable performance goals based on one or more of the following criteria: stock price, earnings per share, price-earnings multiples, net earnings, operating earnings, revenue, number of days sales outstanding in accounts receivable, productivity, margin, EBITDA (earnings before interest, taxes, depreciation and amortization), net capital employed, return on assets, stockholder return, return on equity, return on capital employed, net income to shares of Company Stock, growth in assets, unit volume, sales, cash flow, market share, relative performance to a comparison group designated by the Committee, or strategic business criteria consisting of one or more objectives based on meeting specified revenue goals, market penetration goals, customer growth, geographic business expansion goals, cost targets or goals relating to acquisitions or divestitures. The performance goals may relate to one or more business units or the performance of the Company and its subsidiaries as a whole, or any combination of the foregoing. Performance goals need not be uniform as among Participants.

(d) Timing of Establishment of Goals. The Committee shall establish the performance goals in writing either before the beginning of the performance period or during a period ending no later than the earlier of (i) 90 days after the beginning of the performance period or (ii) the date on which 25% of the performance period has been completed, or such other date as may be required or permitted under applicable regulations under section 162(m) of the Code.

(e) Certification of Results. The Committee shall certify the performance results for the performance period specified in the Grant Agreement after the performance period ends. The Committee shall determine the amount, if any, to be paid pursuant to each Grant based on the achievement of the performance goals and the satisfaction of all other terms of the Grant Agreement.

(f) Death, Disability or Other Circumstances. The Committee may provide in the Grant Agreement that Grants under this Section 12 shall be payable, in whole or in part, in the event of the Participant’s death or disability, a Change of Control or under other circumstances consistent with the Treasury regulations and rulings under section 162(m) of the Code.

13. Deferrals

The Committee may permit or require a Participant to defer receipt of the payment of cash or the delivery of shares that would otherwise be due to the Participant in connection with any Grant. The Committee shall establish rules and procedures for any such deferrals, consistent with applicable requirements of section 409A of the Code.

14. Withholding of Taxes

(a) Required Withholding. All Grants under the Plan shall be subject to applicable federal (including FICA), state and local tax withholding requirements. The Company may require that the Participant or other person receiving or exercising Grants pay to the Company the amount of any federal, state or local taxes that the Company is required to withhold with respect to such Grants, or the Company may deduct from other wages paid by the Company the amount of any withholding taxes due with respect to such Grants.

(b) Election to Withhold Shares. If the Committee so permits, shares of Company Stock may be withheld to satisfy the Company's tax withholding obligation with respect to Grants paid in Company Stock, at the time such Grants become taxable, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state and local tax liabilities.

15. Transferability of Grants

(a) Restrictions on Transfer. Except as described in subsection (b) below, only the Participant may exercise rights under a Grant during the Participant's lifetime, and a Participant may not transfer those rights except by will or by the laws of descent and distribution. When a Participant dies, the personal representative or other person entitled to succeed to the rights of the Participant may exercise such rights. Any such successor must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Participant's will or under the applicable laws of descent and distribution.

(b) Transfer of Nonqualified Stock Options to or for Family Members. Notwithstanding the foregoing, the Committee may provide, in a Grant Agreement, that a Participant may transfer Nonqualified Stock Options to family members, or one or more trusts or other entities for the benefit of or owned by family members, consistent with applicable securities laws, according to such terms as the Committee may determine; provided that the Participant receives no consideration for the transfer of a Nonqualified Stock Option and the transferred Nonqualified Stock Option shall continue to be subject to the same terms and conditions as were applicable to the Nonqualified Stock Option immediately before the transfer.

16. Consequences of a Change of Control

In the event of a Change of Control, the Committee may take any one or more of the following actions with respect to any or all outstanding Grants, without the consent of any Participant: (i) the Committee may determine that outstanding Options and SARs shall be fully exercisable, and restrictions on outstanding Stock Awards and Stock Units shall lapse, as of the

date of the Change of Control or at such other time as the Committee determines, (ii) the Committee may require that Participants surrender their outstanding Options and SARs in exchange for one or more payments by the Company, in cash or Company Stock as determined by the Committee, in an amount equal to the amount, if any, by which the then Fair Market Value of the shares of Company Stock subject to the Participant's unexercised Options and SARs exceeds the Exercise Price, and on such terms as the Committee determines, (iii) after giving Participants an opportunity to exercise their outstanding Options and SARs, the Committee may terminate any or all unexercised Options and SARs at such time as the Committee deems appropriate, (iv) with respect to Participants holding Stock Units and Other Stock-Based Awards, the Committee may determine that such Participants shall receive one or more payments in settlement of such Stock Units and Other Stock-Based Awards, in such amount and form and on such terms as may be determined by the Committee, or (v) determine that all outstanding Options and SARs that are not exercised shall be assumed by, or replaced with comparable options or rights by the surviving corporation (or a parent or subsidiary of the surviving corporation), and other outstanding Grants that remain in effect after the Change of Control shall be converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation). Such acceleration, surrender, termination, settlement or conversion shall take place as of the date of the Change of Control or such other date as the Committee may specify. The Committee may provide in a Grant Agreement that a sale or other transaction involving a subsidiary or other business unit of the Company shall be considered a Change of Control for purposes of a Grant, or the Committee may establish other provisions that shall be applicable in the event of a specified transaction.

17. Requirements for Issuance of Shares

No Company Stock shall be issued in connection with any Grant hereunder unless and until all legal requirements applicable to the issuance of such Company Stock have been complied with to the satisfaction of the Committee. The Committee shall have the right to condition any Grant made to any Participant hereunder on such Participant's undertaking in writing to comply with such restrictions on his or her subsequent disposition of such shares of Company Stock as the Committee shall deem necessary or advisable, and certificates representing such shares may be legended to reflect any such restrictions. Certificates representing shares of Company Stock issued under the Plan will be subject to such stop-transfer orders and other restrictions as may be required by applicable laws, regulations and interpretations, including any requirement that a legend be placed thereon. No Participant shall have any right as a stockholder with respect to Company Stock covered by a Grant until shares have been issued to the Participant.

18. Amendment and Termination of the Plan

(a) Amendment. The Board may amend or terminate the Plan at any time; provided, however, that the Board shall not amend the Plan without approval of the stockholders of the Company if such approval is required in order to comply with the Code or applicable laws, or to comply with applicable stock exchange requirements. No amendment or termination of this Plan shall, without the consent of the Participant, materially impair any rights or obligations under any Grant previously made to the Participant under the Plan, unless such right has been reserved in

the Plan or the Grant Agreement, or except as provided in Section 19(b) below. Notwithstanding anything in the Plan to the contrary, the Board may amend the Plan in such manner as it deems appropriate in the event of a change in applicable law or regulations.

(b) No Repricing Without Stockholder Approval. Notwithstanding anything in the Plan to the contrary, the Committee may not reprice Options or SARs, nor may the Board amend the Plan to permit repricing of Options or SARs, unless the stockholders of the Company provide prior approval for such repricing. The term “repricing” shall have the meaning given that term in accordance with the applicable stock exchange in which such shares of Company Stock are registered, as in effect from time to time.

(c) Stockholder Approval for “Qualified Performance-Based Compensation.” If Grants are made under Section 12 above, the Plan must be reapproved by the Company’s stockholders no later than the first stockholders meeting that occurs in the fifth year following the year in which the stockholders previously approved the provisions of Section 12, if additional Grants are to be made under Section 12 and if required by section 162(m) of the Code or the regulations thereunder.

(d) Termination of Plan. The Plan shall terminate on the day immediately preceding the tenth anniversary of its Effective Date, unless the Plan is terminated earlier by the Board or is extended by the Board with the approval of the stockholders. The termination of the Plan shall not impair the power and authority of the Committee with respect to an outstanding Grant.

19. Miscellaneous

(a) Effective Date. The Plan shall be effective as of the Effective Date.

(b) Grants in Connection with Corporate Transactions and Otherwise. Nothing contained in this Plan shall be construed to (i) limit the right of the Committee to make Grants under this Plan in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business or assets of any corporation, firm or association, including Grants to employees thereof who become Employees, or for other proper corporate purposes, or (ii) limit the right of the Company to grant stock options or make other stock-based awards outside of this Plan. Without limiting the foregoing, the Committee may make a Grant to an employee of another corporation who becomes an Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a grant made by such corporation. The terms and conditions of the Grants may vary from the terms and conditions required by the Plan and from those of the substituted stock incentives, as determined by the Committee.

(c) Compliance with Law. The Plan, the exercise of Options and the obligations of the Company to issue or transfer shares of Company Stock under Grants shall be subject to all applicable laws and to approvals by any governmental or regulatory agency as may be required. With respect to persons subject to section 16 of the Exchange Act, it is the intent of the Company that the Plan and all transactions under the Plan comply with all applicable provisions of Rule 16b-3 or its successors under the Exchange Act. In addition, it is the intent of the Company that

Incentive Stock Options comply with the applicable provisions of section 422 of the Code, that Grants of "qualified performance-based compensation" comply with the applicable provisions of section 162(m) of the Code and that, to the extent applicable, Grants comply with the requirements of section 409A of the Code or an exception from such requirements. To the extent that any legal requirement of section 16 of the Exchange Act or section 422, 162(m) or 409A of the Code as set forth in the Plan ceases to be required under section 16 of the Exchange Act or section 422, 162(m) or 409A of the Code, that Plan provision shall cease to apply. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation. The Committee may also adopt rules regarding the withholding of taxes on payments to Participants. The Committee may, in its sole discretion, agree to limit its authority under this Section.

(d) Enforceability. The Plan shall be binding upon and enforceable against the Company and its successors and assigns.

(e) Funding of the Plan; Limitation on Rights. This Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Grants under this Plan. Nothing contained in the Plan and no action taken pursuant hereto shall create or be construed to create a fiduciary relationship between the Company and any Participant or any other person. No Participant or any other person shall under any circumstances acquire any property interest in any specific assets of the Company. To the extent that any person acquires a right to receive payment from the Company hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

(f) Rights of Participants. Nothing in this Plan shall entitle any Employee, Non-Employee Director or other person to any claim or right to receive a Grant under this Plan. Neither this Plan nor any action taken hereunder shall be construed as giving any individual any rights to be retained by or in the employment or service of the Employer.

(g) No Fractional Shares. No fractional shares of Company Stock shall be issued or delivered pursuant to the Plan or any Grant. The Committee shall determine whether cash, other awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(h) Employees Subject to Taxation Outside the United States. With respect to Participants who are subject to taxation in countries other than the United States, the Committee may make Grants on such terms and conditions as the Committee deems appropriate to comply with the laws of the applicable countries, and the Committee may create such procedures, addenda and subplans and make such modifications as may be necessary or advisable to comply with such laws.

(i) Governing Law. The validity, construction, interpretation and effect of the Plan and Grant Agreements issued under the Plan shall be governed and construed by and determined in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

16. Please provide the monthly level of prepaid taxes by type of tax for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

See attached schedule for the PSC Assessment Fee which is the only expense responsive to this question.

For the electronic version, refer to KAW_R_AGDR1#16_042610.pdf.

Kentucky American Water Company
Prepaid Taxes
Regulatory Assessment Fee
AG DR 1 # 16

Actual			Forecast		
<u>Date</u>	<u>Explanation</u>	<u>Amount</u>	<u>Date</u>	<u>Explanation</u>	<u>Amount</u>
1/31/2007	PSC Assessment	6,862.21	10/31/2010	PSC Assessment	9,152.00
2/28/2007	PSC Assessment	6,862.21	11/30/2010	PSC Assessment	9,152.00
3/31/2007	PSC Assessment	6,862.21	12/31/2010	PSC Assessment	9,152.00
4/30/2007	PSC Assessment	6,862.21	1/31/2011	PSC Assessment	9,152.00
5/31/2007	PSC Assessment	6,862.21	2/28/2011	PSC Assessment	9,152.00
6/30/2007	PSC Assessment	6,862.21	3/31/2011	PSC Assessment	9,152.00
7/31/2007	PSC Assessment	6,967.61	4/30/2011	PSC Assessment	9,152.00
8/31/2007	PSC Assessment	6,967.61	5/31/2011	PSC Assessment	9,152.00
9/30/2007	PSC Assessment	6,967.61	6/30/2011	PSC Assessment	9,152.00
10/31/2007	PSC Assessment	6,967.61	7/31/2011	PSC Assessment	9,152.00
11/30/2007	PSC Assessment	6,967.61	8/31/2011	PSC Assessment	9,152.00
12/31/2007	PSC Assessment	6,967.61	9/30/2011	PSC Assessment	9,154.00
1/31/2008	PSC Assessment	6,967.61			
2/29/2008	PSC Assessment	6,967.61			
3/31/2008	PSC Assessment	6,967.61			
4/30/2008	PSC Assessment	6,967.61			
5/31/2008	PSC Assessment	6,967.61			
6/30/2008	PSC Assessment	6,967.61			
7/31/2008	PSC Assessment	6,967.61			
8/31/2008	PSC Assessment	7,050.29			
9/30/2008	PSC Assessment	7,050.29			
10/31/2008	PSC Assessment	7,050.29			
11/30/2008	PSC Assessment	7,050.29			
12/31/2008	PSC Assessment	7,050.29			
1/31/2009	PSC Assessment	7,050.29			
2/28/2009	PSC Assessment	7,050.29			
3/31/2009	PSC Assessment	7,050.29			
4/30/2009	PSC Assessment	7,050.29			
5/31/2009	PSC Assessment	7,050.29			
6/30/2009	PSC Assessment	7,050.29			
7/31/2009	PSC Assessment	7,700.97			
8/31/2009	PSC Assessment	7,700.97			
9/30/2009	PSC Assessment	7,700.97			
10/31/2009	PSC Assessment	7,700.97			
11/30/2009	PSC Assessment	7,700.97			
12/31/2009	PSC Assessment	7,700.97			
1/31/2010	PSC Assessment	7,700.97			
2/28/2010	PSC Assessment	7,700.97			
3/31/2010	PSC Assessment	7,700.97			

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Sheila Miller

17. Please provide the monthly level of Materials and Supplies in total and by type for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

The monthly balance of materials and supplies by type from December 2007 through November 2009 is detailed on the working paper provided in response to KAW_R_PSCDR1#1a_WP1-6_031610 page 1 of 1. The excel version of this file can be found in response to KAW_R_AGDR1#1_042610 in the file labeled as K_RB10.xls under the materials tab. See below for January 2007 through November 2007 and December 2009 through March 2010. The Company does not project materials and supplies but utilizes a 24 month average for the other working capital rate base addition as shown on the above referenced working paper.

<u>MONTH</u>	<u>STOCK E PLANT MATERIALS</u>	<u>STOCK C CHEMICALS</u>
Jan-2007	421,522	154,333
Feb-2007	417,905	155,526
Mar-2007	466,386	146,995
Apr-2007	398,723	144,881
May-2007	461,362	140,283
Jun-2007	421,897	125,929
Jul-2007	421,404	127,890
Aug-2007	443,703	133,646
Sep-2007	422,607	156,825
Oct-2007	412,414	184,159
Nov-2007	389,906	191,964
Dec-2009	404,936	234,262
Jan-2010	407,628	216,857
Feb-2010	417,036	189,956
Mar-2010	490,237	207,144

For the electronic version of this response, refer to KAW_R_AGDR1#17_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Sheila Miller**

18. Please provide the monthly level of Contributions in Aid of Construction for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

Please see the attached schedule detailing the monthly level of Contributions in Aid of Construction for 2007, 2008, 2009, through March of 2010. The projections through 9/30/2011 are detailed in the working papers provided in response to KAW_R_PSCDR1#1a_WP1-7_031610 pages 2 through 8 of 24. For the excel version, refer to the CD provided in response to KAW_R_AGDR1#1_042610. The file is labeled as K_RB10.XLS under tab Cust Adv CIAC-Lex.

For the electronic version of this response, refer to KAW_R_AGDR1#18_042610.pdf.

**Kentucky American Water Company
Contributions in Aid of Construction
AGDR 1 # 18**

<u>Month</u>	<u>Mo CIAC</u>	<u>Amortization</u>	<u>Net CIAC</u>	<u>Balance</u>
				(38,745,351.25)
Jan-2007	(57,741.77)	107,109.27	49,367.50	(38,695,983.75)
Feb-2007	(140,579.44)	107,370.55	(33,208.89)	(38,729,192.64)
Mar-2007	(237,621.80)	107,795.24	(129,826.56)	(38,859,019.20)
Apr-2007	(427,999.31)	107,790.30	(320,209.01)	(39,179,228.21)
May-2007	(994,876.85)	107,790.30	(887,086.55)	(40,066,314.76)
Jun-2007	(711,408.23)	107,790.30	(603,617.93)	(40,669,932.69)
Jul-2007	(905,454.66)	107,790.30	(797,664.36)	(41,467,597.05)
Aug-2007	(820,647.98)	116,805.57	(703,842.41)	(42,171,439.46)
Sep-2007	(197,811.85)	113,827.11	(83,984.74)	(42,255,424.20)
Oct-2007	(225,234.19)	108,845.27	(116,388.92)	(42,371,813.12)
Nov-2007	(323,185.57)	364,124.62	40,939.05	(42,330,874.07)
Dec-2007	(344,447.72)	146,561.61	(197,886.11)	(42,528,760.18)
Jan-2008	(269,614.43)	143,905.59	(125,708.84)	(42,654,469.02)
Feb-2008	(238,911.89)	144,499.43	(94,412.46)	(42,748,881.48)
Mar-2008	(207,817.76)	(269,308.99)	(477,126.75)	(43,226,008.23)
Apr-2008	(143,864.21)	105,015.38	(38,848.83)	(43,264,857.06)
May-2008	(1,048,039.78)	107,193.97	(940,845.81)	(44,205,702.87)
Jun-2008	(231,455.49)	108,084.63	(123,370.86)	(44,329,073.73)
Jul-2008	(420,847.76)	108,923.46	(311,924.30)	(44,640,998.03)
Aug-2008	(501,215.25)	109,292.57	(391,922.68)	(45,032,920.71)
Sep-2008	(234,992.22)	109,853.07	(125,139.15)	(45,158,059.86)
Oct-2008	(532,348.02)	110,400.71	(421,947.31)	(45,580,007.17)
Nov-2008	(274,086.41)	111,478.66	(162,607.75)	(45,742,614.92)
Dec-2008	(145,875.34)	111,722.13	(34,153.21)	(45,776,768.13)
Jan-2009	(86,010.71)	111,787.26	25,776.55	(45,750,991.58)
Feb-2009	(149,865.63)	112,925.08	(36,940.55)	(45,787,932.13)
Mar-2009	(254,725.79)	113,039.25	(141,686.54)	(45,929,618.67)
Apr-2009	(53,503.67)	113,562.61	60,058.94	(45,869,559.73)
May-2009	(147,114.33)	113,669.71	(33,444.62)	(45,903,004.35)
Jun-2009	(149,476.76)	113,803.94	(35,672.82)	(45,938,677.17)
Jul-2009	(293,958.21)	114,137.59	(179,820.62)	(46,118,497.79)
Aug-2009	(108,660.24)	114,821.52	6,161.28	(46,112,336.51)
Sep-2009	(222,170.05)	115,334.90	(106,835.15)	(46,219,171.66)
Oct-2009	(170,723.48)	115,901.54	(54,821.94)	(46,273,993.60)
Nov-2009	(114,691.28)	116,098.45	1,407.17	(46,272,586.43)
Dec-2009	(431,338.70)	116,238.80	(315,099.90)	(46,587,686.33)
Jan-2010	(66,393.09)	117,095.69	50,702.60	(46,536,983.73)
Feb-2010	(66,468.25)	117,209.87	50,741.62	(46,486,242.11)
Mar-2010	(113,082.93)	117,899.86	4,816.93	(46,481,425.18)

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

19. Please provide the monthly level of Customer Advances for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

Please see the attached schedule detailing the monthly level of Customer Advances for 2007, 2008, 2009, through March of 2010. The projections through 9/30/2011 are detailed in the working papers provided in response to KAW_R_PSCDR1#1a_WP1-7_031610 pages 2 through 8 of 24. For the excel version, refer to the CD provided in response to KAW_R_AGDR1#1_042610. The file is labeled as K_RB10.XLS under tab Cust Adv CIAC-Lex.

For the electronic version, refer to KAW_R_AGDR1#19_042610.pdf.

**Kentucky American Water Company
Contributions in Aid of Construction
AGDR 1 # 19**

<u>Month</u>	<u>Mo CIAC</u>	<u>Balance</u>
		(16,492,638.27)
Jan-2007	(246,259.56)	(16,738,897.83)
Feb-2007	(461,755.24)	(17,200,653.07)
Mar-2007	192,538.93	(17,008,114.14)
Apr-2007	152,293.00	(16,855,821.14)
May-2007	(93,399.44)	(16,949,220.58)
Jun-2007	858,220.80	(16,090,999.78)
Jul-2007	742,062.05	(15,348,937.73)
Aug-2007	339,191.32	(15,009,746.41)
Sep-2007	57,036.10	(14,952,710.31)
Oct-2007	(224,797.29)	(15,177,507.60)
Nov-2007	424,789.70	(14,752,717.90)
Dec-2007	99,627.35	(14,653,090.55)
Jan-2008	261,019.45	(14,392,071.10)
Feb-2008	(28,938.92)	(14,421,010.02)
Mar-2008	111,829.35	(14,309,180.67)
Apr-2008	100,550.93	(14,208,629.74)
May-2008	194,040.20	(14,014,589.54)
Jun-2008	(180,810.73)	(14,195,400.27)
Jul-2008	216,671.30	(13,978,728.97)
Aug-2008	(30,766.89)	(14,009,495.86)
Sep-2008	(288,061.70)	(14,297,557.56)
Oct-2008	(261,106.51)	(14,558,664.07)
Nov-2008	75,582.42	(14,483,081.65)
Dec-2008	2,567,054.43	(11,916,027.22)
Jan-2009	(247,381.94)	(12,163,409.16)
Feb-2009	72,742.02	(12,090,667.14)
Mar-2009	(448,807.23)	(12,539,474.37)
Apr-2009	13,692.41	(12,525,781.96)
May-2009	(140,102.53)	(12,665,884.49)
Jun-2009	(43,800.52)	(12,709,685.01)
Jul-2009	37,193.37	(12,672,491.64)
Aug-2009	(5,436.71)	(12,677,928.35)
Sep-2009	(704,303.27)	(13,382,231.62)
Oct-2009	50,235.41	(13,331,996.21)
Nov-2009	316,007.36	(13,015,988.85)
Dec-2009	(425,759.13)	(13,441,747.98)
Jan-2010	(4,926.95)	(13,446,674.93)
Feb-2010	(81,729.03)	(13,528,403.96)
Mar-2010	(475,056.12)	(14,003,460.08)

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Michael A. Miller/Sheila Miller**

20. Please provide the monthly level of Deferred Maintenance by component for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.
- a. Please identify and explain each item of Deferred Maintenance, when it first arose, when amortization commenced, when amortization will be completed, why the maintenance was deferred, and commission authorization for each maintenance item that is being deferred.

Response:

The Commission has historically recognized certain on-going maintenance items, tank painting and hydrant painting as regulatory assets amortized over 5-15 years, with the unamortized balances recognized as rate base. Please see the Commission Order in Case Number 2004-00103, pages 19-20, dated February 28, 2005.

The support for the Company's request can be located at KAW_R_PSCDR1#1a_WP1-10_031610, page 1-9 of 9. For the electronic version see KAW_R_AGDR1#1_042610, file name Deferred Maintenance 10.xls. The original cost, the amortization period approved by the Commission and the monthly amortization amount are shown on the work papers referenced above.

For the electronic version of this response, refer to KAW_R_AGDR1#20_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Michael A. Miller/Sheila Miller**

21. Please provide the monthly level of Deferred Debits by component for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.
- a. Please, identify and explain each item of Deferred Debits, when it first arose, when amortization commenced, when amortization will be completed, why the cost was deferred, and commission authorization for each Deferred Debit item that is being requested for inclusion in rate base.

Response:

KAW has included a request for rate recovery for three deferred debit components in its filing; i) Boonesboro Acquisition costs, ii) Bluegrass Water Project costs, and iii) Source of Supply costs. The support for the Company's request can be located at KAW_R_PSCDR1#1a_WP1-11_.031610, pages 1-9 of 15. For the electronic version see KAW_R_AGDR1#1_042610, file name Deferred Debits 10.xls. The original cost, the amortization period approved by the Commission and the monthly amortization amount are shown on the work papers referenced above.

1. Boonesboro Acquisition Adjustment – The Commission approved a 10 year amortization of these costs and the inclusion of the unamortized portion of the costs as rate base. Please see Commission Order in case number 2000-120 dated May 18, 2001 which can be found on the Commission website.
2. Source of Supply – The Commission approved a 40 year amortization of these costs and the inclusion of the unamortized portion of the costs as rate base. Please see Commission Order in case number 2000-120 dated May 18, 2001 which can be found on the Commission website.
3. Bluegrass Water Project – The Commission approved a 10 year amortization of these costs without rate base treatment on the unamortized costs. Please see Commission Order in case number 2000-120 dated November 27, 2000 which can be found on the Commission website.

For the electronic version of this response, refer to KAW_R_AGDR1#21_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

22. Please provide the monthly level of Contract Retentions for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

See the attached schedule for the monthly balance of contract retentions from January 2007 through March 2010. The Company does not project contract retentions but utilizes a 24 month average for the other rate base elements rate base deduction. This calculation was included in the working papers provided in response to KAW_R_PSCDR1#1a_WP1-11_031610 page 14 of 15. The excel version of this file can be found in response to KAW_R_AGDR1#1_042610 in the file labeled as Other Rate Base.xls.

For the electronic version of this response, refer to KAW_R_AGDR1#22_042610.pdf.

Kentucky American Water Company
Contract Retentions
AGDR1#22

<u>Month</u>	<u>Account Balance</u>	<u>Monthly Amount</u>
Dec 2006 balance	\$ (196,874)	
Jan-07	\$ (325,893)	\$ (129,019)
Feb-07	\$ (338,068)	\$ (12,175)
Mar-07	\$ (356,922)	\$ (18,854)
Apr-07	\$ (381,495)	\$ (24,573)
May-07	\$ (464,450)	\$ (82,955)
Jun-07	\$ (535,580)	\$ (71,130)
Jul-07	\$ (674,666)	\$ (139,086)
Aug-07	\$ (766,580)	\$ (91,914)
Sep-07	\$ (707,520)	\$ 59,060
Oct-07	\$ (890,269)	\$ (182,749)
Nov-07	\$ (950,816)	\$ (60,547)
Dec-07	\$(1,136,835)	\$ (186,019)
Jan-08	\$(1,188,335)	\$ (51,500)
Feb-08	\$(1,255,158)	\$ (66,823)
Mar-08	\$(1,249,392)	\$ 5,766
Apr-08	\$(1,187,565)	\$ 61,827
May-08	\$ (962,808)	\$ 224,757
Jun-08	\$ (581,153)	\$ 381,655
Jul-08	\$ (385,219)	\$ 195,934
Aug-08	\$ (539,377)	\$ (154,158)
Sep-08	\$ (929,659)	\$ (390,282)
Oct-08	\$(1,060,553)	\$ (130,894)
Nov-08	\$(1,286,117)	\$ (225,564)
Dec-08	\$(1,383,682)	\$ (97,565)
Jan-09	\$(1,570,254)	\$ (186,572)
Feb-09	\$(1,798,999)	\$ (228,745)
Mar-09	\$(2,051,698)	\$ (252,699)
Apr-09	\$(2,319,716)	\$ (268,018)
May-09	\$(2,429,926)	\$ (110,210)
Jun-09	\$(2,592,357)	\$ (162,431)
Jul-09	\$(2,830,387)	\$ (238,030)
Aug-09	\$(3,114,330)	\$ (283,943)
Sep-09	\$(3,503,605)	\$ (389,275)
Oct-09	\$(3,773,095)	\$ (269,490)
Nov-09	\$(4,026,724)	\$ (253,629)
Dec-09	\$(4,186,556)	\$ (159,832)
Jan-10	\$(4,401,542)	\$ (214,986)
Feb-10	\$(4,491,121)	\$ (89,579)
Mar-10	\$(4,517,768)	\$ (26,647)

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

23. Please provide the monthly level of Unclaimed Extension Deposit Refunds, for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

See the attached schedule for the monthly balance of unclaimed extension deposit refunds from January 2007 through March 2010. The Company does not project unclaimed extension deposit refunds but utilizes a 24 month average for the other rate base elements rate base deduction. This calculation was included in the working papers provided in response to KAW_R_PSCDR1#1a_WP1-11_031610 page 15 of 15. The excel version of this file can be found in response to KAW_R_AGDR1#1_042610 in the file labeled as Other Rate Base.xls.

For the electronic version of this response, refer to KAW_R_AGDR1#23_042610.pdf.

Kentucky-American Water Company
Other Net Rate Base Elements
Unclaimed Extension Deposit Refunds
AGDR1#23

<u>Month</u>	<u>Account</u> <u>Balance</u>	<u>Monthly</u> <u>Amount</u>
Dec 2006 Balance	\$ (4,598)	
Jan-07	\$ (4,598)	0
Feb-07	\$ (4,598)	0
Mar-07	\$ (4,598)	0
Apr-07	\$ (4,598)	0
May-07	\$ (4,598)	0
Jun-07	\$ (4,598)	0
Jul-07	\$ (4,598)	0
Aug-07	\$ (4,598)	0
Sep-07	\$ (4,598)	0
Oct-07	\$ (22,702)	(18,104)
Nov-07	\$ (20,935)	1,767
Dec-07	\$ (20,935)	0
Jan-08	\$ (20,935)	0
Feb-08	\$ (20,935)	0
Mar-08	\$ (20,935)	0
Apr-08	\$ (8,935)	12,000
May-08	\$ (8,935)	0
Jun-08	\$ (9,694)	(759)
Jul-08	\$ (9,694)	0
Aug-08	\$ (9,694)	0
Sep-08	\$ (9,694)	0
Oct-08	\$ (9,694)	0
Nov-08	\$ (9,694)	0
Dec-08	\$ (351)	9,343
Jan-09	\$ (351)	0
Feb-09	\$ (351)	0
Mar-09	\$ (10,046)	(9,695)
Apr-09	\$ (760)	9,286
May-09	\$ (760)	0
Jun-09	\$ (760)	0
Jul-09	\$ (760)	0
Aug-09	\$ (760)	0
Sep-09	\$ (760)	0
Oct-09	\$ (760)	0
Nov-09	\$ (760)	0
Dec-09	(2,220)	(1,460)
Jan-10	(2,220)	0
Feb-10	(2,220)	0
Mar-10	(2,220)	0

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Sheila Miller/Lance Williams

24. Please provide the monthly level of Retirement Work in Progress for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

See the information below for 2007 through actual 2010. The projected information through 9/30/2011 is not available. For rate base purposes, the Company utilizes a 24 month average of the latest available information. That calculation can be found in the working paper provided in response to KAW_R_PSCDR1#1a_WP1-11_031610 page 13 of 15.

2007		2008		2009		2010	
January	3,746.87	January	338,240.81	January	-21,542.08	January	0.00
February	3,618.50	February	383,490.40	February	-11,667.89	February	0.00
March	4,212.14	March	386,445.88	March	0.00	March	0.00
April	6,244.55	April	365,432.16	April	0.00		
May	9,115.04	May	372,598.08	May	0.00		
June	141,983.84	June	382,382.88	June	0.00		
July	158,077.75	July	378,071.44	July	0.00		
August	191,823.76	August	372,018.77	August	0.00		
September	246,295.99	September	391,371.79	September	0.00		
October	271,920.00	October	383,697.84	October	0.00		
November	348,993.44	November	172.02	November	0.00		
December	345,429.93	December	0.00	December	0.00		

For the electronic version of this response, refer to KAW_R_AGDR1#24_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Sheila Miller

25. Please provide the monthly level of Deferred Compensation for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

There are none for KAW.

For the electronic, version refer to KAW_R_AGDR1#25_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller/Michael Miller

26. Please provide the monthly level of Accrued Pension for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

Please see the attached schedule which details the monthly level of accrued pension for 2007, 2008, through September 2009. The monthly level of accrued pension from October 2009 through September 2011 is detailed on the workpaper provided in response to KAW_R_PSCDR1#1a_WP1-11_031610 page 11 of 15. The excel version of that document can be found in response to KAW_R_AGDR1#1_042610 with the file name of Other Rate Base.xls under tab Accrued Pensions.

For the electronic version of this response, refer to KAW_R_AGDR1#26_042610.pdf.

Kentucky-American Water Company
Other Net Rate Base Elements
Accrued Pensions
AGDR1#26

Month	Amount
Jan-07	(2,427,775)
Feb-07	(2,501,875)
Mar-07	(2,202,510)
Apr-07	(2,262,057)
May-07	(2,322,663)
Jun-07	(2,382,740)
Jul-07	(2,442,817)
Aug-07	(2,218,337)
Sep-07	(2,278,414)
Oct-07	(2,338,491)
Nov-07	(2,114,009)
Dec-07	(2,174,086)
Jan-08	(2,241,120)
Feb-08	(1,827,272)
Mar-08	(1,894,306)
Apr-08	(1,961,340)
May-08	(1,547,492)
Jun-08	(1,614,526)
Jul-08	(1,681,560)
Aug-08	(1,434,976)
Sep-08	(1,502,010)
Oct-08	(1,569,044)
Nov-08	(1,322,460)
Dec-08	(1,389,494)
Jan-09	(1,524,688)
Feb-09	(1,659,882)
Mar-09	(1,464,056)
Apr-09	(1,603,533)
May-09	(1,399,141)
Jun-09	(1,538,618)
Jul-09	(1,678,095)
Aug-09	(1,314,839)
Sep-09	(1,443,596)

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Sheila Miller

27. Please provide the monthly level of each Deferred Credit item on KAWC's balance sheet for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.

Response:

See attached schedule. Please refer to Schedule B-8, page 2 of 2 for the projected amount as of 9/30/11. This schedule was filed as part of the Company's original application filing and is labeled as KAW_APP_EX37B_022610 page 53 of 54.

Please note that there is a Regulatory Asset associated with Deferred Income taxes on the Company's balance sheet as required by SFAS 109, which is utilized in determining the accumulated deferred income tax rate base reduction.

For the electronic version of this response, refer to KAW_R_AGDR1#27_042610.pdf.

Kentucky American Water
Deferred Credits
AGDR1#27

	Deferred Income Taxes	Deferred Investment Tax Credits	Reg. Liab. inc. tax refund thru rates	Other
2007				
January	35,149,820	1,295,582	10,546,709	3,099,937
February	35,127,275	1,288,516	10,627,377	3,251,618
March	35,207,003	1,281,449	10,711,153	2,651,946
April	35,258,665	1,274,383	10,762,313	2,792,528
May	35,368,337	1,267,316	10,813,710	2,764,744
June	35,430,417	1,260,250	10,865,284	2,912,820
July	35,579,066	1,253,184	10,917,157	2,983,209
August	35,713,518	1,246,117	10,969,121	2,751,638
September	32,970,310	1,239,051	11,810,156	2,896,268
October	32,196,230	1,231,984	11,850,135	3,862,883
November	32,179,274	1,224,918	11,878,969	3,539,176
December	33,072,254	1,217,811	12,254,027	3,673,089

	Deferred Income Taxes	Deferred Investment Tax Credits	Reg. Liab. inc. tax refund thru rates	Other
2008				
January	33,111,910	1,210,745	12,350,944	3,511,452
February	33,163,386	1,203,679	12,448,280	3,018,413
March	33,456,185	1,196,612	12,520,130	3,143,238
April	33,654,604	1,189,546	12,617,352	3,251,123
May	36,368,507	1,182,479	12,716,624	2,699,322
June	36,032,783	1,175,413	12,816,237	2,817,820
July	36,204,980	1,168,347	12,917,369	2,936,317
August	36,425,103	1,161,280	13,019,141	2,564,945
September	37,405,457	1,154,214	13,111,544	2,683,443
October	37,671,438	1,147,147	13,214,479	2,802,327
November	37,945,856	1,140,081	12,920,813	2,425,766
December	37,953,254	1,133,014	13,001,084	2,543,794

	Deferred Income Taxes	Deferred Investment Tax Credits	Reg. Liab. inc. tax refund thru rates	Other
2009				
January	38,009,693	1,125,948	13,079,807	2,771,497
February	38,170,971	1,118,882	13,190,006	2,356,949
March	39,104,188	1,111,815	13,303,679	2,600,417
April	39,485,470	1,104,749	13,415,358	2,836,096
May	40,482,381	1,097,682	13,523,213	2,427,296
June	40,927,991	1,090,616	13,626,780	2,660,604
July	41,801,065	1,083,549	13,731,799	2,893,808
August	42,516,028	1,076,483	13,748,730	2,326,097
September	45,902,235	1,069,417	13,839,099	2,538,678
October	46,445,329	1,062,350	13,929,386	2,771,881
November	46,723,703	1,055,284	14,024,739	2,192,840
December	47,384,171	1,048,217	14,120,836	2,426,049

	Deferred Income Taxes	Deferred Investment Tax Credits	Reg. Liab. inc. tax refund thru rates	Other
2010				
January	47,352,389	1,041,151	14,216,197	2,620,743
February	47,352,389	1,034,085	14,304,409	2,277,197
March	49,561,852	1,027,018	14,405,752	4,049,696

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Michael A. Miller

28. Accumulated Deferred Income Taxes (ADIT).
- a. Please provide a detailed itemization of each item of ADIT, in total, as of 12/31/2007, 12/31/2008, 12/31/2009, and by month for 2010 through 9/30/2011.
 - b. Please provide the monthly level of Accumulated Deferred Income Taxes, by timing difference item, for 2007, 2008, 2009, for each month in 2010 actual, and as projected, by month through 9/30/2011.
 - c. For each item, identify the book/tax-timing difference that causes the ADIT, explain when that temporary timing difference first arose, identify the amount of the timing difference as of each date, and describe in detail whether and how that particular timing difference relates to an item of utility rate base, utility revenue and/or utility expense, and how the related item has been reflected in the Company's filing for ratemaking purposes.

Response:

- a-c. The Company objects to this question on the grounds that the Company does not maintain parts of the requested information in the format requested and it would be extremely burdensome and costly to generate the data in that format. Portions of the requested information go back over 30 years, and the calculations of deferred tax provisions do not require the annual provision calculation by vintage under any guidelines of U. S. GAAP. Notwithstanding the objection the Company responds, please see the attached schedules which include the deferred income tax analysis for 2007-2009.
- c. For the portion of this question related to 2010 and the forecasted test-year ending September 2011, please refer to the response to KAW_R_AGDR1#212_042610.

For the electronic version of this response, refer to KAW_R_AGDR1#28_042610.pdf.

**KENTUCKY AMERICAN WATER COMPANY
ACCUMULATED DEFERRED INCOME TAXES AT 12/31/07**

A		B		C		D		E		F		G		H		I		J		K		L		M		N								
1		2		3		4		5		6		7		8		9		10		11		12		13		14								
Company:		FAS TRF- DEFERRED TAX ANALYSIS		Entity #		Current Col.		Taxes		JDE COC		Reg. Report		TBBIS		Audit		Opening Balance		PY Provision To Return Reconciliation		CGTD Opening Balance Sheet Adjust.		Reg. All Opening B/S Adjust Regulatory Rate Change		Regulatory/ TIC Cum. Basis Adjustment		Adjusted Opening Balance		Future Deductible (Available)				
Entity(s)		Kentucky - American Water Company		12		29				Account #		E/F N/Sort Code		Trail				Must Agree To PY Report		Must Agree To PRR Rec		Attach Explanation		No ETR		ETR Impact		Must Agree to Adj. TBBIS		Must Agree to Current				
FYE:		December 31, 2007								JDE COC		Reg. Report		TBBIS		Audit																		
J/E Ref:		J/E Name:								Account #		E/F N/Sort Code		Trail				Must Agree To PY Report		Must Agree To PRR Rec		Attach Explanation		No ETR		ETR Impact		Must Agree to Adj. TBBIS		Must Agree to Current				
10		Current Temporary Differences								Account #		E/F N/Sort Code		Trail				Must Agree To PY Report		Must Agree To PRR Rec		Attach Explanation		No ETR		ETR Impact		Must Agree to Adj. TBBIS		Must Agree to Current				
11	T220	JEF# T220 JV Gain/Loss	108000	A7	L5.31													0	0	0	0	0	0	0	0	0	0	0	0	0	0			
12	T005	JEF# T005 Uncollectible Accounts	143000	A7	A7.60													284,951	(20,196)	0	0	0	0	0	0	0	0	264,755	176	0				
13	Z022	JEF# Z022 Prov/Rm Adjust - Uncollectibles	143000	A7	A7.60													0	0	0	0	0	0	0	0	0	0	0	0	0	0			
14	Z237	JEF# Z237 Def Hist - Uncollectible Accounts - a/c 143000	143000	A7	A7.60													0	0	0	0	0	0	0	0	0	0	0	0	0	0			
15	T010	JEF# T010 Vacation Pay	174100	L5	A7.10													7,798	25,768	(2)	0	0	0	0	0	0	0	33,568	(47,800)	0				
16	Z209	JEF# Z209 Def Hist - Vacation Pay a/c 174100	174100	L5	A7.10													38,592	0	0	0	0	0	0	0	0	38,592	0	0	0	0			
17	T215	JEF# T215 DO NOT USE after 2003 Foreign Interest-267 Adjustment	210240	A7	A7.60													0	(500)	0	0	0	0	0	0	0	0	0	0	0	0			
18	T015	JEF# T015 Customer Deposits	238010	A7	A7.25													25,174	0	0	0	0	0	0	0	0	0	25,174	0	0	0			
19	Z214	JEF# Z214 Def Hist - Customer Deposits a/c 238010	238010	A7	A7.25													37,050	0	0	0	0	0	0	0	0	37,050	0	0	0	0			
20	Z215	JEF# Z215 Def Hist - Customer Deposits a/c 238020	238020	A7	A7.25													8,699	0	0	0	0	0	0	0	0	8,699	0	0	0	0			
21	Z210	JEF# Z210 Section 163(j) Limitation	210240	A7	A7.60													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
22	T216	JEF# T216 Foreign Interest-267 Adjustment	210240	A7	A7.60													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
23	XXXX	Open		L5	A10.00													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
24	XXXX	Open		L5	A10.00													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
25	XXXX	Open		A7	A10.00													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
26	XXXX	STEP Adjustment		A7	A10.00													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
27	XXXX	Open		L1	A10.00													284,263	0	0	0	0	0	0	0	0	0	284,263	0	0	0	0		
28		Subtotal Current Temporary Differences		L5	L10.00													(8,627)	5,072	0	0	0	0	0	0	0	264,276	0	0	0	0	(47,624)		
29		Subtotal Long-Term Temporary Differences (Non-Reg)		A3	A3.10													(511,367)	10,661	0	0	0	0	0	0	0	0	(600,700)	0	0	0	0	(534,340)	
30	T145	JEF# T145 AFUDC (AFUDC-1)	101000	L1	L1.10													(6,707,234)	0	0	0	0	0	0	0	0	(6,713,941)	0	0	0	0	0		
31	T151	JEF# T151 Amortization of Post-In-Serv AFUDC (P AFUDC-2)	101000	L1	L1.10													6,707,234	0	0	0	0	0	0	0	0	(6,713,941)	0	0	0	0	0		
32	Z201	JEF# Z201 Def Hist - Plant a/c 101000	101000	L1	L1.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
33	T047	JEF# T047 Reg Asset - AFUDC Debt (In Plant) (Depr 3)	101100	L1	L1.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
34	Z202	JEF# Z202 Def Hist - Land a/c 101303	101303	L5	L1.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
35	Z203	JEF# Z203 Def Hist - Prop. Held Future Use a/c 103000	103000	L5	L1.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
36	Z203	JEF# Z203 Def Hist - Prop. Held Future Use a/c 103000	103000	L5	L1.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
37	T045	JEF# T045 Depreciation and Amortization (Depr 1)	108000	L1	L1.20													28,551,040	(900,080)	0	0	0	0	0	0	0	0	(28,641,120)	0	0	0	0	0	
38	T049	JEF# T049 Goodwill Amortization	108000	L1	L1.20													4,553	(262,114)	0	0	0	0	0	0	0	0	(257,561)	0	0	0	0	0	
39	T080	JEF# T080 Gains and Losses (Disp 3)	108000	L1	L1.20													9,931,603	739,670	0	0	0	0	0	0	0	(10,670,273)	0	0	0	0	0	0	
40	T082	JEF# T082 Abandonment Losses (Disp 3)	108000	L1	L1.20													239,390	(10,786)	0	0	0	0	0	0	0	(248,176)	0	0	0	0	0	0	
41	T083	JEF# T083 Cost of Removal (Disp 4)	108000	L1	L1.20													52,106,164	(10,786)	0	0	0	0	0	0	0	(52,116,950)	0	0	0	0	0	0	
42	Z204	JEF# Z204 Def Hist - Depreciation a/c 108000	108000	L1	L1.20													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
43	Z207	JEF# Z207 Def Hist - Nonutility Property a/c 121000	121000	L1	L1.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
44	Z208	JEF# Z208 Def Hist - Acq. Depr Nonutility Prop a/c 122000	122000	L1	L1.20													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
45	T050	JEF# T050 Intangible Indefinite Life	123131	L1	L2.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
46	T048	JEF# T048 Reg Asset - AFUDC Debt (Depr 4)	108190	L1	L1.20													96,014	575	0	0	0	0	0	0	0	0	96,589	0	0	0	0	0	
47	T075	JEF# T075 Depreciation	108400	L1	L1.33													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
48	Z205	JEF# Z205 Def Hist - Amortization a/c 110000	110000	L1	L1.10													106,221	1,765	0	0	0	0	0	0	0	(107,986)	0	0	0	0	0		
49	T070	JEF# T070 Amortization of UPAA	114000	L1	L2.10													0	0	0	0	0	0	0	0	0	(413,014)	0	0	0	0	0		
50	Z206	JEF# Z206 Def Hist - Annot UPAA a/c 114000	114000	L1	L2.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
51	Z236	JEF# Z236 Def Hist - Accum Amort UPAA - a/c 115000	115000	L5	L2.25													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
52	Z229	JEF# Z229 Def Hist - Nonutility Property-Land a/c 121100	121100	L5	L1.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
53	T175	JEF# T175 Acquisition Costs	123140	L2	L2.33													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
54	T170	JEF# T170 Deferred Revenue	173000	L5	L5.10													0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
55	T100	JEF# T100 Amortization of Debt Discount	181000	L5	A7.31																													

KENTUCKY AMERICAN WATER COMPANY
ACCUMULATED DEFERRED INCOME TAXES AT 12/31/07

1	O	P	Q	R	S	T	U	V	W
2	DR(CR)								
3	CY	CY	CY	Other	Ending	Ending	Ending	Ending	Total
4	Reg All	Reg ITC	Equity	CY	Balance	Deferred	Deferred	Deferred	Ending
5	Movement	Movement	Adjustment	Adjustment	CGTD	Tax	Tax	Tax	Deferred
6						Asset	Liability	Liability	Tax
7						(Gross)			A/L)
8						Effective	Effective	Effective	(Unless
9						38.50%	38.50%	38.50%	Otherwise
10						Rate	Rate	Rate	Indicated)
11						(Unless	(Unless	(Unless	Indicated)
12						Otherwise	Otherwise	Otherwise	Indicated)
13						Indicated)	Indicated)	Indicated)	
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28	0	0	0	0	212,103, FN2	120,820	38,312	38,312	82,698
29					CF				
30									
31					(5,394,184)			1,316,448	(1,316,448)
32									
33					(61,831,836)			24,052,584	(24,052,584)
34					(272,637)			106,056	(106,056)
35									
36									
37					(20,199,229)			7,857,500	(7,857,500)
38									
39					(266,667)			103,733	(103,733)
40					(3,994,693)			1,553,936	(1,553,936)
41					(233,755)			114,271	(114,271)
42					(52,106,164)			20,269,298	(20,269,298)
43									
44									
45									
46									
47					96,589			37,573	37,573
48									
49									
50					(305,028)			118,656	(118,656)
51									
52									
53									
54									
55									
56									
57					(546,749)			212,685	(212,685)
58									
59									
60					213,362			82,998	82,998
61									
62					1,543,773			600,528	600,528
63									
64					(2,857,843)			1,111,740	(1,111,740)
65					360,198			140,117	140,117
66									
67					(3,198,280)			1,244,131	(1,244,131)
68					208,320			81,036	81,036
69					(54,911)			21,360	(21,360)
70									
71					(1,724,150)			670,694	(670,694)
72									
73									
74									
75									
76									
77									
78									
79									
80					551,288			214,451	214,451

KENTUCKY AMERICAN WATER COMPANY
ACCUMULATED DEFERRED INCOME TAXES AT 12/31/07

1	DR(CR)	O	P	Q	R	S	T	U	V	W
2	CY Reg All Movement	CY Reg ITC Movement	CY Equity Adjustment	Other CY Adjustment	Ending Balance CGTD	Ending Deferred Tax Asset (Gross)	Effective Deferred Rate (Unless Otherwise Indicated)	Ending Deferred Tax Liability	Ending Deferred Tax Asset (Gross)	Total Ending Deferred Tax A/L
81	0	0	0	0	2,857,000	0	38.50%	0	0	1,111,373
82	0	0	0	0	0	0		0	0	0
83	0	0	0	0	(27,423)	0		10,668	10,668	(10,668)
84	0	0	0	0	(13,321)	0		5,182	5,182	(5,182)
85	0	0	0	0	0	0		0	0	0
86	0	0	0	0	0	0		0	0	0
87	0	0	0	0	(101,250)	0		38,386	38,386	(38,386)
88	0	0	0	0	2,797,287	0		0	0	1,088,145
89	0	0	0	0	0	0		0	0	0
90	0	0	0	0	0	0		0	0	0
91	0	0	0	0	0	0		0	0	0
92	0	0	0	0	0	0		0	0	0
93	0	0	0	0	0	0		0	0	0
94	0	0	0	0	0	0		0	0	0
95	0	0	0	0	0	0		0	0	0
96	0	0	0	0	0	0		0	0	0
97	0	0	2,345,144	0	43,795,389	17,036,406		0	0	17,036,406
98	0	0	0	0	1,274,029	495,597		0	0	495,597
99	0	0	0	0	(606,881)	0		235,960	0	(235,960)
100	0	0	0	0	712,290	277,081		0	0	277,081
101	0	0	0	0	0	0		0	0	0
102	0	0	0	0	(943,631)	0		367,072	0	(367,072)
103	0	0	0	0	0	0		0	0	0
104	0	0	0	0	0	0		0	0	0
105	0	0	0	0	0	0		0	0	0
106	0	0	0	0	0	0		0	0	0
107	0	0	0	0	0	0		0	0	0
108	0	0	0	0	0	0		0	0	0
109	0	0	0	0	299,737	116,598		0	0	116,598
110	0	0	0	0	269,842	104,969		0	0	104,969
111	0	0	0	0	0	0		0	0	0
112	0	0	0	0	87,875	34,183		0	0	34,183
113	0	0	0	0	42,076	16,368		0	0	16,368
114	0	0	0	0	(30)	0		12	12	(12)
115	0	0	0	0	0	0		0	0	0
116	0	0	0	0	0	0		0	0	0
117	0	0	0	0	0	0		0	0	0
118	0	0	0	0	0	0		0	0	0
119	0	0	0	0	0	0		0	0	0
120	0	0	0	0	0	0		0	0	0
121	0	0	0	0	8,511,942	3,311,145		0	0	3,311,145
122	0	0	0	0	0	0		0	0	0
123	0	0	0	0	0	0		0	0	0
124	0	0	0	0	0	0		0	0	0
125	0	0	0	0	0	0		0	0	0
126	0	0	0	0	0	0		0	0	0
127	0	0	0	0	0	0		0	0	0
128	0	0	0	0	0	0		0	0	0
129	0	0	0	0	0	0		0	0	0
130	0	0	0	0	0	0		0	0	0
131	0	0	0	0	0	0		0	0	0
132	0	0	0	0	0	0		0	0	0
133	0	0	0	0	0	0		0	0	0
134	0	0	0	0	0	0		0	0	0
135	0	0	0	0	0	0		0	0	0
136	0	0	0	0	0	0		0	0	0
137	0	0	0	0	0	0		0	0	0
138	0	0	0	0	0	0		0	0	0
139	0	0	0	0	0	0		0	0	0
140	0	0	0	0	1,226,519	477,116		0	0	477,116
141	0	0	0	0	0	0		0	0	0
142	0	0	0	0	0	0		0	0	0
143	0	0	0	0	0	0		0	0	0
144	0	0	0	0	0	0		0	0	0
145	0	0	0	0	0	0		0	0	0
146	0	0	0	0	1,220,821	474,899		0	0	474,899
147	0	0	0	0	0	0		0	0	0
148	0	0	0	0	0	0		0	0	0
149	0	0	0	0	0	0		0	0	0
150	0	0	0	0	0	0		0	0	0
151	0	0	0	0	0	0		0	0	0
152	0	0	0	0	(86,660,123)	25,700,584		59,411,372	59,411,372	(33,710,788)

KENTUCKY AMERICAN WATER COMPANY
 ACCUMULATED DEFERRED INCOME TAXES AT 12/31/07

1	O	P	Q	R	S	T	U	V	W	
1 - DR/(CR)	CY Reg A/L Movement	CY Reg ITC Movement	CY Equity Adjustment	Other CY Adjustment	Ending Balance CGTD	Ending Deferred Tax Asset (Gross)	Ending Deferred Tax Liability	Ending Deferred Tax A/(L)	Total Ending Deferred Tax A/(L)	
2	3	4	5	6	7	8	9	10	11	
153	154	155	156	157	158	159	160	161	162	
163	164	165	166	167	168	169	170	171	172	
173	174	175	176	177	178	179	180	181	182	
183	184	185	186	187	188	189	190	191	192	
193	194	195	196	197	198	199	200	201	202	
203	204	205								
					CF			38.50%		
								(Unless Otherwise Indicated)		
153					0	0	0	0	0	
154					(4,090,749)	0	0	0	0	
155	397,308				477,237	185,645	1,591,301	1,591,301	(1,591,301)	
156	(24,100)				0	0	0	0	185,645	
157	0				0	0	0	0	0	
158	0				0	0	0	0	0	
159	0				0	0	0	0	0	
160	(140,803)				1,425,598	554,558	108,471	108,471	554,558	
161	27,558				(278,847)	0	0	0	(108,471)	
162	(61,865)		25,841	806,124	1,643,361	639,267	0	0	639,267	
163	0		0	0	0	0	0	0	0	
164	(48,482)		0	0	691,541	269,009	0	0	269,009	
165	0		0	0	0	0	0	0	0	
166	0		0	0	0	0	0	0	0	
167	0		0	0	0	0	0	0	0	
168	0		0	0	0	0	0	0	0	
169	0		0	0	0	0	0	0	0	
170	0		0	0	0	0	0	0	0	
171	0		0	0	0	0	0	0	0	
172	149,516	0	25,841	806,124	(131,658)	1,648,480	1,689,772	1,689,772	(61,293)	
173					CF					
174					1,217,811	473,728	0	0	473,728	
175		(84,797)			0	0	0	0	0	
176		0			1,217,811	473,728	0	0	473,728	
177		0			0	0	0	0	0	
178		0			0	0	0	0	0	
179		0			0	0	0	0	0	
180		0			0	0	0	0	0	
181	0	(84,797)	0	0	1,217,811	473,728	0	0	473,728	
182					CF					
183					158,735	55,557	N/A	N/A	55,557	
184	0	0	0	0	308,053	107,819	N/A	N/A	107,819	
185	0	0	0	0	(1,831)	(641)	N/A	N/A	(641)	
186	0	0	0	0	0	0	N/A	N/A	0	
187	0	0	0	0	0	0	N/A	N/A	0	
188	0	0	0	0	0	0	N/A	N/A	0	
189	0	0	0	0	0	0	N/A	N/A	0	
190	0	0	0	0	484,557	162,735	N/A	N/A	162,735	
191					CF					
192					0	0	(Tax Effected at 35%)	0	0	
193	0	0	0	0	(3,373,475)	0	0	0	0	
194	0	0	0	0	0	0	1,312,282	1,312,282	(1,312,282)	
195	0	0	0	0	0	0	0	0	0	
196	0	0	0	0	0	0	0	0	0	
197	0	0	0	0	(3,373,475)	0	1,312,282	1,312,282	(1,312,282)	
198					CF					
199					0	0	0	0	0	
200	0	0	0	0	0	0	N/A	N/A	0	
201	0	0	0	0	0	0	N/A	N/A	0	
202	0	0	0	0	15,103,272	589,028	N/A	N/A	589,028	
203	0	0	0	0	0	0	N/A	N/A	0	
204	0	0	0	0	15,103,272	589,028	0	0	589,028	
205					CF					
					(Tax Effected at State Net of Federal)					

KENTUCKY AMERICAN WATER COMPANY
ACCUMULATED DEFERRED INCOME TAXES AT 12/31/07

1	2	3	4	5	6	7	8	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	Cumulative Gross Temporary Differences (CGTD) - Future Deductible (Taxable)			
																																																																												Opening Balance CGTD	PGY Provision To Return Reconciliation	CGTD Opening Balance Rate Change	CGTD Opening Balance Sheet Adjust.
Entity # 12 Company: Kentucky - American Water Company Stand-alone regulated entity December 31, 2007 FYE: 29 JE Ref: JE Name: JDE COC Account # Reg Report E/N Sort Code TBBS Audit Trail																																																																															
State CGTD																																																																															
Total State CGTD																																																																															
State Effective Tax Rate																																																																															
Deferred State Tax (without State Credits)																																																																															
State Credits																																																																															
State ITC (Gross)																																																																															
Other																																																																															
Total State Credits																																																																															
Deferred State Tax (with State Credits)																																																																															
Less: State Valuation Allowance																																																																															
Total Deferred State Tax																																																																															
Total Federal GCTD																																																																															
Less Deferred State Tax																																																																															
Federal Taxable GCTD																																																																															
Federal Effective Tax Rate																																																																															
Deferred Federal Tax (without Federal Credits)																																																																															
Federal Credits																																																																															
AMT																																																																															
R&D																																																																															
Other																																																																															
Total Federal Credits																																																																															
Equity Items (Tax Effect)																																																																															
Minimum Pension Liability																																																																															
Other																																																																															
Total State Credits																																																																															
Total Deferred Federal																																																																															
Total Deferred State																																																																															
Total Deferred Tax																																																																															
Federal																																																																															
State																																																																															
Diff																																																																															
Federal																																																																															
State																																																																															
Diff																																																																															
Federal - Current																																																																															
Federal - NonCurrent																																																																															
State - Current																																																																															
State - NonCurrent																																																																															
Total																																																																															
Without Other Adjustment																																																																															
NonCurrent - Federal																																																																															
NonCurrent - State																																																																															
Total																																																																															
Deferred Tax Rates (Used for Regulatory Reporting)																																																																															
Federal Income Tax																																																																															
State Income Tax (Sapco)																																																																															
Net of Federal Benefit																																																																															
Total (Net)																																																																															

KENTUCKY AMERICAN WATER COMPANY
ACCUMULATED DEFERRED INCOME TAXES AT 12/31/07

1	DR(CR)	O	P	Q	R	S	T	U	V	W
2	Reg All	CY	CY	Equity	Other	Ending	Ending	Ending	Deferred	Total
3	Movement	Reg ITC	Reg ITC	Adjustment	CY	Balance	Balance	Tax	Tax	Ending
4		Movement	Movement	Adjustment	Adjustment	CGTD	CGTD	Liability	Liability	Deferred
5								Asset	Asset	Tax
6					Attach			(Gross)	(Gross)	A/(L)
7					Explanation			(Effective)	(Effective)	A/(L)
8								38.50%	(Unless	(Unless
9								0.00%	Otherwise	Otherwise
207	149,516	(84,797)	25,841	806,124		(73,632,271)				
208	6.00%	6.00%	6.00%			6.00%				
209	8,971	(5,088)	1,550	48,367		(4,417,936)				
210										
211										
212										
213										
214										
215										
216										
217	8,971	(5,088)	1,550	48,367		(4,417,936)				
218										
219	8,971	(5,088)	1,550	48,367		(4,417,936)				
220										
221										
222	149,516	(84,797)	25,841	806,124		(86,270,586)				
223	(8,971)	5,088	(1,550)	(48,367)		4,417,936				
224	140,545	(79,709)	24,290	757,757		(83,852,650)				
225	35.00%	35.00%	35.00%			35.00%				
226	49,191	(27,898)	8,502	265,215		(29,348,427)				
227										
228										
229	0	0	0	0		874,595		874,595	N/A	874,595
230	0	0	0	0		15,057		15,057	N/A	15,057
231	0	0	0	0		0		0	N/A	0
232	0	0	0	0		889,652		889,652	N/A	889,652
233									(Valued at 100%)	
234										
235										
236										
237										
238										
239										
240	49,191	(27,898)	8,502	265,215		(28,458,715)	FH4			
241	8,971	(5,088)	1,550	48,367		(4,417,936)	FH6			
242	58,162	(32,986)	10,052	313,582		(32,876,712)				
243							DT13			
244										
245										
246										
247										
248										
249										
250										
251										
252										
253										
254	49,191	(27,898)	8,502	265,215		(28,528,557)				
255	0	0	0	0		12,726				
256	8,971	(5,088)	1,550	48,367		(4,430,662)				
257										
258	35,162	(32,986)	10,052	313,582		(32,876,712)				
259										
260										
261										
262										
263										
264										
265										
266										
267										
268										
269										
270										
271										
272										
273										

Reconciliation to Footnote in FTS

DTA (DTL)

DT12 DT13

Federal State

12/31/07 GL WOTS (4,424,663)

Diff (6,726) 6,727

Unreconciled: 0

Unreconciled: (27,418,684) (4,228,254)

Unreconciled: 0

Unreconciled: 0

**KENTUCKY AMERICAN WATER COMPANY
ACCUMULATED DEFERRED INCOME TAXES AT 12/31/08**

1 2 3 4 5 6 7 8	O CY Reg A/L Movement	P CY Reg ITC Movement	Q CY Equity Adjustment	R Other CY Adjustment	S Ending Balance CGTD	T	U Ending Deferred Tax Asset (Gross)	V Ending Deferred Tax Liability	W Total Ending Deferred Tax A/(L)
							38.90%		
153	0	0	0	0	0		0	0	0
154	0	0	0	0	(2,395,385)		0	931,985	(931,805)
155	0	0	0	0	0		0	0	0
156	0	0	0	0	0		0	0	0
157	0	0	0	0	0		0	0	0
158	0	0	0	0	0		0	0	0
159	0	0	0	0	0		0	0	0
160	0	0	0	0	0		0	0	0
161	0	0	0	0	0		0	0	0
162	0	0	0	0	0		0	0	0
163	0	0	0	0	0		0	0	0
164	0	0	0	0	0		0	0	0
165	0	0	0	0	10,338		4,021	0	4,021
166	0	0	0	0	2,918		1,135	0	1,135
167	0	0	0	0	4,882		1,899	0	1,899
168	0	0	0	0	1,701		662	0	662
169	0	0	0	0	0		0	0	0
170	0	0	0	0	0		0	0	0
171	0	0	0	0	0		0	0	0
172	0	0	0	0	0		0	0	0
173	0	0	0	0	0		0	0	0
174	0	0	0	0	(88,144,118)	CF	34,510,144	72,688,206	(38,178,062)
175									
176	0	0	0	0	0		0	0	0
177	426,000	0	0	0	(3,664,748)		0	1,425,587	(1,425,587)
178	(24,100)	0	0	0	453,137		176,270	0	176,270
179	0	0	0	0	0		0	0	0
180	0	0	0	0	0		0	0	0
181	0	0	0	0	0		0	0	0
182	(140,803)	0	0	0	1,284,795		498,785	0	498,785
183	27,558	0	0	0	(251,269)		610,418	97,751	(97,751)
184	(46,694)	0	0	0	1,569,199		0	0	610,418
185	0	0	0	0	0		0	0	0
186	(46,492)	0	0	0	643,059		250,150	0	250,150
187	0	0	0	0	0		0	0	0
188	0	0	0	0	0		0	0	0
189	0	0	0	0	0		0	0	0
190	0	0	0	0	0		0	0	0
191	0	0	0	0	0		0	0	0
192	0	0	0	0	0		0	0	0
193	0	0	0	0	0		0	0	0
194	191,489	0	0	0	34,153	CF	1,536,624	1,323,338	13,285
195									
196	0	(84,797)	0	0	1,133,014		440,742	0	440,742
197	0	0	0	0	0		0	0	0
198	0	0	0	0	0		0	0	0
199	0	0	0	0	0		0	0	0
200	0	0	0	0	0		0	0	0
201	0	0	0	0	0		0	0	0
202	0	0	0	0	0		0	0	0
203	0	(84,797)	0	0	1,133,014	CF	440,742	0	440,742
204									
205	0	0	0	0	336,498		117,774	N/A	117,774
206	0	0	0	0	308,053		107,819	N/A	107,819
207	0	0	0	0	302,018		105,706	N/A	105,706
208	0	0	0	0	0		0	N/A	0
209	0	0	0	0	0		0	N/A	0
210	0	0	0	0	0		0	N/A	0
211	0	0	0	0	0		0	N/A	0
212	0	0	0	0	946,569	CF	331,299	(Tax Effect at 35%)	331,299
213									
214	0	0	0	0	0		0	0	0
215	0	0	0	0	(3,160,978)		0	1,229,620	(1,229,620)
216	0	0	0	0	0		0	0	0
217	0	0	0	0	0		0	0	0
218	0	0	0	0	0		0	0	0
219	0	0	0	0	(3,160,978)	CF	0	1,229,620	(1,229,620)
220									
221	0	0	0	0	170,003		6,630	N/A	6,630
222	0	0	0	0	0		0	0	0
223	0	0	0	0	15,705,438		612,512	N/A	612,512
224	0	0	0	0	0		0	0	0

**KENTUCKY AMERICAN WATER COMPANY
ACCUMULATED DEFERRED INCOME TAXES AT 12/31/08**

1 2 3 4 5 6 7 8	O CY Reg A/L Movement	P CY Reg ITC Movement	Q CY Equity Adjustment	R Other CY Adjustment	S Ending Balance CGTD	T	U Ending Deferred Tax Asset (Gross)	V Ending Deferred Tax Liability	W Total Ending Deferred Tax A/(L)
2226	0	0	0	0	15,875,441		0	0	619,142
2227	0	0	0	0	15,875,441		0	0	619,142
2228									
2229	191,489	(84,797)	0	0	(83,961,026)		0	0	0
2230	6.00%	6.00%	6.00%	6.00%	6.00%		0	0	0
2231	11,489	(5,088)	0	0	(5,037,662)		0	0	0
2232									
2233									
2234									
2235	0	0	0	0	0		0	0	0
2236	0	0	0	0	0		0	0	0
2237	0	0	0	0	0		0	0	0
2238	0	0	0	0	0		0	0	0
2239									
2240	11,489	(5,088)	0	0	(5,037,662)		0	0	0
2241	0	0	0	0	0		0	0	0
2242	11,489	(5,088)	0	0	(5,037,662)		0	0	0
2243									
2244	191,489	(84,797)	0	0	(83,961,026)		0	0	0
2245	(11,489)	5,088	0	0	5,037,662		0	0	0
2246	180,000	(79,709)	0	0	(93,652,236)		0	0	0
2247	35.00%	35.00%	35.00%	35.00%	35.00%		0	0	0
2248	63,000	(27,898)	0	0	(32,846,282)		0	0	0
2249									
2250	0	0	0	0	0		0	0	0
2251	0	0	0	0	0		0	0	0
2252	0	0	0	0	15,057		15,057	0	15,057
2253	0	0	0	0	0		0	0	0
2254	0	0	0	0	15,057		15,057	0	15,057
2255									
2256									
2257									
2258									
2259									
2260									
2261									
2262	63,000	(27,898)	0	0	(32,833,225) FN4		0	0	0
2263	11,489	(5,088)	0	0	(5,037,662) FN6		0	0	0
2264	74,489	(32,986)	0	0	(37,870,887)		0	0	0
2265	D19	DT10	DT11	DT12	DT13				
2266									
2267									
2268									
2269									
2270									
2271									
2272									
2273									
2274	0	0	0	0	98,181		0	0	98,181
2275	63,000	(27,898)	0	0	(32,932,407)		0	0	(32,932,407)
2276	0	0	0	0	18,088		0	0	18,088
2277	11,489	(5,088)	0	0	(5,055,749)		0	0	(5,055,749)
2278									
2279	74,489	(32,986)	0	0	(37,870,887)		0	0	(37,870,887)
2280									
2281									
2282									
2283									
2284									
2285									
2286									
2287									
2288									
2289									
2290									
2291									
2292									
2293									
2294									

Reconciliation to Footnote in LFS

KENTUCKY AMERICAN WATER COMPANY
ACCUMULATED DEFERRED TAXES 12/31/09

1	(a) - DR/CR	O	P	Q	R	S	T	U	V	W	
											Reg All Movement
225		0	0	0	0	0	CF	0	1,229,620	(1,229,620)	0
226		0	0	0	0	0	CF	0	1,229,620	(1,229,620)	0
227		0	0	0	0	6,891,586		256,662	N/A		256,662
228		0	0	0	0	861,135		6,440	N/A		6,440
229		0	0	0	0	22,261,765		869,209	N/A		869,209
230		0	0	0	0	716		28	N/A		28
231		0	0	0	0	0		0	N/A		0
232		0	0	0	0	0		0	N/A		0
233		0	0	0	0	0		0	N/A		0
234		0	0	0	0	0		0	N/A		0
235		0	0	0	0	(1,353,983)		(52,805)	N/A		(52,805)
236		0	0	0	0	7,899,600		311,984	N/A		311,984
237		0	0	0	0	35,854,818		1,390,538	N/A		1,390,538
238							CF				
239											
240	227,333	(84,793)	0	0	0	(83,094,875)					
241	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%					
242	13,640	(5,068)	0	0	0	(5,985,692)					
243											
244											
245	0	0	0	0	0	0		0	N/A		0
246	0	0	0	0	0	0		0	N/A		0
247	0	0	0	0	0	0		0	N/A		0
248	0	0	0	0	0	0		0	N/A		0
249	0	0	0	0	0	0		0	N/A		0
250	0	0	0	0	0	0		0	N/A		0
251	13,640	(5,068)	0	0	0	(5,985,692)					
252											
253	13,640	(5,068)	0	0	0	(5,985,692)					
254											
255											
256											
257	227,333	(84,793)	0	0	0	(194,722,190)					
258	(13,640)	(5,068)	0	0	0	5,985,692					
259	213,693	(79,709)	0	0	0	(119,136,497)					
260	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%					
261	74,793	(27,898)	0	0	0	(41,697,714)					
262											
263											
264	0	0	0	0	0	0		0	N/A		0
265	0	0	0	0	0	16,420		16,420	N/A		16,420
266	0	0	0	0	0	0		0	N/A		0
267	0	0	0	0	0	0		0	N/A		0
268	0	0	0	0	0	0		0	N/A		0
269	0	0	0	0	0	16,420		16,420	N/A		16,420
270											
271											
272	0	0	0	0	0	0		0	N/A		0
273	0	0	0	0	0	0		0	N/A		0
274	0	0	0	0	0	0		0	N/A		0
275	0	0	0	0	0	0		0	N/A		0
276											
277	74,793	(27,898)	0	0	0	(41,681,354)	FNA				
278	13,640	(5,068)	0	0	0	(5,985,692)	FNA				
279	88,433	(32,966)	0	0	0	(47,267,047)	FNA				
280							DT13				
281							DT12				
282							Federal				
283							State				
284							GILWOTS 12/31/09	(41,676,634)			
285								(4,720)			
286											
287											
288											
289											
290	0	0	0	0	0	89,374					
291	74,793	(27,898)	0	0	0	(41,770,729)					
292	0	0	0	0	0	16,299					
293	13,640	(5,068)	0	0	0	(5,801,992)					
294											
295	88,433	(32,966)	0	0	0	(47,267,047)					
296											

(Tax credits valued net of Federal benefit)

(Valued at 100%)

(Valued as tax effected)

Unreconciled:

OK

KENTUCKY AMERICAN WATER COMPANY
ACCUMULATED DEFERRED TAXES 12/31/09

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
A	B	C	D	E	F	G	H	I	J	K	L	M	N																																																																																						
Company	Entity #	JDE CCC Account #	Reg Report	TBBS	Audit Trail	Opening Balance CGTD	PY Provision To Return Reconciliation	CGTD Opening Balance Rate Change	CGTD Opening Balance Sheet Adjust.	Reg. AL Opening Balance Rate Change	Regulatory ITC Cum. Basis Adjustment	Adjusted Opening Balance	Future Deductible(Taxable)																																																																																						
FAS 109 - DEFERRED TAX ANALYSIS	12																																																																																																		
Kentucky - American Water Company																																																																																																			
Stand-alone regulated entity	7																																																																																																		
December 31, 2009																																																																																																			
J/E Name:																																																																																																			
J/E Ref:																																																																																																			
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310																																																																																																			

Without Other Adjustment
NonCurrent - Federal (1,577,477)
NonCurrent - State 486,483

Deferred Tax Rates (Used for Regulatory Reporting)	CY	PY	Change
Federal Income Tax	35.00%	35.00%	0.00%
State Income Tax	6.00%	6.00%	0.00%
Net of Federal Benefit	-2.10%	-2.10%	0.00%
Total (Net)	38.90%	38.90%	0.00%

Without Other Adjustment	FN8	FN9
Regulatory Rate		

KENTUCKY AMERICAN WATER COMPANY
AG1 Question 28
For The Forecasted Test Period Ending 9/30/2011

Tax Sensitive Accounts

Current Provision Only

575350 Meals Deduct-P/R JE
575351 Meals Non Deduct
575640 Penalties Nondeduct
760600 Non-Op Empl Exp Nondeduct
575560 Lobbying Expenses
760400 Other Lobbying Expenses
860040 Div Dec PS-Out w/ mand

Current and Deferred Provisions

108190 Acc Depr Reg Asset
143000 Accum prov-uncoll accts
146370 Accum prov-uncoll misc a/r
174100 Deferred Vacation Pay
182000 Deferred Rate Proceedings
183280 DEF-Customer Service Project
185950 RWIP Reg Liab Reclass
186040 Reg Asset-Plt Flow-Diff
186045 Reg Asset-Other
186055 Reg Asset-Accum Amort
186401 DDA-Programmed Maint
186405 DDA-RIA Software Licen
186426 DDA-FAS 112 Costs
186431 DDA-Depreciation Study
186432 DDA-Cost of Service Study
186444 DDA-Waste Disposal
186598 DDA-Oth Reg Assets
241100 Accrued Vacation Pay
241212 Accr DCP Contribution
241322 Incentive Plan Cash Annual
241500 Accrued Paving-Analyzed
241998 Other Curr Liab Analyzed
252999 Adv for Const-Cur Portion Recl
256212 Reg Liab-Exc Def Depr FIT
256220 Reg Liab-Deficit Def FIT
256232 Reg Liab-Exc Def Depr SIT
256250 Reg Liab-Cost of Removal
256312 Reg Liab-ITC Gross-Up 10%
256335 Reg Liab-Gain on Debt Exting
256340 Regulatory Liab. - Other
262120 DCA-Accr Pension Def Benefit
262210 DCA-Accr OPEB
262215 DCA-Accr OPEB Med Subsidy
262313 DCA-FAS 112 Costs
262398 DCA-Other
271210 CIAC-Tax Mains
271220 CIAC-Tax Ext Dep
271230 CIAC-Tax Services
271240 CIAC-Tax Meters
271250 CIAC-Tax Hydrants
271260 CIAC-Tax Other
271270 CIAC-Tax WIP
272010 Accum Amort CIAC-Mains
272040 Accum Amort CIAC-Meters
272050 Accum Amort CIAC-Hydrants
272060 Accum Amort CIAC-Other
272100 Accum Amort CIAC-Taxable
501716 Comp Exp-Options
501717 Comp Exp-Restricted Stk
501718 Comp Exp-RSU's
508200 ESPP Oper AG

680110 Depr Exp-General
680300 Amortization of UPAA
690630 Def FIT-Reg Asset/Liab
690730 Def SIT-Reg Asset/Liab
695220 ITC Restored - 3%
695230 ITC Restored - 4%
695240 ITC Restored - 10%
705100 AFUDC - Equity
755100 Amort UPAA
850000 AFUDC Debt

For calculation of book over tax depreciation see AG1 Question 226

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Michael A. Miller/Sheila Miller**

29. Accumulated Deferred Income Taxes (ADIT). Please identify by amount and account, the corresponding regulatory asset/(liability) and/or other deferred debit/(credit) relating to each item that comprises the total ADIT of that KAWC has included in rate base. For each component of ADIT, please provide the following information:
- a. Description of each item of ADIT that comprises the total amount KAWC has reflected in rate base.
 - b. Balance sheet account in which KAWC recorded the ADIT.
 - c. Related deferred asset, deferred credit or liability account for each component of ADIT.
 - d. Identification of whether and where the related deferred asset, deferred credit or liability account for each component of ADIT is included in KAWC's proposed rate base, and for each item, if not, a detailed explanation of why not.

Response:

Please refer to KAW_R_PSCDR1#1a_WP1-8_031610, pages 2-25 of 25, and KAW_R_AGDR1#1_042610, file name deferred taxes 10 revised 1109.xls.

For the electronic version of this response, refer to KAW_R_AGDR1#29_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller**

30. Is the Company claiming a test year depreciation expense on contributed property? If so, please quantify the depreciation expense, depreciation reserve, deferred tax expense, and deferred tax reserve amounts associated with this claim.

Response:

No book depreciation is recorded on CIAC property in the future test-year. Historically, the Commission has not permitted depreciation on CIAC property and KAW's books are reflective of the Commission's rulings and practices.

For the electronic version, refer to KAW_R_AGDR1#30_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Michael A. Miller/Sheila Miller

31. Is the Company claiming any property tax expense related to CIAC or contributed property? If so, please quantify and explain the property tax expense. If not, explain fully why not.

Response:

The Company does not fully understand this question, but believes the following to be responsive.

The Company provided its most recent property tax assessments in response to KAW_R_PSCDR1#1a_WP5-1_031610, pages 1 to 120 of 120. Property tax assessments applicable to KAW are determined by the taxing authorities, primarily the KY Department of Revenue, but in some instances local taxing authorities. The Company in most instances supplies information to the taxing authority under whose jurisdiction KAW property is located. The information supplied by KAW includes original cost of UPIS, CWIP, Accum. Depreciation, UPAA, Non-utility property, Capital Leases, Material & Supplies, AFUDC, Property Held for Future Use, Pollution Control Equip., and MGF Equipment, along with various financial statements. The taxing authorities use this data to determine a cost approach and a correlated unit value between the different approaches (cost, market, income). The correlated values are used for the mark-up/down of personal property only. The county assessments are based on UPIS, CWIP and Capital Leases, the state also includes MFG Equipment and Pollution control equipment.

It is the Company's understanding of the assessment approach used, by the taxing authorities to which KAW property applies, that the value of all applicable property owned by KAW as described above is used for assessment purposes (regardless of the source of capital).

The Company's property taxes included in this filing were determined under methods consistent with the above description.

For the electronic version of this response, refer to KAW_R_AGDR1#31_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Keith Cartier/Sheila Miller

32. Please provide the following monthly labor data, in total, for 2007, 2008, 2009 actual, and projected through 9/30/2011, showing annual totals.
- a. Number of actual employees broken down between type (e.g. salaried, hourly, union, non-union, temporary, etc.).
 - b. Number of authorized employees broken down between type (e.g. salaried, hourly, union, non-union, temporary, etc.).
 - c. Regular payroll broken down between expensed, capitalized and other.
 - d. Overtime payroll broken down between expensed, capitalized and other.
 - e. Temporary payroll broken down between expensed, capitalized and other; and
 - f. Other payroll (specify).

Response:

- a. Please see attachment listing the actual employees broken down between salaried, non-union hourly, and union.
- b. The Company does not budget based on the criteria above but rather by function. The budgeted employees by function was provided in response to KAW_R_PSCDR1#18_031610 page 2 of 2.
- c. See attached.
- d. See attached.
- e. KAW has no employees classified as temporary.
- f. None

For the electronic version of this response, refer to KAW_R_AGDR1#32_042610.pdf.

**Kentucky American Water Company
Data Request AG 32 Attachment C
Regular Payroll**

Year	Month	Expense	Capital	Other	Total
2007	Jan	374,043.36	91,494.72	881.74	466,419.82
	Feb	530,599.32	165,421.66	3,668.61	699,689.59
	Mar	533,900.92	104,379.39	3,273.92	641,554.23
	Apr	372,818.53	107,396.16	12,665.91	492,880.60
	May	377,021.93	118,511.82	1,384.76	496,918.51
	Jun	399,054.54	111,533.97	739.32	511,327.83
	Jul	681,488.90	159,759.45	(5,324.09)	835,924.26
	Aug	382,285.60	116,377.03	4,428.09	503,090.72
	Sep	380,856.50	113,594.74	2,617.76	497,069.00
	Oct	386,603.03	104,932.37	3,310.10	494,845.50
	Nov	386,394.23	114,559.91	1,116.91	502,071.05
	Dec	606,405.46	156,717.49	587.58	763,710.53
2007 Total		<u>5,411,472.32</u>	<u>1,464,678.71</u>	<u>29,350.61</u>	<u>6,905,501.64</u>
2008	Jan	397,895.02	115,988.02	2,234.98	516,118.02
	Feb	369,122.22	128,451.39	2,216.69	499,790.30
	Mar	849,714.91	126,782.99	1,832.18	978,330.08
	Apr	392,231.23	129,330.14	1,835.99	523,397.36
	May	399,918.39	124,318.39	1,580.03	525,816.81
	Jun	386,006.88	132,060.78	2,221.13	520,288.79
	Jul	594,404.43	201,439.15	3,929.70	799,773.28
	Aug	384,417.29	140,474.45	1,549.83	526,441.57
	Sep	390,085.32	140,600.24	2,301.03	532,986.59
	Oct	402,826.96	132,984.85	1,966.87	537,778.68
	Nov	404,404.16	140,273.70	1,986.85	546,664.71
	Dec	639,064.32	194,247.30	854.27	834,165.89
2008 Total		<u>5,610,091.13</u>	<u>1,706,951.40</u>	<u>24,509.55</u>	<u>7,341,552.08</u>
2009	Jan	520,687.52	160,763.47	3,362.26	684,813.25
	Feb	313,789.67	103,759.46	3,260.86	420,809.99
	Mar	645,429.67	137,333.44	3,478.34	786,241.45
	Apr	438,688.98	116,448.65	1,576.94	556,714.57
	May	431,957.90	108,134.08	1,064.75	541,156.73
	Jun	671,794.04	150,769.54	2,862.33	825,425.91
	Jul	464,198.16	92,361.19	2,342.62	558,901.97
	Aug	454,675.01	91,816.24	588.09	547,079.34
	Sep	450,437.06	95,737.34	2,590.50	548,764.90
	Oct	456,512.46	91,893.23	1,410.55	549,816.24
	Nov	687,424.59	146,696.76	899.29	835,020.64
	Dec	466,292.08	86,769.25	9,157.83	562,219.16
2009 Total		<u>6,001,887.14</u>	<u>1,382,482.65</u>	<u>32,594.36</u>	<u>7,416,964.15</u>

**Kentucky American Water Company
Data Request AG 32 Attachment C
Regular Payroll**

Year	Month	Expense	Capital	Other	Total
2010	Jan	474,646.05	94,452.54	3,989.12	573,087.71
	Feb	472,386.87	101,997.75	(2,467.28)	571,917.34
	Mar	778,269.76	101,996.97	4,884.22	885,150.95
	Apr	546,640.82	147,572.59	-	694,213.41
	May	520,598.76	142,059.49	-	662,658.25
	Jun	546,700.61	147,512.79	-	694,213.41
	Jul	546,531.42	147,681.98	-	694,213.41
	Aug	546,237.31	147,976.09	-	694,213.41
	Sep	568,447.22	125,766.19	-	694,213.41
	Oct	573,734.72	118,484.54	-	692,219.26
	Nov	608,963.21	124,916.40	-	733,879.61
	Dec	636,357.90	130,885.06	-	767,242.96
2010 Total		6,819,514.66	1,531,302.40	6,406.06	8,357,223.12
2011	Jan	592,446.05	122,518.10	-	714,964.15
	Feb	564,231.84	116,683.91	-	680,915.75
	Mar	648,874.42	134,186.49	-	783,060.91
	Apr	592,644.21	122,319.93	-	714,964.14
	May	619,575.85	129,435.67	-	749,011.52
	Jun	620,927.66	128,083.86	-	749,011.52
	Jul	592,535.28	122,428.85	-	714,964.13
	Aug	648,655.09	134,405.82	-	783,060.91
	Sep	618,970.51	130,041.01	-	749,011.52
YTD Sept 2011 Total		5,498,860.91	1,140,103.65	-	6,638,964.56

**Kentucky American Water Company
Data Request AG 32 Attachment D
Overtime Payroll**

Year	Month	Expense	Capital	Other	Total
2007	Jan	48,024.87	5,625.72	639.13	54,289.72
	Feb	84,059.33	20,481.50	3,022.93	107,563.76
	Mar	43,886.64	10,572.51	1,680.19	56,139.34
	Apr	39,308.17	10,856.35	5,509.84	55,674.36
	May	36,685.66	10,364.47	1,038.96	48,089.09
	Jun	59,520.43	8,445.99	1,413.61	69,380.03
	Jul	95,066.32	10,193.71	464.59	105,724.62
	Aug	54,235.91	11,969.19	4,222.18	70,427.28
	Sep	54,725.81	8,604.43	2,853.66	66,183.90
	Oct	63,091.79	7,034.25	851.48	70,977.52
	Nov	45,593.91	8,248.33	450.24	54,292.48
	Dec	99,305.10	9,931.04	331.09	109,567.23
2007 Total		<u>723,503.94</u>	<u>122,327.49</u>	<u>22,477.90</u>	<u>868,309.33</u>
2008	Jan	56,764.38	11,931.37	2,486.39	71,182.14
	Feb	40,309.04	13,091.95	446.83	53,847.82
	Mar	50,302.72	12,766.85	73.61	63,143.18
	Apr	39,014.89	13,631.94	1,051.36	53,698.19
	May	53,194.85	16,438.87	1,652.78	71,286.50
	Jun	54,898.10	8,797.25	851.56	64,546.91
	Jul	259,556.13	22,496.75	4,386.15	286,439.03
	Aug	53,104.96	20,871.49	2,210.82	76,187.27
	Sep	69,262.59	8,456.89	622.89	78,342.37
	Oct	62,512.06	9,055.45	319.62	71,887.13
	Nov	75,606.20	16,243.63	1,296.52	93,146.35
	Dec	104,610.58	17,359.99	2,553.89	124,524.46
2008 Total		<u>919,136.50</u>	<u>171,142.43</u>	<u>17,952.42</u>	<u>1,108,231.35</u>
2009	Jan	79,544.88	9,877.46	3,260.15	92,682.49
	Feb	36,703.18	6,369.65	1,145.01	44,217.84
	Mar	37,382.08	19,799.40	3,434.34	60,615.82
	Apr	56,357.41	8,716.10	1,069.41	66,142.92
	May	53,363.48	7,053.30	950.45	61,367.23
	Jun	83,849.87	14,723.12	2,104.52	100,677.51
	Jul	60,664.20	6,207.79	206.41	67,078.40
	Aug	54,239.81	8,357.01	1,804.60	64,401.42
	Sep	47,435.92	5,895.18	808.38	54,139.48
	Oct	51,420.96	4,291.88	521.88	56,234.72
	Nov	73,903.08	8,301.88	479.62	82,684.58
	Dec	59,615.77	4,882.30	4,912.95	69,411.02
2009 Total		<u>694,480.64</u>	<u>104,475.07</u>	<u>20,697.72</u>	<u>819,653.43</u>

**Kentucky American Water Company
Data Request AG 32 Attachment D
Overtime Payroll**

Year	Month	Expense	Capital	Other	Total
2010	Jan	61,138.31	7,681.56	3,402.54	72,222.41
	Feb	37,392.60	4,703.62	(406.42)	41,689.80
	Mar	41,118.98	5,812.44	1,196.67	48,128.09
	Apr	57,438.94	9,359.87	-	66,798.81
	May	65,476.00	11,519.99	-	76,995.99
	Jun	57,864.93	7,966.44	-	65,831.37
	Jul	85,558.56	11,925.26	-	97,483.83
	Aug	71,452.72	9,544.08	-	80,996.79
	Sep	75,191.54	8,163.65	-	83,355.19
	Oct	59,692.27	7,113.10	-	66,805.37
	Nov	87,832.92	11,061.81	-	98,894.73
	Dec	85,470.19	11,137.56	-	96,607.74
2010 Total		785,627.96	105,989.37	4,192.79	895,810.12
2011	Jan	75,752.60	9,469.84	-	85,222.44
	Feb	42,945.05	5,073.65	-	48,018.70
	Mar	64,539.44	8,617.03	-	73,156.47
	Apr	62,837.28	6,056.29	-	68,893.56
	May	71,821.72	7,592.98	-	79,414.70
	Jun	61,742.12	6,145.32	-	67,887.43
	Jul	92,502.93	8,005.22	-	100,508.15
	Aug	75,742.42	7,772.48	-	83,514.91
	Sep	77,532.41	8,425.41	-	85,957.82
YTD Sept 2011 Total		625,415.97	67,158.22	-	692,574.19

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

33. Please provide the actual number of employees for each month in 2007, 2008, 2009 and 2010 to date.

Response:

See the response provided to KAW_R_PSCDR1#18 for the actual number of employees in each month in 2007, 2008, and 2009. See below for 2010.

January 2010	139
February 2010	139
March 2010	140

For the electronic version of this response, refer to KAW_R_AGDR1#33_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

34. Provide the budgeted number of employees for each month in 2007, 2008, 2009 and 2010 through 9/30/2011.

Response:

See the response provided to KAW_R_PSCDR1#18 for the budgeted number of employees in each month in 2007, 2008, 2009 and 2010 through 9/30/2011.

For the electronic version of this response, refer to KAW_R_AGDR1#34_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Keith Cartier

35. Provide a detailed explanation of all variations between actual and budgeted employee counts for 2008 through the present.

Response:

Vacancies occur throughout the year due terminations, retirements, and creation of new positions to address changing work requirements. Filling of vacant positions often has a cascading effect as internal candidates move to open positions in the bargaining unit bidding process or the non-union job posting process. More specialized positions may require a longer recruiting period in order to obtain the right candidate for the position.

2008

At year end we had the following openings:

Utility (Subsequently changed from Utility to Field Service Representative to provide additional customer service support and filled.)

Administrative Assistant/Cross Connection (Subsequently changed reporting and title to Administrative Assistant Field Operations and filled.)

Treatment Plant Operator/Utility (Subsequently eliminated this position)

2009

At year end we had the following openings:

Planning Engineer (This position is not currently filled but is expected to be filled in 2010)

Engineer (This position is not currently filled but is expected to be filled in 2010)

Engineer Operations (Subsequently eliminated the position, not in forecasted test year)

Crew Leader (Union Position - Going through the bidding process)

Supvr. Field Operations (Position filled 1/11/2010)

Utility (Union Position - Going through the bidding process)

Maintenance Tech (Recruiting)

Manager Production (Recruiting)

Treatment Plant Operator/Utility 12-8 RRS (Bidding)

Treatment Plant Operator/Utility 4-12 KRS (Recruiting)

Production Tech (Recruiting)

April 19, 2010

As of this date the following positions are vacant:

Manager Production (Filled – will start 4/26/10)

Manager External Affairs (Recruiting)

Planning Engineer (This position is not currently filled but is expected to be in 2010)

Engineer (This position is not currently filled but is expected to be filled in 2010)

The following open positions are all for new water treatment plant (KRS II)

Production Tech (Offer made – hire date TBD)

Production Tech (Recruiting)

Production Tech (Recruiting)
Production Tech (Recruiting)
Production Tech (Recruiting)

For the electronic version, refer to [KAW_R_AGDR1#35_042610.pdf](#).

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

36. Please provide the wage rate increases granted by the Company by date and employee category for 2007, 2008 and 2009, and for to date, and as projected for 2010 and 2011.

Response:

See the response to KAW_R_PSCDR1#15_031610.

For the electronic version of this response, refer to KAW_R_AGDR1#36_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

37. Please indicate if the employee positions used in the Company's labor calculations are authorized or actually filled positions. Identify, quantify and explain all labor-related costs in KAWC's filing that is for positions that have not been filled as of March 31, 2010.

Response:

There are eight positions in the filing that have not been filled. Please see the attached spreadsheet detailing the labor related costs included in the filing for those positions.

For the electronic version, refer to KAW_R_AGDR1#37_042610.pdf.

Kentucky American Water
Vacancies currently in filing
AGDR1#37

<u>Position</u>	<u>O&M/Cap</u>	<u>Annual Wages</u>	<u>QPEB</u>	<u>Pension Defined Contribution Plan</u>	<u>Group Insurance</u>	<u>Workers Compensation</u>	<u>Payroll Taxes</u>	<u>AIP</u>
Engineer	Capital	61,522	6,964	2,670	10,736	991	4,756	6,153
Production Manager	O&M	111,927	12,670	4,857	19,531	1,802	8,652	22,645
Planning Engineer	Capital	72,802	8,241	3,159	12,704	1,172	5,628	7,282
Production Technicians								
5 positions-per position*	O&M	53,571	6,064	2,325	9,348	862	4,141	0

*To be hired to operate the new KRS II Treatment Facility.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller

38. Please provide a detailed list of responsibilities and duties that eligible incentive compensation employees must have or perform in addition to those necessary to meet the standards for base salary compensation in order to receive incentive compensation.

Response:

The 2009 Annual Incentive Plan ("AIP") Brochure has been provided with the response to KAW_R_AGDR1#15_042610. Please see pages 7-9 of the AIP brochure for a general description of how each employee's individual performance impacts that his/her annual pay under the AIP. As described on page 8, each employee eligible for the AIP must meet with his/her supervisor at the beginning of each year to jointly develop challenging performance goals for the upcoming year that would improve job performance, customer service and satisfaction, and enhance the overall Company's financial and operation performance. The "individual" component of the plan includes a specific set of requirements for each employee related to his/her position responsibilities but not specifically enumerated in the position job description. Progress towards these goals is discussed at intervals during the year. Completion of the additional requirements identified in each employee's goals, which may include completion of specific training and development activities, are evaluated as part of the determination of each employee's AIP award as described on pages 9-10 of the AIP Plan. Please see the attached example of a 2009 annual performance review for a supervisor at KAW which details the elements which are included in a typical employee's plan. The names of the employee and supervisors signatures have been redacted to protect the employee privacy regarding this data. As stated earlier this type of performance plan is developed annually for each employee eligible for AIP. Identifying information has been redacted for privacy reasons.

For an electronic version of this response, refer to KAW_R_AGDR1#38_042610.pdf.

PERFORMANCE REVIEW FORM (FOR EXEMPT EMPLOYEES)



SECTION 1- EMPLOYEE INFORMATION		APPRaisal PERIOD (TO) DECEMBER 31, 2009
LOCATION (CITY, STATE) Lexington, KY	APPRaisal PERIOD (FROM) JANUARY 1, 2009	FUNCTION
SUPERVISOR'S NAME		

SECTION 2- GOAL SETTING			WEIGHT %
GOAL CATEGORY SELECT A CATEGORY FOR EACH GOAL FROM THE DROP DOWN MENU BELOW	GOALS & MEASURES MINIMUM OF FOUR (4) GOALS WITH A MAXIMUM OF SIX (6) GOALS RELEVANT TO YOUR WORK	MEASURE	
GOAL # 1 Customer satisfaction	GOAL KAW to receive an overall customer satisfaction rating of 85%.	Satisfaction rating of 85% or above.	15%
GOAL # 2 Process Improvement	GOAL Design and implement a program to inspect 100% of hydrants.	MEASURE 100% Inspection of Hydrants.	20%
GOAL # 3 Process Improvement	GOAL Design and implement a program for valve maintenance as required.	MEASURE Operate total 5,335 large and small valves for the year of 2009.	20%
GOAL # 4 Regulatory	GOAL Manage area of responsibility to have no NOV.	MEASURE Have zero NOV for this area of the operation.	10%
GOAL # 5 Process Improvement	GOAL Meet or exceed the KAW injury frequency rate for this area of the operation.	MEASURE Meet injury or exceed injury rate.	10%
GOAL # 6 Certification	GOAL Achieve distribution operator certification.	MEASURE Achieve certification by year end 2009	25%

SECTION 3- INTERIM REVIEW		
GOAL #	EMPLOYEE COMMENTS (SUMMARIZE ACCOMPLISHMENTS & OVERALL STATUS OF GOALS)	SUPERVISOR COMMENTS (SUMMARIZE ACCOMPLISHMENTS & OVERALL STATUS OF GOALS)
GOAL # 1	Customer satisfaction at the end of July 2009 was 87%.	Goal is currently being met at 88%. Continued focus and direction given to direct reports will be essential to achieving year end target.
GOAL # 2	The targeted year to date number of hydrants to be flowed by the end of July 2009 was 3,959. Currently 4,358 or 10% more hydrants have been inspected.	Goal is currently being met and on track to be completed prior to target completion date. Continued management of personnel resources will assure that goal is met, as planned.
GOAL # 3	Currently ahead of schedule for the small and large valve. Small valves are up by 2% and large valves are up by 9% at the end of July 2009.	Management of personnel resources and weekly monitoring of progress will assure that yearly goal is met.
GOAL # 4	As of July 2009, no NOV'S have been issued.	No Nov's have been issued at interim. Pending citations confirm the need for more oversight and direction to field personnel to assure that work is completed in a safe and lawful manner.
GOAL # 5	At the end of July 2009, 15 injuries had been recorded, 5 or 33% where distribution employee's. Attention to detail is stressed to maintain focus and	Goal is not being met. More focus on prevention related measures and direction from management will be essential components of any plan for

ion.	Improvement in this area.
GOAL # 6	Unsuccessful at the first attempt, will try again in October 2009. Measures to obtain this goal have been initiated with the expectation of achieving this goal by years end.

SECTION 4- FINAL REVIEW			
GOAL #	EMPLOYEE COMMENTS (SUMMARIZE ACCOMPLISHMENTS & OVERALL STATUS OF GOALS)	EMPLOYEE RESULTS ASSESSMENT SELECT RESULT FROM THE DROP DOWN MENU BELOW	SUPERVISOR COMMENTS (SUMMARIZE ACCOMPLISHMENTS & OVERALL STATUS OF GOALS)
GOAL # 1	The overall customer satisfaction target was met for 2009.	Select an option ADEQUATE	This goal was met for the company
GOAL # 2	Operational target for hydrants where 7% or 536 over the targeted amount.	Select an option COMMENDABLE	This goal has been met
GOAL # 3	Operational target for small and large valves exceeded the amount to be turned. Small valves where 4% or 198 over the number to be turned. Large valves where 37 or 8.7% over the amount to be turned.	Select an option COMMENDABLE	This goal has been met
GOAL # 4	The where no NOV for this are in 2009.	Select an option ADEQUATE	Goal has been met
GOAL # 5	Injury rate was very poor this year and a new awareness and focus has been established for 2010	unacceptable	Goal was not met
GOAL # 6	The operator certification was not accomplished, work toward this goal will continue into 2010. This is a work in progress.	Select an option	Goal was not met in 2009, has been reassigned for completion within the first half of 2010

SECTION 5- OVERALL RATING RESULTS	
COMMENTS	<p>EMPLOYEE FINAL COMMENTS</p> <p>I feel overall my results are adequate and meeting the standard. I understand that they are always areas for improvement and I will work toward that.</p>
OVERALL RATING RESULT	<p>SUPERVISOR FINAL COMMENTS</p> <p>SUPERVISOR FINAL RESULTS ASSESSMENT</p> <p>adequate</p>

Select an option / ADEQUATE	Select an option	
SECTION 6- SIGNATURES & DATE <small>SIGN & DATE IN THE APPROPRIATE SPACE</small>	GOAL SETTING	FINAL REVIEW
EMPLOYEE		
SUPERVISOR/ MANAGER		
NEXT LEVEL MANAGER		

Recommended Individual Achievement Percentages (AIP Payout may vary subject to available funding pools)
 Select Rating: Select individual result rating Enter percentage ____%.

RESULT RATING	EXCEPTIONAL	SIGNIFICANT	COMMENDABLE	ADEQUATE	UNACCEPTABLE	TOO SOON TO RATE
RECOMMENDED RANGE	150 - 200%	110 - 150 %	110 - 80%	25 - 80%	0 %	0 %

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller**

39. Please explain what adjustments, if any, were made to base salary compensation levels of eligible incentive compensation employees at the time any such incentive compensation plan(s) were initiated.

Response:

The implementation of the Company's incentive compensation system has taken place over a period of more than a decade. Through that period there were no reductions to base salary made concurrent with initiating eligibility for incentive compensation. The Company's compensation strategy in the development and implementation of the incentive compensation system has been to target base compensation at the 50th percentile of market based compensation levels. The additional at-risk compensation from the incentive plan has been targeted to permit an employee to achieve compensation at the 65th percentile given strong job performance on specific individual performance goals that develop the employee's job performance and abilities, improve customer service and satisfaction, and promote effective and efficient operation of the employee's area of responsibility as outlined in the elements of the plan requirements.

For electronic version, refer to KAW_R_AGDR1#39_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller**

40. Please explain how the Company determines that the achievements of any incentive compensation goals are reached as a result of the incentive compensation plan, as opposed to other reasons. Provide all supporting empirical data.

Response:

Please see the response to KAW_R_AGDR1#38_042610.pdf.

For electronic version of this response, refer to KAW_R_AGDR1#40_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Nick Rowe

41. Please provide a description of the Company's merit and cost of living wage rate increase policies.

Response:

The policies/procedures responsive to this question are confidential and proprietary, and present a competitive disadvantage if made public to the Company's competitors. Therefore, the Company has filed a Petition for Confidential Treatment contemporaneously with these responses. The Company will provide copies of the requested documents to all parties in this case upon execution of an appropriate confidentiality agreement.

See the attached policies titled "Compensation & Salary Administration Policy", and "Performance Management & Feedback Policy." The Company does not provide cost of living wage increases, and all pay increases other than determined by union bargaining agreements are based on measurement of performance.

For the electronic version, refer to KAW_R_AGDR1#41_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller**

42. Does the Company anticipate reducing the number of employees, including any voluntary early retirement or other force reduction programs, during 2010 or 2011? If yes, state the timing and number of affected employees. Also state the projected costs and savings of any such plan.

Response:

No.

For the electronic version, refer to KAW_R_AGDR1#42.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Nick Rowe

43. Payroll. Given the current state of the U.S. and state economy, please explain fully and in detail whether the Company has considered implementing a freeze on its wages, 401k contributions, incentive compensation, etc. If so, please explain which freezes the Company would consider and when such freezes would be implemented. If not, explain fully why not.

Response:

The Company has considered the current economic climate in its compensation awards. In fact, the Company's overall salary increases in 2010 for non-union employees were significantly lower than past years as determined by the policy discussed in the response to KAW_R_AGDR1#41_042610. Also see the response to KAW_R_PSCDR1#15_031610. The Company's union employees are paid by contract amount, determined through the bargaining process.

For the electronic version of this response, refer to KAW_R_AGDR1#43_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Keith Cartier

44. Payroll. Please explain how the Company determines that its work force level is not excessive and provide all related supporting documentation.

Response:

The appropriateness of staffing is considered throughout the year, with the budgeting and reforecast process providing the opportunity to address changes in staffing requirements. Historic staffing levels are assessed as part of the process, as are anticipated changes in work activities which may prompt changes to historic staffing levels. The process ensures that staffing is evaluated for appropriateness.

For the electronic version, refer to KAW_R_AGDR1#44_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

45. Payroll. Please provide complete calculations, documents and supporting workpapers for the pro forma amount of payroll cost, by account, by position, that KAWC has reflected in its filing.

Response:

The payroll calculations have been provided in response to KAW_R_AGDR1#1_042610 in the excel file labeled as Rate Case Labor and AIP 12-29-09.xls. The supporting workpapers were provided in response to KAW_R_PSCDR1#1a_WP3-1_031610 Pages 1 through 42 of 42.

For the electronic version of this response, refer to KAW_R_AGDR1#45_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller**

46. Executive Compensation. Please explain fully and in detail how the Company determines that its total compensation package for executives, and/or separate parts thereof, reasonably compare with the competitive markets for such executives. In addition, provide copies of all related surveys, analyses, studies, etc.

Response:

Please refer to the response to KAW_R_PSCDR1#14_031610.

For the electronic version of this response, refer to KAW_R_AGDR1#46_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller

47. Stock-Based Compensation.

- a. List, by amount and account, all stock-based compensation expense charged to KAWC during the test year, including but not limited to executive stock options, performance share awards, accruals made pursuant to SFAS 123R and any other stock-based compensation awards that resulted in cost being charged to KAWC during the test year.
- b. Please provide a description of each distinct stock-based compensation program that resulted in charges to KAWC during the test year.
- c. List, by amount and account, all stock-based compensation expense in KAWC's cost of service for the future test year, including but not limited to executive stock options, performance share awards, accruals made pursuant to SFAS 123R and any other stock-based compensation awards that are projected to be charged to KAWC during the future test year.
- d. Please provide a description of each distinct stock-based compensation program that is projected to be included in the charges to KAWC during the future test year ended.

Response:

- a. Stock-based compensation charged to KAWC during the test year by account:

Account	Description	Test Year
501713	Incentive Plan-Off-Stock Div	10,770
501716	Comp Exp-Options	3,282
501718	Comp Exp-RSU's	2,949
Total		<u>17,001</u>

Stock-based compensation included in Management Fees during the test year by account:

Account	Description	Test Year
501712	Incentive Plan-Off-Long Term	11,918
501716	Comp Exp-Options	87,433
501718	Comp Exp-RSU's	88,148
Total		<u>187,499</u>

- b. Descriptions of each stock-based compensation accounts are below. See the response to KAW_R_AGDR1#15_042610 for the stock based compensation plan.

Account 501716 – Compensation Expense Options – includes accruals based on the estimated costs related to non-qualified stock option grants. These grants provide the participant with an option to purchase shares of AWW stock at an advantaged exercise price if the performance goals have been satisfied, limited by the expiration date of December 31, 2013. A true-up entry is recorded once the options are exercised.

Account 501718 – Compensation Expense Restricted Stock Units – includes accruals based on the estimated costs related to restricted stock unit grants. These grants provide the participant with rights to shares of Company stock that may be redeemed if the performance goals have been satisfied after vesting date of January 1, 2011. A true-up entry is recorded once the grants are exercised.

- c. KAWC Stock-based compensation expense for the future test year by account:

Account	Description	Future Test Year
501713	Incentive Plan-Off-Stock Div	27,228
		<u>27,228</u>

Stock-based compensation included in Management Fees for the future test year by account:

Account	Description	Future Test Year
501716	Comp Exp-Options	102,235
501718	Comp Exp-RSU's	107,089
Total		<u>209,324</u>

- d. See part b.

For the electronic version of this response, refer to KAW_R_AGDR1#47_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Michael A. Miller**

48. Supplemental Executive Retirement Program (SERP).
- a. Please provide the level of SERP expense, by account, included in the Company's cost of service for the base period.
 - b. Please provide the level of SERP expense, by account, included in the Company's cost of service for the future test year.
 - c. Please provide the comparable SERP expense for each year, 2007, 2008 and 2009.
 - d. Provide the most recent three actuarial reports for SERP.
 - e. Provide all actuarial studies, reports and estimates used for SERP for the future test year.

Response:

- a. None.
- b. None.
- c. None.
- d. The actuarial reports are confidential and proprietary, and, therefore, the Company has filed a Petition for Confidential Treatment contemporaneously with these responses. The Company will provide copies of the requested documents to all parties in this case upon execution of an appropriate confidentiality agreement.
- e. Not applicable.

For the electronic version, refer to KAW_R_AGDR1#48_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Michael Miller/Sheila Miller

49. Defined Benefit Plan pension expense.
- a. Please provide the level of Defined Benefit Plan pension expense, by account, included in the Company's cost of service for the base period
 - b. Please provide the level of Defined Benefit Plan pension expense, by account, included in the Company's cost of service for the future test year.
 - c. Please provide the comparable Defined Benefit Plan pension expense for each year, 2007, 2008 and 2009.
 - d. Provide the most recent three actuarial reports for Defined Benefit Plan pension.
 - e. Provide all actuarial studies, reports and estimates used for Defined Benefit Plan pension for the future test year.

Response:

- a. The defined benefit plan pension expense in the base period is \$1,262,429. This amount is applied to account 926400 (506100.16 – Company account).
- b. The defined benefit plan pension expense for the future test year is \$1,267,732.
- c.

2007	\$579,958
2008	\$622,650
2009	\$1,386,324
- d. The actuarial reports for the defined benefit plan pension plan for 2008-2010 responsive to this question are confidential and proprietary, and, therefore, the Company has filed a Petition for Confidential Treatment contemporaneously with these responses. The Company will provide copies of the requested documents to all parties in this case upon execution of an appropriate confidentiality agreement.
- e. The document used to determine the future test year defined benefit plan pension was provided in response to KAW_R_PSCDR1#1a_WP3-7_031610 page 3 of 4. The excel file was provided in response to KAW_R_AGDR1#1_042610 in the file labeled as PENSIONS 10.XLS.

For the electronic version of this document, refer to
KAW_R_AGDR1#49_CONF_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Michael Miller/Sheila Miller

50. Other Post Employment Benefits (OPEB) expense.
- a. Please provide the level of OPEB expense, by account, included in the Company's cost of service for the base period.
 - b. Please provide the level of OPEB expense, by account, included in the Company's cost of service for the future test year.
 - c. Please provide the comparable OPEB expense for each year, 2007, 2008 and 2009.
 - d. Provide the most recent three actuarial reports for OPEB.
 - e. Provide all actuarial studies, reports and estimates used for OPEB for the future test year.

Response:

- a. The post employment benefits (OPEB) expense in the base period is \$907,004. This amount is applied to account 926100 (505100.16 – Company account).
- b. The post employment benefits (OPEB) expense for the future test year is \$910,398.
- c.

2007	\$586,868
2008	\$577,728
2009	\$1,000,212
- d. The actuarial reports for the defined benefit OPEB plan for 2008-2010 responsive to this question are confidential and proprietary, and, therefore, the Company has filed a Petition for Confidential Treatment contemporaneously with these responses. The Company will provide copies of the requested documents to all parties in this case upon execution of an appropriate confidentiality agreement.
- e. The document used to determine the future test year defined benefit plan was provided in response to KAW_R_PSCDR1#1a_WP3-6_031610 page 2 of 6. The excel file was provided in response to KAW_R_AGDR1#1_042610 in the file labeled as Ins Group 10.XLS.

For the electronic version of this response, refer to
KAW_R_AGDR1#50_CONF_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Keith Cartier

51. Please provide the following for each employee position during the base period and future test year and the actual periods 2008 and 2009, that experienced, or are projected to experience, a change of incumbent:
- a. Position title;
 - b. Employee replaced;
 - c. Annual salary of replaced employee;
 - d. Replacement employee;
 - e. Annual salary of replacement employee; and
 - f. Date of replacement

Response:

Incumbents change positions throughout the year for any number of reasons. Openings may result from terminations, retirements and/or creation of new positions, such as those for the new water treatment plant. Union positions may create a cascade of people changing positions resulting from a single opening due to the union bidding process. Captured on the chart are those situations that resulted in a change of incumbent for non-union positions, and an external hire for union positions. It is not possible to project who will bid union positions that may come open, or who may be selected for non-union openings should they occur.

TITLE	EMPLOYEE REPLACED	SALARY OF REPLACED EMPLOYEE	REPLACEMENT EMPLOYEE	SALARY OF REPLACEMENT EMPLOYEE	DATE OF REPLACEMENT
Utility	Don Pollick	\$ 40,830.00	Jose Tellez	\$ 40,830.00	3/24/2008
Treatment Plant Operator-Utility	William Lynch	\$ 43,638.40	Russell Music	\$ 43,638.40	5/5/2008
Director Governmental Affairs	David Whitehouse	\$ 96,600.00	John-Mark Hack	\$ 116,132.50	6/9/2008
Treatment Plant Operator-RRS-12A-8A	William Lynch	\$ 45,052.80	Douglas Brooks	\$ 45,052.80	8/11/2008
Administrative Assistant	Pamela Christian	\$ 37,500.32	Patricia Lee	\$ 40,000.00	9/8/2008
Utility	Barrett Riggs	\$ 40,830.40	Larry Horn	\$ 40,830.40	10/20/2008
Utility	Ryan McFarland	\$ 40,830.40	Gene Jones	\$ 40,830.40	10/21/2008
Utility	Barrett Riggs	\$ 40,830.40	Dennis Blevins	\$ 40,830.40	10/22/2008
Utility	Erik Hall	\$ 40,830.40	Joseph Lee	\$ 40,830.40	10/23/2008
Treatment Plant Operator	Dale Gray	\$ 45,822.40	Justin Sensabaugh	\$ 45,822.40	12/8/2008
Utility	Dennis Blevins	\$ 42,057.60	Gordon Perfater	\$ 42,057.60	12/29/2008
Supervisor Storeroom	Danny Farmer	\$ 52,601.00	Virginia-Bibb Golden	\$ 61,331.20	2/16/2009

Administrative Assistant	Patricia Lee	\$ 40,901.00	Paula Squires	\$ 42,390.40	6/15/2009
Clerk Operations	Jose Castano	\$ 37,897.60	Linda Whitt	\$ 35,360.00	7/6/2009
Clerk Operations	Cecily Vinegar	\$ 38,084.80	Josaphat Cardona	\$ 33,280.00	7/16/2009
Clerk Operations	Richard Witherite	\$ 42,224.00	Deidra Hayden	\$ 33,280.00	7/20/2009
Manager Finance	Pamela Mikaelian	\$ 77,500.00	Mary G. Money	\$ 96,000.00	8/31/2009
Supervisor Production	Joe White	\$ 75,829.00	Timothy Coy	\$ 62,500.00	10/5/2009
Supervisor Field Service	Stacy Owens	\$ 68,835.00	Takisha Walker	\$ 61,000.00	1/11/2010
Maintenance Technician	Michael Maggard	\$ 48,651.20	Stanley Coffey	\$ 48,651.20	2/22/2010
Operations Generalist	Marshall Gibson	\$ 42,432.00	Billy Benningfield	\$ 42,432.00	3/8/2010
Treatment Plant Operator-Utility	Russell Music	\$ 46,300.80	Benjamin Corbin	\$ 46,300.80	3/8/2010
Utility	Ronnie Scott	\$ 43,326.40	Tracy Stone	\$ 43,326.40	4/5/2010
Utility	Jerry Barnett	\$ 43,326.40	Lewis Walton	\$ 43,326.40	4/7/2010
Production Technician	Dalvin Krug	\$ 40,976.00	Martin Olsen	\$ 42,120.00	TBD
Clerk Operations	Peggy Sipes	\$ 39,153.92	Stephanie Padgett	\$ 33,280.00	4/19/2010
Utility	Gene Jones	\$ 43,326.40	Charles Brinegar	\$ 43,326.40	4/26/2010
Clerk Operations	Kelly Townsend	\$ 39,478.40	Travis Rodgers	\$ 33,280.00	4/26/2010
Manager Production	Dillard Griffin	\$ 110,427.00	Cheryl Taylor	\$ 115,000.00	4/26/2010

For the electronic version, refer to KAW_R_AGDR1#51_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller

52. Please provide a description of each employee benefit program or plan.

Response:

Please see attached.

For the electronic version, refer to KAW_R_AGDR1#52_042610.pdf.



AMERICAN WATER

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**SUMMARY OF FULL TIME NON-UNION BENEFITS EFFECTIVE JANUARY 1, 2010
FOR EMPLOYEES HIRED ON OR AFTER 1/1/06 AND EMPLOYEES TRANSFERRED FROM
NON-REGULATED COMPANIES TO REGULATED COMPANIES ON OR AFTER 1/1/06
BENEFITS AT A GLANCE**

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Preferred Provider Organization (PPO) Medical Plan Standard Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Plan typically pays 80% of covered expenses after coinsurance and deductible. Annual deductible Single/Family: \$1,000/\$3,000 Out of pocket: \$3,500/\$10,500 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single \$60 Employee & Spouse \$140 Employee & Child(ren) \$129 Family \$148
Preferred Provider Organization (PPO) Medical Plan Premium Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Plan typically pays 100% of covered expenses after co-payment. No annual deductible Out of pocket \$1,000/\$3,000 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single \$69 Employee & Spouse \$159 Employee & Child(ren) \$147 Family \$178
Exclusive Provider Organization (EPO)	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	The EPO Plan includes comprehensive benefits, where you pay a copay and then the plan covers 100%. This means, at the time of service, you pay a set, flat amount. There are no out-of-network benefits under this plan. No Annual Deductible Lifetime Maximum: unlimited	Single \$69 Employee & Spouse \$158 Employee & Child(ren) \$146 Family \$182
EyeMed Vision Plan This plan is bundled with the dental plan.	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	The Plan covers exams at 100% after \$15 copay Frames – In Network: 100% after \$50 copay Standard plastic lenses – In Network: covered after \$35 copay single lenses; all others \$50 copay Contact Lenses: In Network: Covered up to \$100 (if medically necessary to wear contacts instead of glasses, then 100% of U&C. Out-of-Network benefits are available. Plan pays less for these benefits. Frequency for frames, lenses, contacts and exams: Once every 24 months	Included in the Medical Plan
Prescription Drug Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Two ways to buy: Retail (for acute medication): 10% - Generic Drugs 20% - Preferred Brand Name Drugs 20% - Non-Preferred Brand Name Drugs Mail Order (for maintenance or chronic conditions): Generic - \$14 Preferred Brand - \$30 Non-Preferred Brand - \$70	Included in the Horizon Medical Plans

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee								
Wellness and Discount Program	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Just present your Horizon BCBSNJ ID card at these select businesses or mention that you are a Horizon BCBSNJ member when calling. For more information and easy online ordering, visit www.horizonblue.com/nationalaccounts <ul style="list-style-type: none"> • Discounts on chiropractic, acupuncture, massage therapy, nutrition counseling and vitamins through our Horizon Alternative Therapies Program. • Discounts on eye examinations, lenses, eyeglass frames and laser vision correction services at participating Cole Vision-affiliated outlets (located in the optical departments in such stores as Sears, JCPenney, Target and Pearle Vision Centers, as well as in many independent optometrist and ophthalmologist offices) and at Davis Vision providers. • Discounts on health club memberships, bicycle and in-line skating helmets, vacation packages and more. 	Included in the Horizon Medical Plans								
Dental & Vision Only	You have the opportunity not to elect medical for you and your dependents. Please note: You must have equivalent medical coverage under another medical plan if you elect the medical opt-out option.	Premium Dental PPO & EyeMed Vision Plans	<table border="0"> <tr> <td>Single</td> <td>\$3</td> </tr> <tr> <td>Employee & Spouse</td> <td>\$8</td> </tr> <tr> <td>Employee & Child(ren)</td> <td>\$9</td> </tr> <tr> <td>Family</td> <td>\$14</td> </tr> </table>	Single	\$3	Employee & Spouse	\$8	Employee & Child(ren)	\$9	Family	\$14
Single	\$3										
Employee & Spouse	\$8										
Employee & Child(ren)	\$9										
Family	\$14										
Dental Plan Dental Standard PPO Plan which is included with the Standard PPO Medical Plan.	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Annual deductible: Individual - \$100 Family - \$200 Preventive Care: 80% of covered expenses after deductible (x-rays, cleanings and exam). Other covered services at 50% after deductible for major and basic services. Maximum calendar year benefit is \$1,000 Orthodontia: Not covered	Included as part of the Medical Plans								
Dental Plan Premium PPO Plan which is included with the Premium PPO and EPO Medical Plans.	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Annual deductible: Individual - \$50 Family - \$100 Preventive Care: 100% of covered expenses with no deductible (x-rays, cleanings and exam). Basic and major services are 80% after deductible. Maximum calendar year benefit is \$1,000 Orthodontia: - \$1,500.00 lifetime maximum. - Pays 50% of covered expenses after deductible - Covers employees and eligible dependents	Included as part of the Medical Plans								

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Flexible Spending Accounts (Pre-Tax Savings Accounts)	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Health Care Savings Account: Set aside to pay for health services not covered by health plan such as: - Deductibles - Co-payments - Hearing aids - Routine physicals - Psychiatric treatment Annual amount that may be contributed: Minimum: \$120; Maximum: \$3,000 Use it or lose it Dependent Care Spending Account: Set aside to pay for dependent care expenses for working parent such as: - Wages paid to babysitter or companion (expenses not covered if care is provided by someone claimed as a dependent) - Nursery school/day care center costs - Wages paid to a housekeeper for providing care for an eligible dependent (dependent child under 13) or any dependent who is physically or mentally incapable of self care - Annual amount that may be contributed is \$5,000 (\$2,500 if married and file separately) Use it or lose it	Voluntary Contribution
Group Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Basic life insurance equal to 1 1/2 times your base salary rounded up to next highest \$1,000 (Maximum Benefit is \$200,000) Accident Death & Dismemberment: equal to 1 1/2 times your base salary rounded up to next highest \$1,000 (Maximum Benefit is \$200,000) Travel Accident Insurance while on company business: - Salary over \$40,000: \$500,000 - Salary under \$40,000: \$400,000 - Spouse: \$250,000	None
Voluntary Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Voluntary Life Insurance is in addition to the company-paid Basic Life Insurance. You may purchase up to the lesser of either \$300,000 or 3 times your salary in coverage without having to provide evidence of good health, provided you enroll on a timely basis. Your choices are: - VL of 1 x base pay - VL of 2 x base pay - VL of 3 x base pay	Monthly Contribution based on age.
Voluntary Dependent Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	VDL covers eligible dependents. You will be the beneficiary of the Dependent Term Life coverage you elect. The plan offers \$20,000 coverage for spouse; and \$10,000 coverage for each dependent child.	Voluntary Contribution \$5.00/mo. for spouse \$1.20/mo. for all children
Employee Assistance Plan (EAP)	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Provides employee and each eligible dependent with up to six sessions per issue, per calendar year, for evaluation, short-term counseling and/or referral for behavioral health care issues at no cost, as well as legal, elder care and child care referral assistance.	None

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Short Term Disability	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	You are eligible for 2 weeks of sick leave at full pay each year. If you are still disabled after 2 weeks, you will receive 75% of your base pay for an additional 24 weeks through the STD benefit.	None
Long Term Disability	Qualifying Period: Six months	<ul style="list-style-type: none"> - Provides 60% of base monthly income (not to exceed \$15,000) replacement if employee becomes disabled due to illness or accident - Offsets for other income benefits such as social security disability, income from any employer or any employment & disability, retirement, pension or annuity benefits from any group insurance or pension plan (including American Water), membership or association with any group association, union or other organization. 	None
401(k)	<p>Employees are eligible to participate as soon as possible after date of hire.</p> <p>Record Keeper/Trustee - Merrill Lynch</p>	<ul style="list-style-type: none"> - A retirement and savings plan that allows you to save on a pre-tax basis. - Company matches 100% for every dollar you contribute during each pay period up to the first 3% of your total pay, and a 50% matching contribution on the next 2% of your total income you contribute during each pay period. - Company matching contributions will be invested in the same funds as you direct your employee contributions. - You may contribute up to 20% of your eligible compensation not exceeding IRS limits. - All contributions, earnings and dividends accumulate tax-free until you withdraw, usually at age 59 1/2 or when you retire. - Company matching contributions vest immediately. - There are eleven investment options. - If you need money before you retire, there are special provisions for loans or hardship withdrawals. - If you are age 50 or older, you will be able to make an additional "catch-up" contribution of \$5,500 to the plan in 2010. This means that if you are age 50 or older in 2010, you may be able to contribute up to \$22,000 (the \$16,500 IRS limit plus the \$5,500 catch-up contribution) to the Plan on a pre-tax basis in 2010. Matching contributions are not made on catch-up contributions. You may elect a pre-tax "catch-up" deferral rate of 1-20% of your eligible compensation up to the \$5,500 limit. 	<p>Voluntary Contribution up to 20% of your eligible compensation not to exceed IRS limit of \$16,500 in 2010</p> <p>Catch Up Contributions Voluntary contribution up to \$5,500 in 2010</p>

Benefits	When You Are Eligible	What You Receive	Monthly Cost To Employee
401 (k) (continued)		<ul style="list-style-type: none"> - For your contribution to be classified as "catch-up" contributions, you must have either a contribution equal to the plan maximum limit of 20% or actual pre-tax contributions of \$16,500 for 2010. At the end of the year, if your pre-tax contributions do not meet these requirements, the "catch-up" contributions (to the extent necessary) will automatically be re-characterized as regular pre-tax contributions in the Plan. If contributions are reclassified, they are not subject to receive a company match. 	
Defined Contribution Account (This is part of the above 401(k) Plan)	<p>Immediately</p> <p>Record Keeper/Trustee – Merrill Lynch</p>	<p>American Water will contribute 5.25% of your base pay into your account following each pay period. Just like the 401(k) plan, you manage the investment options of your account. You will be able to select the investment option that best meets your investment goals.</p> <p>You are fully vested in your account balance after one year of service.</p> <p>These contributions will be made as a separate segment within your 401(k) Savings Plan. Different provisions apply to this segment of your 401(k) Plan (i.e. no loans/hardships).</p>	Contribution not to exceed IRS limit of \$12,862.50 in 2010
Employee Stock Purchase Plan (ESPP)	<p>Employees are eligible to participate as soon as possible after date of hire.</p> <p>Recordkeeper – E*TRADE</p>	<ul style="list-style-type: none"> - Ability to purchase shares of American Water Common Stock at a 10% discount off the New York Stock Exchange price. - You can contribute up to 10% of your base wages during each pay period on an after-tax basis via payroll deduction. - Enrollment is quarterly. - Vesting is immediate. - Shares are purchased quarterly. - The discount on the purchase price of the shares is taxable at the time of purchase through payroll. - Six-month holding period required before shares can be sold or transferred from your E*TRADE ESPP account. - Quarterly dividends are paid in cash to your E*TRADE brokerage account. 	<p>- Voluntary contributions up to 10% of your eligible compensation not to exceed \$25,000 per year.</p> <p>For additional information, refer to your ESPP Brochure, ESPP Prospectus and New Hire Guide.</p>
Vacation	Based on policy.		None
Holidays	Based on policy.		None
Educational Assistance	Employees may take advantage of this benefit for eligible courses in which they enroll after their date of hire.	<ul style="list-style-type: none"> - Financial Assistance of 100% for tuition, registration and required fees. - Books, equipment, travel, parking, late registration and insurance are the responsibility of the employee (Graduate level course work may be taxable income). <p>Limits include:</p> <ul style="list-style-type: none"> - \$5,250.00 per year - Up to six credit hours per semester or six actual class hours if credits are not awarded - Proof of grade of C or better must be submitted at the completion of each course. Failure to submit transcript will exclude employee from future participation in the Plan. 	None

These sheets provide a brief description of your benefits under each plan. Should there be a conflict between the benefits described on these sheets and those described in the legal plan documents, the terms of the legal documents will be used to determine coverage and benefits.

American Water reserves the right to amend or otherwise change the benefits contained in the Summary Plan Description.

Revised: 11/17/09



AMERICAN WATER

AMERICAN WATER
SUMMARY OF FULL TIME UNION BENEFITS EFFECTIVE JANUARY 1, 2010
FOR EMPLOYEES HIRED ON OR AFTER 1/1/06
BENEFITS AT A GLANCE

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Preferred Provider Organization (PPO) Medical Plan <u>Standard Plan</u>	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Plan typically pays 80% of covered expenses after coinsurance and deductible. Annual deductible Single/Family: \$1,000/\$3,000 Out of pocket: \$3,500/\$10,500 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single: \$60 Family: \$126
Preferred Provider Organization (PPO) Medical Plan <u>Premium Plan</u>	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Plan typically pays 100% of covered expenses after co-payment. No annual deductible Out of pocket \$1,000/\$3,000 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single: \$77 Family: \$160
Exclusive Provider Organization (EPO)	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	The EPO Plan includes comprehensive benefits, where you pay a copay and then the plan covers 100%. This means, at the time of service, you pay a set, flat amount. <u>There are no out-of-network benefits under this plan.</u> No Annual Deductible Lifetime Maximum: unlimited	Single: \$83 Family: \$168
EyeMed Vision Plan This plan is bundled with the dental plan. You cannot choose vision and dental separately.	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	The Plan covers exams at 100% after \$15 copay Frames – In Network: 100% after \$50 copay Standard plastic lenses – In Network: covered after \$35 copay single lenses; all others \$50 copay Contact Lenses: In Network: Covered up to \$100 (if medically necessary to wear contacts instead of glasses, then 100% of U&C. Out-of-Network benefits are available. Plan pays less for these benefits. Frequency for frames, lenses and contacts: Once every 24 months	Included in the Medical Plan
Prescription Drug Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Two ways to buy: Retail (for acute medication): 10%-Generic Drugs 20%-Preferred Brand Name Drugs 20%-Non-Preferred Brand Name Drugs Mail Order (for maintenance or chronic conditions): Generic-\$14 Preferred Brand-\$30 Non-Preferred Brand: \$70	Included in the Horizon Medical Plans

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Wellness and Discount Program	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Just present your Horizon BCBSNJ ID card at these select businesses or mention that you are a Horizon BCBSNJ member when calling. For more information and easy online ordering, visit www.horizonblue.com/nationalaccounts <ul style="list-style-type: none"> • Discounts on chiropractic, acupuncture, massage therapy, nutrition counseling and vitamins through our Horizon Alternative Therapies Program. • Discounts on eye examinations, lenses, eyeglass frames and laser vision correction services at participating Cole Vision-affiliated outlets (located in the optical departments in such stores as Sears, JCPenney, Target and Pearle Vision Centers, as well as in many independent optometrist and ophthalmologist offices) and at Davis Vision providers. • Discounts on health club memberships, bicycle and in-line skating helmets, vacation packages and more. 	Included in the Horizon Medical Plans
Medical/Dental and Vision Opt-out Option	This enrollment period, you have the opportunity not to elect medical and/or dental/vision coverage for you and your dependents. Please note: You must have equivalent medical coverage under another medical plan if you elect the medical opt-out option.	Medical and Dental/Vision Plan Choices Dental/Vision PPO only: Single (\$81) credit; Family (\$65) credit Medical and Dental/Vision Opt-out Option Single (\$100) credit; Family (\$100) credit	
Dental Plan <u>Dental Standard PPO Plan</u> which is included with the Standard PPO Medical Plan.	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Annual deductible: Individual - \$100 Family - \$200 Preventive Care: 80% of covered expenses after deductible (x-rays, cleanings and exam). Other covered services at 50% after deductible for major and basic services. Maximum calendar year benefit is \$1,000 Orthodontia: Not covered	Included as part of the Medical Plans
Dental Plan <u>Premium PPO Plan</u> which is included with the Premium PPO and EPO Medical Plans.	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Annual deductible: Individual - \$50 Family - \$100 Preventive Care: 100% of covered expenses with no deductible (x-rays, cleanings and exam). Basic and major services are 80% after deductible. Maximum calendar year benefit is \$1,000 Orthodontia: - \$1,500.00 lifetime maximum. - Pays 50% of covered expenses after deductible - Covers employees and eligible dependents	Included as part of the Medical Plans

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Flexible Spending Accounts (Pre-Tax Savings Accounts)	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	<p>Health Care Savings Account: Set aside to pay for health services not covered by health plan such as:</p> <ul style="list-style-type: none"> - Deductibles - Co-payments - Hearing aids - Routine physicals - Psychiatric treatment <p>Annual amount that may be contributed: Minimum: \$120; Maximum: \$2,500 Use it or lose it</p> <p>Dependent Care Spending Account: Set aside to pay for dependent care expenses for working parent such as:</p> <ul style="list-style-type: none"> - wages paid to babysitter or companion (expenses not covered if care is provided by someone claimed as a dependent) - Nursery school/day care center costs - Wages paid to a housekeeper for providing care for an eligible dependent (dependent child under 13) or any dependent who is physically or mentally incapable of self care <p>- Annual amount that may be contributed is \$5,000 (\$2,500 if married and file separately) Use it or lose it</p>	Voluntary Contribution
Group Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	<p>Basic life insurance equal to 1.25 times your base salary rounded up to next highest \$1,000 (Maximum Benefit is \$200,000)</p> <p>Accident Death & Dismemberment: Provides a benefit up to \$10,000.</p> <p>Travel Accident Insurance while on company business:</p> <ul style="list-style-type: none"> - Salary over \$40,000: \$500,000 - Salary under \$40,000: \$400,000 - Spouse: \$250,000 	None
Voluntary Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Voluntary Life Insurance is in addition to the company-paid Basic Life Insurance. You may purchase up to the lesser of either \$300,000 or 3 times your salary in coverage without having to provide evidence of good health, provided you enroll on a timely basis. Your choices are: <ul style="list-style-type: none"> - VL of 1 x base pay - VL of 2 x base pay - VL of 3 x base pay 	Monthly contribution based on age.
Voluntary Dependent Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	VDL covers eligible dependents. You will be the beneficiary of the Dependent Term Life coverage you elect. The plan offers \$20,000 coverage for spouse; and \$10,000 coverage for each dependent child.	Voluntary Contribution \$5.00/mo. for spouse \$1.20/mo. for all children
Employee Assistance Plan (EAP)	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Provides employee and each eligible dependent with up to six sessions per issue, per calendar year, for evaluation, short-term counseling and/or referral for behavioral health care issues at no cost, as well as legal, elder care and child care referral assistance.	None

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Short Term Disability	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	STD benefit of \$340 per week for up to 52 weeks (rolling 12 months) for extended illness or injury. *This STD Benefit does not apply to St. Louis, MO UWUA Local 335	None
401(k)	Employees are eligible to participate as soon as possible after date of hire. Record Keeper/Trustee - Merrill Lynch	<ul style="list-style-type: none"> - A retirement and savings plan that allows you to save on a pre-tax basis. - Company matches 100% for every dollar you contribute during each pay period up to the first 3% of your base pay, and a 50% matching contribution on the next 2% of your base income you contribute during each pay period. - Company matching contributions will be invested in the same funds as you direct your employee contributions. - You may contribute up to 20% of your eligible compensation not exceeding IRS limits. - All contributions, earnings and dividends accumulate tax-free until you withdraw, usually at age 59 1/2 or when you retire. - Company matching contributions vest immediately. - There are eleven investment options. - If you need money before you retire, there are special provisions for loans or hardship withdrawals. - If you are age 50 or older, you will be able to make an additional "catch-up" contribution of \$5,500 to the plan in 2010. This means that if you are age 50 or older in 2010, you may be able to contribute up to \$22,000 (the \$16,500 IRS limit plus the \$5,500 catch-up contribution) to the Plan on a pre-tax basis in 2010. Matching contributions are not made on catch-up contributions. You may elect a pre-tax "catch-up" deferral rate of 1-20% of your eligible compensation up to the \$5,500 limit. For your contribution to be classified as "catch-up" contributions, you must have either a contribution equal to the plan maximum limit of 20% or actual pre-tax contributions of \$16,500 for 2010. At the end of the year, if your pre-tax contributions do not meet these requirements, the "catch-up" contributions (to the extent necessary) will automatically be re-characterized as regular pre-tax contributions in the Plan. If contributions are reclassified, they are not subject to receive a company match. 	<p>Voluntary Contribution up to 20% of your eligible compensation not to exceed IRS limit of \$16,500 in 2010</p> <p>Catch Up Contributions up to \$5,500 in 2010</p>

Benefits	When You Are Eligible	What You Receive	Monthly Cost To Employee
Defined Contribution Account (This is part of the above 401(k) Plan)	Immediately Record Keeper/Trustee – Merrill Lynch	American Water will contribute 5.25% of your base pay into your account following each pay period. Just like the 401(k) plan, you manage the investment options of your account. You are fully vested in your account balance after one year of service. These contributions will be made as a separate segment within your 401(k) Savings Plan. Different provisions apply to this segment of your 401(k) Plan (i.e. no loans/hardships).	Contributions not to exceed IRS limit of \$12,862.50 in 2010.
Vacation	As stated in union contract.		None
Holidays	As stated in union contract.		None
Educational Assistance	Employees may take advantage of this benefit for eligible courses in which they enroll after their date of hire.	- Financial Assistance of 100% for tuition, registration and required fees. - Books, equipment, travel, parking, late registration and insurance are the responsibility of the employee (Graduate level course work may be taxable income). Limits include: - \$5,250.00 per year - Up to six credit hours per semester or six actual class hours if credits are not awarded - Proof of grade of C or better must be submitted at the completion of each course. Failure to submit transcript will exclude employee from future participation in the Plan.	None
*Retiree Medical Reimbursement Account	Immediately	Employees hired on or after 01-01-06 will receive a \$500 per year contribution by American Water to help pay for retiree medical expenses – you do not need to contribute anything. Once you retire, you can use your account to help pay for retiree medical expenses. If you leave the company prior to retirement, funds in this account will be forfeited.	None

These sheets provide a brief description of your benefits under each plan. Should there be a conflict between the benefits described on these sheets and those described in the legal plan documents, the terms of the legal documents will be used to determine coverage and benefits.

American Water reserves the right to amend or otherwise change the benefits contained in the Summary Plan Description at any time for any reason or, if applicable, subject to collective bargaining agreements.

*This benefit does not apply to employees in these Union locations: Alton Call Center and Pensacola Call Center.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Sheila Miller

53. Concerning worker's compensation expense:
- a. Please provide the most current workers' compensation premiums and related invoices.
 - b. Show in detail how the current workers' compensation premiums and/or invoices were used to derive KAWC's requested amount of workers' compensation cost.
 - c. Reconcile the amount of KAWC's requested amount of workers' compensation cost to the most current invoices. Identify, quantify and explain all differences.

Response:

- a. See the attached invoice. The current 2010 premium is \$151,298.52.
- b. The current 2010 premium was increased by a 5% inflation factor to determine the 2011 premium. The calculation for the workers compensation adjustment was provided in response to KAW_R_PSCDR1#1a_WP3-9_031610 pages 2 and 3 of 14. The excel version was provided in response to KAW_R_AGDR1#1_042610 and labeled as file Ins Other 10.XLS.
- c. See the response to part b. above.

For the electronic version of this response, refer to KAW_R_AGDR1#53_042610.pdf.

MARSH

Marsh USA Inc.
New York, NY - 299
(212) 345-6000

50126585
NSX dmc

7,635,211.00

Invoice No.
200711

140

n/AZIP

AAO 3 ANAIS

Date: 1/04/10

Mr. James P. Li
Director of Risk Management
American Water Works Co., Inc.
1025 Laurel Oak Road
Voorhees, NJ 08043

Effective Date	Expiration Date	Client No.
1/01/10	1/01/11	602328

Policyholder: AMER WATER WOR

ORIGINAL Billing Effective Date: 1/01/10

INSTALLMENT 1 OF 4

Insurer	Policy No.	Type of Coverage / Item	Amount
TRAVELERS P&C	TC2JGLSA260T3317	GEN LIABILITY PREMIUM	4,403,048.00
TRAVELERS P&C	TC2JCAP260T3298	AUTO LIAB PREMIUM	519,372.00
FEE BILLING	SERVICE FEE	CAS CONSULTING FEE	74,389.00
TRAVELERS P&C	TC2JUB121D3206	WORK COMP PREMIUM	2,638,402.00
REMIT IN: UNITED STATES DOLLARS			
Renewal premiums due. Fee breakdown by coverage			
First Installment: GL - \$45,835, AL - \$4,452, WC \$24,102			
Next Three Installments: GL \$45,833, AL \$4,450, WC \$24,100			
RECEIVED			
JAN 13 2010			
SSC Accounts Payable			
Please indicate Invoice # 200711 on your remittance to:			
Marsh USA Inc. New York Office P.O. Box 19601 Newark, NJ 07195-0601			TOTAL: 7,635,211.00

Invoice Is Payable In Full Upon Receipt

Marsh earns and retains interest income on premium payments held by Marsh on behalf of insurers during the period between receipt of such payments from clients and the time such payments are remitted to the applicable insurer, where permitted by law.

MARSH USA Inc. Invoice #200711 dated 01/04/10 (installment #1)

Reg (JDE)	Accounting	Amount
AMERICAN WATER ENTERPRISES*		\$ 221,152.99
AMERICAN WATER RESOURCES, SLP* ———		\$ 5,121.15
AMERICAN WATER WORKS COMPANY, IN 020105.165200.TJ36		\$ 406.71
AMERICAN WATER WORKS SERVICE CO., 032000.165200.TJ36		\$ 270,151.94
APPLIED WATER MANAGEMENT & APPLIED*		\$ 59,079.39
California-American Water Co. 051005.165200.TJ36		\$ 341,031.88
Hawaii-American Water Co. 300205.165200.TJ36		\$ 20,078.04
ILLINOIS-AMERICAN WATER 098505.165200.TJ36		\$ 700,795.62
INDIANA-AMERICAN WATER 100105.165200.TJ36		\$ 289,185.27
Iowa-American Water Co. 110105.165200.TJ36		\$ 68,804.81
KENTUCKY-AMERICAN WATER 120105.165200.TJ36		\$ 114,687.75
Long Island Water Corp. - NY 380305.165200.TJ36		\$ 215,570.39
Maryland-American Water Co. 130205.165200.TJ36		\$ 8,395.76
Michigan-American Water Co. 160205.165200.TJ36		\$ 2,980.44
MISSOURI-AMERICAN WATER 170105.165200.TJ36		\$ 985,860.79
NEW JERSEY-AMERICAN WATER 180105.165200.TJ36		\$ 1,416,303.96
New Mexico-American Water Co. 190105.165200.TJ36		\$ 15,602.69
Ohio-American Water Co. 220105.165200.TJ36		\$ 63,440.63
Paradise Valley Water Co. - AZ 230105.165200.TJ36		\$ 159,212.30
PENNSYLVANIA-AMERICAN WATER 240005.165200.TJ36		\$ 1,952,083.29
Tennessee-American Water Co. 260205.165200.TJ36		\$ 91,851.11
Texas American 500105.165200.TJ36		\$ 13,449.32
Virginia-American Water Co. 270505.165200.TJ36		\$ 95,696.05
WEST VIRGINIA-AMERICAN WATER 285105.165200.TJ36		\$ 524,268.72
	Total	\$ 7,635,211.00
	*Less Non-Reg	\$ (285,353.53)
	Pay	\$ 7,349,857.47

American Water Company
Workers Compensation
PV #42415241
February 28, 2010

State	Coverage Period	Premium Amount	Months in Period	Monthly Amortization	Expense Account	At month end		JR
						Remaining	Balance	
AWK	01/01/10 - 03/31/10	\$ 99.92	3	\$ 33.31	558000.16	1	\$ 33.31	112
Service Company	01/01/10 - 03/31/10	141,364.88	3	47,121.63	558000.16	1	47,121.63	112
California	01/01/10 - 03/31/10	145,687.33	3	48,562.44	558000.16	1	48,562.44	112
Illinois	01/01/10 - 03/31/10	380,954.71	3	126,984.90	558000.16	1	126,984.90	112
Indiana	01/01/10 - 03/31/10	84,648.81	3	28,216.27	558000.16	1	28,216.27	112
Iowa	01/01/10 - 03/31/10	28,052.55	3	9,350.85	558000.16	1	9,350.85	112
Kentucky	01/01/10 - 03/31/10	37,824.62	3	12,608.21	558000.16	1	12,608.21	112
Maryland	01/01/10 - 03/31/10	1,683.15	3	561.05	558000.16	1	561.05	112
Michigan	01/01/10 - 03/31/10	657.44	3	219.15	558000.16	1	219.15	112
Missouri	01/01/10 - 03/31/10	343,384.72	3	114,461.57	558000.16	1	114,461.57	112
New Jersey	01/01/10 - 03/31/10	637,579.58	3	212,526.53	558000.16	1	212,526.53	112
New Mexico	01/01/10 - 03/31/10	4,645.93	3	1,548.64	558000.16	1	1,548.64	112
Arizona	01/01/10 - 03/31/10	45,309.18	3	15,103.06	558000.16	1	15,103.06	112
Pennsylvania	01/01/10 - 03/31/10	369,277.77	3	123,092.59	558000.16	1	123,092.59	112
Tennessee	01/01/10 - 03/31/10	38,969.37	3	12,989.79	558000.16	1	12,989.79	112
Virginia	01/01/10 - 03/31/10	23,420.93	3	7,806.98	558000.16	1	7,806.98	112
West Virginia	01/01/10 - 03/31/10	141,122.28	3	47,040.76	558000.16	1	47,040.76	112
Hawaii	01/01/10 - 03/31/10	6,650.83	3	2,216.94	558000.16	1	2,216.94	112
Long Island	01/01/10 - 03/31/10	94,958.99	3	31,653.00	558000.16	1	31,653.00	112
Texas	01/01/10 - 03/31/10	8,273.44	3	2,757.81	558000.16	1	2,757.81	112
Total Agrees to JDE		\$ 2,534,566.43		\$ 844,855.48			\$ 844,855.48	
AWR		\$ 913.55						
AWM		41,147.05						
AWE		61,773.73						
Total per Non Regulated Companies		\$ 103,834.34						
Total per Corporate Allocation		\$ 2,638,400.77						

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

54. Concerning health care cost:
- a. Please provide the most current health care premiums and related invoices.
 - b. Show in detail how the current health care premiums and/or invoices were used to derive KAWC's requested amount of health care cost.
 - c. Reconcile the amount of KAWC's requested amount of health care cost to the most current invoices. Identify, quantify and explain all differences.

Response:

- a. Attached is the group insurance premium statement and invoice as of March 2010.
- b. The 2010 insurance rates were applied to forecasted test year billing determinants (i.e. salary levels and employee counts) in calculating the forecasted test year group insurance. The workpaper was provided in response to KAW_R_PSCDR1#1a_WP3-6_031610 page 2 of 6. The excel version was provided in response to KAW_R_AGDR1#1_042610 and labeled as file Ins Group 10.XLS.
- c. See response b.

For the electronic version of this response, refer to KAW_R_AGDR1#54_042610.pdf.

FORM 392 - TOTAL
Revision date: 12/2009

HORIZON BLUECROSS/BLUESHIELD
GROUP INSURANCE PREMIUM STATEMENT
(Rates effective January 1, 2010)

COMPANY: Kentucky American Water Co.
MONTH OF: March 2010

Insurance/Employees:		Rate	Premium
ACTIVE EMPLOYEES			
LIVES LIFE INSURANCE:			
69	6,284,000	1 Life - Basic (Non Bargaining)	\$0.153 per \$1,000 \$961.45
70	4,093,000	2 Life - Basic (Bargaining)	\$0.153 per \$1,000 626.23
70	700,000	3 A. D. & D. (\$10,000 cov. per employee)	\$0.020 per \$1,000 14.00
69	6,284,000	4 A. D. & D. (Non Bargaining)	\$0.020 per \$1,000 125.68
4	346,611	5 Life - Voluntary Under 30	\$0.063 per \$1,000 21.84
8	945,403	6 Life - Voluntary 30-34	\$0.084 per \$1,000 79.41
10	1,060,136	7 Life - Voluntary 35-39	\$0.105 per \$1,000 111.31
7	1,265,665	8 Life - Voluntary 40-44	\$0.126 per \$1,000 159.47
13	1,696,219	9 Life - Voluntary 45-49	\$0.200 per \$1,000 339.24
12	1,551,318	10 Life - Voluntary 50-54	\$0.336 per \$1,000 521.24
8	837,635	11 Life - Voluntary 55-59	\$0.620 per \$1,000 519.33
3	394,568	12 Life - Voluntary 60-64	\$0.788 per \$1,000 310.92
0	0	13 Life - Voluntary 65-69	\$1.439 per \$1,000 0.00
0	0	14 Life - Voluntary 70 and over	\$2.321 per \$1,000 0.00
57	1,140,000	15 Life - Dependent Spouse	\$0.250 per \$1,000 285.00
53	880,000	16 Life - Dependent Children	\$1.200 per Family 63.60
0	0	17 Life - Supplemental	\$0.298 per \$1,000 0.00
2	60,000	18 Life - Optional	\$0.298 per \$1,000 17.88

DISABILITY:			
(74,126)	19 Long Term Disability (non union only)	\$0.400 per \$100	(296.50)
139	20 Short-term Managed Disability	\$2.66 per EMPLOYEE	369.74
0	21 A.& S.-Coverage for New Jersey only	\$0.302 per \$10	0.00

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:			
12	22 Employees w/Single Coverage(Union)	\$419.00	5,028.00
0	23 Employee and Spouse Coverage(Union)	\$0.00	0.00
0	24 Employee and Children(Union)	\$0.00	0.00
55	25 Employee and Family(Union)	\$1,198.00	65,890.00
0	26 Employees with Single Dental coverage only(Union)	\$23.00	0.00
0	27 Employee and Spouse Coverage Dental(Union)	\$0.00	0.00
0	28 Employee and Children - Dental(Union)	\$0.00	0.00
1	29 Employee and Family Dental(Union)	\$70.00	70.00
17	30 Employees w/Single Coverage(Non-Union)	\$419.00	7,123.00
12	31 Employee and Spouse Coverage(Non-Union)	\$960.00	11,520.00
6	32 Employee and Children(Non-Union)	\$888.00	5,328.00
31	33 Employee and Family(Non-Union)	\$1,433.00	44,423.00
0	34 Employees with Single Dental Coverage only(Non-Union)	\$21.00	0.00
1	35 Employee and Spouse Coverage Dental(Non-Union)	\$45.00	45.00
0	36 Employee and Children - Dental(Non-Union)	\$55.00	0.00
0	37 Employee and Family Dental(Non-Union)	\$87.00	0.00

Actives' subtotal: \$143,656.84

CONTINUATION OF COVERAGE

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:			
1	42 Single-Union	\$419.00	419.00
0	43 Family (2 or more individuals)-Union	\$1,198.00	0.00
0	44 Single Dental coverage only-Union	\$23.00	0.00
0	45 Family with Dependent Dental coverage only-Union	\$70.00	0.00
0	46 Employee-Non-Union	\$419.00	0.00
0	47 Employee/Spouse (2 or more individuals)-Non-Union	\$960.00	0.00
0	48 Employee/Children-Non-Union	\$888.00	0.00
0	49 Employee/Family-Non-Union	\$1,433.00	0.00
0	50 Employee-Non-Union(Dental Only)	\$21.00	0.00
0	51 Employee/Spouse Non-Union(Dental Only)	\$45.00	0.00
0	52 Employee/Children-Non-Union (Dental Only)	\$55.00	0.00
0	53 Employee/Family-Non-Union(Dental Only)	\$87.00	0.00

Continuation of Coverage Subtotal: \$419.00

TOTAL PREMIUM TO BE PAID TO TRUST: \$144,075.84

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Sheila Miller

55. Please provide the basis for the Company's cost of each separate employee benefit (e.g., flat rate per employee, percentage of payroll, claims experience, etc.), and provide the most current known cost rate for each separate benefit.

Response:

Group Insurance- The basis is the AWW system wide Medical Health Care Plan. There is a rate schedule developed each year providing the rates for each element of the group insurance plan. The 2010 form 392 used in the case is provided in the response to KAW_R_AGDR1#54. Also refer to KAW_R_PSCDR1#1a_031610.pdf. The electronic version of the work papers is provided at KAW_AGDR1#1_042610.pdf., please refer to WP3-6, page 2 of 6.

OPEB's-The basis is the AWW system wide Medical Health Care Plan. Costs are determined under FAS 106 by AWW's actuary. The actuary numbers used in the Company's filing were previously provided in the work papers attached to the response to KAW_R_PSCDR1#1a_031610.pdf. The electronic version of the work papers is provided at KAW_AGDR1#1_042610.pdf., please refer to WP3-6, pages 3&4 of 6.

DCP Retirees Medical (hired after 1/1/06) - The basis is the AWW system wide Medical Health Care Plan. Also refer to the work papers previously supplied in KAW_R_PSCDR1#1a_031610.pdf. The electronic version of the work papers is provided at KAW_AGDR1#1_042610.pdf., please refer to WP3-1, page 33 of 42.

Pensions- The basis is the AWW system wide DBP Pension Plan. Costs are determined under FAS 87 by AWW's actuary. The actuary numbers used in the Company's filing were previously provided in the work papers attached to the response to KAW_R_PSCDR1#1a_031610.pdf. The electronic version of the work papers is provided at KAW_AGDR1#1_042610.pdf., please refer to WP3-7 page 2&3 of 4.

DCP Pensions (union hired after 1/1/01 and non-union hired after 1/1/06) - The basis is the AWW system wide DBP Pension Plan. Also refer to the work papers previously supplied in KAW_R_PSCDR1#1a_031610.pdf. The electronic version of the work papers is provided at KAW_AGDR1#1_042610.pdf., please refer to WP3-1, page 31&32 of 42.

401(k)-The basis is the AWW system wide Plan. Also refer to the work papers previously supplied in KAW_R_PSCDR1#1a_031610.pdf. The electronic version of the

work papers is provided at KAW_AGDR1#1_042610.pdf., please refer to WP1-1, pages 34-39 of 42.

AIP-The basis is the AWW system wide Plan. Also refer to the work papers previously supplied in KAW_R_PSCDR1#1a_031610.pdf. The electronic version of the work papers is provided at KAW_AGDR1#1_042610.pdf. Please refer to WP1-1, pages 41&42 of 42.

For the electronic version of this response, refer to KAW_R_AGDR1#55_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller/Michael A. Miller

56. Please provide the monthly level of each separate benefit cost broken down between expensed, capitalized and other for 2007, 2008, 2009 actual and as projected for 2010 and 2011 with annual totals.

Response:

See attached schedule.

For the electronic version, refer to KAW_R_AGDR1#56_042610.pdf.

Kentucky American Water Company
Data Request AG 56 Attachment
Summary of Benefit Costs

Group Insurance

Month	2007		2008		2009		2010		2011	
	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M
January	20,834	98,272	119,106	93,672	26,474	92,869	119,343	130,066	29,019	137,756
February	44,987	73,488	118,475	91,082	28,632	91,776	120,408	130,075	29,019	137,757
March	19,950	147,411	167,361	88,423	32,311	89,248	121,559	130,075	29,019	137,756
April	28,944	126,306	155,250	84,435	24,656	97,171	121,827	130,075	29,019	137,758
May	26,669	23,276	49,946	88,798	22,379	98,280	120,659	130,077	29,019	137,756
June	25,731	98,940	124,671	90,300	32,387	78,172	110,560	130,075	29,019	137,756
July	40,766	80,782	121,548	78,091	19,341	101,156	120,497	130,075	29,019	137,757
August	23,078	100,785	123,863	99,360	12,560	105,183	117,743	130,076	29,019	137,760
September	27,170	101,842	129,012	17,035	13,089	107,135	120,224	130,027	29,019	137,756
October	30,043	97,212	127,255	16,033	12,171	107,800	119,972	130,023	29,019	137,757
November	32,842	90,658	123,500	22,130	14,103	95,215	109,318	130,024	29,019	137,757
December	51,431	59,930	111,360	89,692	16,732	109,665	126,397	130,024	29,019	137,757
Total	372,444	1,088,903	1,471,347	337,705	254,836	1,173,670	1,428,506	393,363	348,228	1,653,083

OPEB's

Month	2007		2008		2009		2010		2011	
	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M
January	6,385	42,365	48,750	54,565	11,082	88,315	99,397	75,000	16,273	77,250
February	11,476	59,124	70,600	7,837	14,947	84,450	99,397	75,000	16,273	77,250
March	7,620	52,055	59,675	8,088	19,420	81,142	100,563	75,000	16,273	77,250
April	7,868	51,807	59,675	8,812	16,221	86,897	103,117	75,000	16,273	77,250
May	7,914	51,761	59,675	9,126	13,678	86,959	100,637	75,000	16,273	77,250
June	7,688	51,987	59,675	9,241	19,937	80,700	100,637	75,000	16,273	77,250
July	10,339	49,336	59,675	18,277	11,579	89,058	100,637	75,000	16,273	77,250
August	7,888	51,787	59,675	14,088	15,383	85,254	100,637	75,000	16,273	77,250
September	7,519	52,156	59,675	13,848	16,698	83,939	100,637	75,000	16,273	77,250
October	14,387	45,288	59,675	13,489	14,427	86,210	100,637	75,000	16,273	77,250
November	18,847	44,828	59,675	20,594	40,568	59,842	100,411	75,000	16,273	77,250
December	20,266	34,377	54,643	37,162	13,191	87,446	100,637	75,000	16,273	77,250
Total	124,197	586,868	711,065	168,645	207,131	1,000,212	1,202,344	225,000	195,276	927,000

Pension

Month	2007		2008		2009		2010		2011	
	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M
January	5,993	40,060	46,053	57,770	11,886	123,308	135,194	109,317	22,013	104,498
February	10,772	63,328	74,100	57,523	18,648	116,546	136,646	109,317	22,013	104,498
March	7,153	52,924	60,077	9,816	26,384	121,577	147,961	109,317	22,013	104,498
April	7,385	53,945	61,330	10,076	22,037	117,440	139,477	109,317	22,013	104,498
May	7,429	52,648	60,077	9,839	18,583	120,893	139,477	109,317	22,013	104,498
June	7,217	52,860	60,077	9,963	27,086	112,390	139,477	109,317	22,013	104,498
July	9,705	49,118	58,823	19,112	15,730	123,746	136,646	109,317	22,013	104,498
August	7,405	52,672	60,077	14,088	22,340	117,137	136,646	109,317	22,013	104,498
September	7,058	53,019	60,077	13,848	24,248	115,228	136,646	109,317	22,013	104,498
October	19,127	40,950	60,077	13,489	20,950	118,526	136,646	109,317	22,013	104,498
November	19,739	40,338	60,077	22,556	60,895	78,337	136,646	109,317	22,013	104,498
December	26,944	28,096	55,040	40,197	18,282	121,195	139,477	109,317	22,013	104,498
Total	135,926	579,958	715,984	181,758	287,071	1,386,324	1,673,395	327,951	264,155	1,253,976

Kentucky American Water Company
Data Request AG 56 Attachment
Summary of Benefit Costs

401k

Month	2007		2008		2009		2010		2011	
	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M
January	2,080	7,113	2,477	8,735	3,717	9,513	2,843	10,971	2,530	11,682
February	3,700	6,149	2,704	7,330	2,309	8,135	2,843	9,842	2,530	10,555
March	2,367	7,667	2,756	8,621	3,104	10,913	2,843	11,600	2,530	12,470
April	2,546	7,226	2,802	7,772	2,802	9,084	2,843	11,061	2,530	11,418
May	2,620	8,084	2,736	8,301	2,624	8,974	2,843	10,774	2,530	12,144
June	2,437	7,577	2,821	8,339	3,691	8,838	2,843	11,036	2,530	11,899
July	3,330	7,801	4,060	8,801	2,271	10,640	2,843	11,654	2,530	12,087
August	2,383	7,767	2,649	7,429	2,196	8,904	2,843	11,346	2,530	12,683
September	2,316	6,020	3,101	8,562	2,301	9,480	2,843	11,903	2,530	12,304
October	2,251	7,136	2,993	9,179	2,293	9,268	2,843	11,166	2,530	11,505
November	2,395	6,993	3,032	8,448	3,592	7,840	2,843	12,328	2,530	12,688
December	3,164	7,746	4,340	8,901	2,074	7,322	2,843	12,799	2,530	12,688
Total	31,587	87,279	36,518	100,610	32,974	108,911	34,120	136,480	30,360	144,123

DCP - Pension

Month	2007		2008		2009		2010		2011	
	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M
January	1,017	4,172	1,781	6,595	3,386	8,437	2,553	9,279	2,356	10,651
February	2,035	6,604	2,127	5,166	1,390	6,523	2,553	9,007	2,356	10,314
March	1,358	4,572	1,923	5,205	2,885	7,165	2,553	10,360	2,356	11,860
April	2,055	4,196	2,101	6,767	2,251	7,977	2,553	9,907	2,356	10,808
May	1,362	7,778	1,850	6,687	2,290	7,214	2,553	9,437	2,356	11,351
June	1,338	5,976	2,093	6,152	3,165	7,221	2,553	9,914	2,356	11,345
July	1,810	5,223	3,704	6,438	2,237	9,336	2,553	9,908	2,356	10,824
August	1,912	5,653	2,538	5,490	1,986	8,359	2,553	9,902	2,356	11,815
September	1,769	5,323	2,646	7,590	2,072	9,194	2,553	11,083	2,356	11,344
October	1,475	6,335	2,351	7,771	2,238	8,918	2,553	10,621	2,356	10,825
November	1,704	5,855	2,571	7,323	3,468	7,423	2,553	11,315	2,356	11,528
December	2,307	5,076	3,469	7,941	1,993	10,048	2,553	11,825	2,356	11,528
Total	20,142	66,765	29,152	79,125	29,362	97,813	30,640	122,558	28,268	134,193

DCP - OPEB's

Month	2007		2008		2009		2010		2011	
	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M
January	22	270	120	1,172	62	(42)	0	0	0	0
February	116	1,593	-	-	-	730	0	0	0	0
March	-	125	94	365	316	809	0	0	0	0
April	32	385	417	445	92	700	0	0	0	0
May	43	374	79	505	28	805	0	0	0	0
June	48	1,244	98	777	218	1,616	0	0	0	0
July	41	1,042	196	1,054	-	-	0	0	0	0
August	-	-	-	-	70	763	0	0	0	0
September	120	1,171	86	538	61	1,272	0	0	0	0
October	44	581	59	566	69	806	0	0	0	0
November	115	510	44	582	74	1,593	0	0	0	0
December	136	988	114	4,256	-	(792)	0	0	0	0
Total	717	8,283	989	10,260	990	8,261	0	0	0	0

Kentucky American Water Company
Data Request AG 56 Attachment
Summary of Benefit Costs

Annual Incentive Plan

Month	2007		2008		2009		2010		2011	
	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M
January	-	17,468	-	22,293	-	22,381	-	29,674	-	30,682
February	-	27,351	-	22,324	-	21,283	-	28,258	-	29,222
March	-	(19,379)	-	31,334	-	(18,749)	-	32,498	-	33,607
April	-	20,830	-	23,755	-	22,166	-	31,085	-	30,682
May	-	21,092	-	24,921	-	21,481	-	29,674	-	32,145
June	-	28,324	-	42,234	-	22,752	-	31,085	-	32,145
July	-	31,637	-	29,924	-	21,034	-	31,085	-	30,682
August	-	20,862	-	28,175	-	21,030	-	31,085	-	33,607
September	-	24,879	-	24,026	-	27,828	-	31,085	-	32,145
October	-	20,303	-	28,421	-	21,371	-	29,674	-	30,682
November	-	20,462	-	29,198	-	32,417	-	31,085	-	32,145
December	-	24,896	-	26,882	-	122,261	-	32,498	-	32,145
Total	-	238,726	-	333,486	-	337,255	-	368,786	0	379,889

Long Term Incentive Plan

Month	2007		2008		2009		2010		2011	
	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M	Capital	O&M
January	-	-	-	-	-	-	-	2,154	-	2,212
February	-	-	-	-	-	-	-	2,154	-	2,212
March	-	-	-	6,328	-	-	-	2,154	-	2,212
April	-	-	-	2,327	-	-	-	2,154	-	2,212
May	-	-	-	2,661	-	-	-	2,154	-	2,212
June	-	-	-	-	-	-	-	2,154	-	2,212
July	-	-	-	-	-	-	-	2,154	-	2,212
August	-	-	-	-	-	-	-	2,154	-	2,212
September	-	-	-	-	-	-	-	2,154	-	2,212
October	-	-	-	-	-	-	-	2,154	-	2,212
November	-	-	-	-	-	-	-	2,154	-	2,212
December	-	-	-	-	-	-	-	2,154	-	2,212
Total	-	-	-	11,316	-	-	-	25,848	0	26,544

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller**

57. Please provide the level of current accumulated pension plan funding and explain how such amounts are treated for ratemaking purposes, and why.

Response:

Please see the response to KAW_R_AGDR1#49_042610 (subpart d) for a copy of the latest Towers Actuarial Report for the AWW Defined Benefit Pension Plan status. The Commission has utilized FAS 87 accrual accounting for pension cost since at least case number 2000-120.

For the electronic version of this response, refer to KAW_R_AGDR1#57_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller

58. Please provide an analysis (description, dates and amounts) of any gains or losses on utility property sold during 2007, 2008, 2009 and estimated by month through 9/30/2011. Also, please explain how such amounts have been treated for ratemaking purposes.

Response:

There has been no utility property sold during 2007, 2008, 2009, or forecasted through 9/30/2011.

For the electronic version, refer to KAW_R_AGDR1#58_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

59. Please provide the level of country club dues incurred in the test year and indicate how they have been treated for cost of service purposes.

Response:

The Company did not include any expense for country club dues in the cost of service in this rate filing.

For the electronic version, refer to KAW_R_AGDR1#59_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

60. Please provide the level of lobbying included in cost of service by separate payee, along with a description of each payee.

Response:

The Company did not include lobbying expense in the cost of service in this rate filing.

For the electronic version, refer to KAW_R_AGDR1#60_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

61. Please provide the requested level of self-funded reserve accruals and balances for all types of injuries, claims and damages by type of item.

Response:

None.

For the electronic version, refer to KAW_R_AGDR1#61_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael Miller/Sheila Miller

62. Does KAWC have any self-funded reserves? If so, please provide the following monthly data for each separate type of self-funded reserve for injuries, claims and damages in 2007, 2009, 2009 and projected, budgeted or forecast through 9/30/2011, and provide the level reflected in revenue requirement and explain how such amounts have been treated for ratemaking purposes. Also, please provide new monthly data as it becomes available through the course of this proceeding.
- a. Accruals;
 - b. Actual claims; and
 - c. Balance

Response:

The Company has no self-funded reserves.

For the electronic version, refer to KAW_R_AGDR1#62_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

63. Please identify the amounts included in cost of service during the test year for the following items:
- a. Membership dues in service, social and professional organizations (identify);
 - b. Lobbying expenses;
 - c. Charitable contributions;
 - d. Investor relations expenses;
 - e. Public relations expense, including an explanation of the nature and purpose of the activities, and
 - f. Advertising expenses broken down by categories including product, marketing, corporate, institutional, informational, etc.

Response:

- a. Please refer to Schedule F that was provided in the Company's original application filing and labeled as KAW_APP_EX37F_022610 page 2 of 12. The membership dues are detailed for the base period and forecasted test year. The excel version was provided in response to KAW_R_AGDR1#1_042610.pdf with a file name of K_FINDAT 10.XLS.
- b. Please see response to KAW_R_AGDR1#60_042610.pdf.
- c. None
- d. None
- e. None
- f. Please refer to Schedule F that was provided in the Company's original application filing and labeled as KAW_APP_EX37F_022610 pages 8 and 9 of 12. The advertising expenses are broken out by category. The excel version was provided in response to KAW_R_AGDR1#1_042610 with a file name of K_FINDAT 10.XLS.

For the electronic version of this response, refer to KAW_R_AGDR1#63_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Michael A. Miller

64. Rate Case Expense.
- a. Please provide supporting documentation (e.g. invoices, quotes, etc.) for each of the rate case expenses.
 - b. Please identify the test year, filing date and rate effective date for the Company's last five rate cases.
 - c. Please provide the level of rate case expense incurred for the last five rate cases broken down by payee or type of activity.
 - d. Please explain fully and in detail why the Company normalized rate case expense over three years versus some other period.

Response:

- a. The Company objects to this question on the grounds that much of the requested information from prior rate cases is not relevant to this case, and older invoices are not readily available and would have to be recovered from storage (if possible) which would be extremely burdensome and costly to locate and reproduce. Notwithstanding the objection please see the response to part c below, which provides a summary of rate case expense by individual charge (or invoice) for the 2004, 2007, 2008 and the current rate case. If the AG wants to view a particular invoice on the summaries attached to part c, the Company will attempt to supply that information, or the AG can make arrangements to come to the Company's office at 2300 Richmond Road, Lexington, KY to review the electronic copies of invoices available. Please see the engagement contracts for Dr. Spitznagel, Dr. Vander Weide, Paul Herbert, John Spanos and James Salser. The engagement contract for Mr. Baryenbruch is being provided in response to KAW_R_AGDR1#85_042610.pdf.

b.

<u>Rate Case</u>	<u>Test Year</u>	<u>Filing Date</u>	<u>Rate Effective Date</u>
	12 mo ending		
2000	11/30/01	4/28/00	11/27/00
2004	11/30/05	4/30/04	12/1/04

2007	11/30/08	4/30/07	12/1/07
2008	5/31/10	10/31/08	6/1/09
2010	9/30/11	2/26/10	10/1/10

- c. Please see the attached schedules detailing the rate case expense incurred for the last four rate cases. The information for the 2000 rate case is no longer readily available.
- d. The Commission has historically recognized a three year **amortization** of rate case expense for the 2004, 2007 and 2008 cases. The Commission authorized a two year amortization of the 2000 rate case. The Company requested a three year **amortization** of the current case consistent with the Commission recent practice.

For the electronic version of this response, refer to KAW_R_AGDR1#64_042610.pdf.

AGREEMENT FOR PROFESSIONAL SERVICES

THIS AGREEMENT made and entered into this 1st day of December, 2009, by and between KENTUCKY AMERICAN WATER, a corporation having offices at 1600 Pennsylvania Avenue, Charleston, West Virginia 25302 (hereinafter referred to as "KAW"), and Dr. Edward L. Spitznagel, Jr, Professor, Washington University having offices at Campus Box 1146 – One Brookings Drive, St. Louis, Missouri 63130-4899.

WITNESSETH

WHEREAS, KAW is a public utility engaged in the business of providing water service to the general public in Kentucky; and

WHEREAS, KAW is currently preparing for a planned rate filing ("2010 rate case") before the Kentucky Public Service Commission (hereinafter referred to as "PSC") on or about February 26, 2010, using a June 1, 2009 through May 31, 2010, historic test year, and an October 1, 2010 through September 30, 2011 forecasted test year; and

WHEREAS, KAW desires to engage the services of Dr. Edward L. Spitznagel, Jr. to assist in the 2010 rate case and to render services on the terms and conditions provided in this Agreement; and

WHEREAS, Dr. Edward L. Spitznagel, Jr. is in the business of rate case consulting and desires to render professional services for KAW as provided herein:

NOW, THEREFORE, KAW engages the services of Dr. Edward L. Spitznagel, Jr., and in consideration of the mutual promises contained in this contract, the parties agree as follows:

1. This Agreement shall be effective as of the date stated above and shall continue in effect until completion of the 2010 rate case or until terminated by either party by giving ten (10) days' prior written notice to the other party at the address stated above.

2. Dr. Edward L. Spitznagel, Jr. agrees to provide professional services to KAW on weather normalization issues in connection with KAW's 2010 rate case filing with the PSC. The scope of such services shall include the development of empirical evidence regarding weather normalization which shall be assembled as an exhibit for the written testimony of Dr. Edward L. Spitznagel, Jr..

3. In consideration of the services to be performed by Dr. Edward L. Spitznagel, Jr. in providing written testimony and a weather normalization exhibit, KAW agrees to pay Dr. Edward L. Spitznagel, Jr. a total fee of not more than Six Thousand and Four Hundred (\$6,400) Dollars. Additional services performed by Dr. Edward L. Spitznagel, Jr. after KAW has filed the direct testimony of weather normalization, such as preparing responses to interrogatories, analyzing testimony of opposing witnesses, preparing rebuttal testimony, attending hearings, and assisting rate case counsel, shall be billed at the hourly rates specified below, plus out-of-pocket expenses.

	<u>Hourly rate</u>
Dr. Edward L. Spitznagel, Jr.	\$160.00

Invoices will be rendered monthly for services performed during the preceding month.

4. In furnishing services under the Agreement, Dr. Edward L. Spitznagel, Jr. will at all times be an independent contractor. Neither party is authorized or empowered to act as agent for the other for any purpose and shall not on behalf of the other enter into any contract, warranty, representation as to any matter.

5. This Agreement merges all previous negotiations between the parties hereto with respect to the subject matter covered hereby, and no other agreement, statement, or premise relating to the subject matter of this agreement that is not contained in it shall be valid and binding.

6. The services of Dr. Edward L. Spitznagel, Jr. are of personal nature and shall not be assigned in whole or in part by Dr. Edward L. Spitznagel, Jr. without the prior written consent of KAW.

7. This Agreement may be amended by the mutual written agreement of the contracting parties.

DR. EDWARD L. SPITZNAGEL, JR.

By: Dr. Edward L. Spitznagel, Jr.
Professor

KENTUCKY AMERICAN WATER COMPANY

By: M. Miller 12-18-09
Director Rates and Regulation

Financial Strategy Associates
James H. VanderWeide, Ph.D.

3906 Stracybrook Drive
Durham, NC 27705

Tel. (919) 383-6659 or (919) 383-1057
Fax. (919) 383-6659
jim.vanderweide@fsa.com

November 20, 2009

Mr. Mike Miller
American Water Works Service Company
Southeast Region
PO Box 1906
Charleston, WV 25327-1906

Dear Mike:

This letter confirms my agreement to perform cost of capital studies and to provide testimony on behalf of Kentucky-American Water Company ("KAWC" or "the Company") in its 2010 cost of capital proceeding before the Public Service Commission of the Commonwealth of Kentucky ("KPSK").

Work. I will: (1) conduct an independent study of the cost of equity capital for KAWC; (2) prepare written testimony on my cost of equity findings and return on equity (ROE) recommendation; (3) respond to data requests; (4) defend this testimony as required before the KPSK; (5) as required, evaluate intervenor testimony and prepare and defend rebuttal testimony; and (6) work with KAWC's staff and attorneys as required. Direct testimony and schedules will be delivered to KAWC in timely manner for filing.

If this proceeding is settled or otherwise ended prior to completion of the work items set forth above, I will be compensated for work completed up to that time, and no additional work will be undertaken or compensated without KAWC's advance written approval.

As part of my work, I will analyze risks, study comparable companies, estimate the cost of equity using several cost of equity models, and provide an opinion as to the appropriateness of the estimate based upon the capital structure of KAWC. I will refine the studies and analyses and prepare written testimony that presents my cost of capital studies and recommendations, defend my testimony at hearings, evaluate intervenor testimony, and prepare and defend rebuttal testimony and assist Company staff and attorneys in preparation of briefs as requested.

Fee. My fee is \$425 per hour for services related to the preparation and submission of the analyses and testimony. Partial hours will be pro-rated. I estimate that total expenses will be approximately \$40,000. I will be reimbursed for travel expenses incurred in connection with the case. My fee covers all aspects of the case including, but not limited to, consultation, preparation and submission of analyses, direct and rebuttal testimonies and exhibits, and providing testimony at the hearings.

Confidentiality:

During the course of performing the work set forth above, the Consultant may receive, deliver, prepare, review, analyze, reproduce, summarize or otherwise work with confidential, proprietary and/or secret information. All information received by the Consultant from the Company, or obtained or generated by the Consultant, as part of the work shall be treated by the Consultant as strictly confidential and as privileged information. The Consultant shall not disclose such information to any person other than the Managing Attorney and those persons assisting him, and shall not use such information for any purpose, except as necessary (1) to perform the work, (2) when ordered by a court of competent jurisdiction, or (3) when a document is shown to be entirely public information, without any reference to CLIENT or the work being performed by the Consultant. The Consultant shall not remove documents or other materials containing such information from the Company's premises nor use or copy such documents or other materials for any purpose, except as necessary to perform the work. The Consultant shall not under any circumstances retain, after such time as the Consultant's work is completed, any documents or other materials pertaining to the Company, or copies thereof, that come into the Consultant's possession in the course of performing the work UNLESS APPROVED BY the Company.

If this accurately describes our understanding, please acknowledge your agreement by signing in the space below and returning the original to me. I look forward to working with you and your staff.

Sincerely,
James H. VanderWeide *James H. VanderWeide*
James H. VanderWeide, Ph.D.
President, Financial Strategy Associates
Date

Miller 11-30-09
Kentucky-American Water Company
Date



GANNETT FLEMING, INC.
P.O. Box 67100
Harrisburg, PA 17106-7100
Location:
207 Senate Avenue
Camp Hill, PA 17011
Office: (717) 763-7211
Fax: (717) 763-4590
www.gannettfleming.com

September 23, 2009

VIA EMAIL

Mr. Michael A. Miller
Director, Rates and Regulation
American Water
1600 Pennsylvania Avenue
Charleston, WV 25302

Dear Mike:

Consulting Services for Kentucky American Water Company

Thank you for the opportunity to submit this proposal to conduct consulting services for Kentucky American Water Company (Company). This letter describes the scope of the services to be provided, the basis for our compensation and an estimate of the cost of each aspect of the assignment.

SCOPE OF SERVICES

DEPRECIATION STUDY

The depreciation study will consist of two phases (1) the assembly and review of data through November 30, 2009 and (2) the calculation of annual depreciation accrual rates as of November 30, 2009 and November 30, 2010. The survivor curves and net salvage estimates will be the same estimate as utilized in the last case since only a few years have elapsed. The future test year calculation will include a bringforward of the plant and reserve amounts from November 30, 2009 to November 30, 2010.

The second phase of the depreciation study will be based on the application of the survivor curve and net salvage estimates to the surviving original cost by year installed as of November 30, 2009 and November 30, 2010. The calculation of annual depreciation will be based on the use of the straight line method, annual service life procedure using the remaining life basis.

The two phases of the depreciation study for the water plant will include three major tasks up to the date of final results. Once the depreciation study is completed, we will prepare a final report to management supporting our findings and methodologies. The following scope of services sets forth our depreciation study work plan.

A Tradition of Excellence



Gannett Fleming

Mr. Michael A. Miller
Charleston, WV 25302

- 2 -

September 23, 2009

Task 1. Data Assembly and Review. A written data requirement list for Kentucky American personnel is attached for use in assembling the needed data for the study. The list specifies the data to be obtained for each plant account and the manner in which the data are to be transmitted to Gannett Fleming.

The assembled data will be reviewed by our staff and a "post audit" computer program for control and logic. Irregular or unusual entries will be identified and reviewed with Kentucky American personnel to determine their circumstances and whether they require adjustment. Large retirements also will be identified and explanations as to the cause of such retirements will be requested.

Task 2. Presentation to Management. The results of the depreciation calculations and the bases for such calculations will be presented to management to insure that the results are in accordance with management's capital recovery policies and outlook.

Task 3. Draft and Final Reports. A draft report will be prepared for review by management. The report will include an introduction, a description of the methods used in past statistical analyses and depreciation calculations, a narrative discussion of the factors considered in the estimation of service life and net salvage including the content of the account, the statistical support for the estimates, and the summary and detailed tabulations of depreciation by account. After review, comment and discussion, final reports will be prepared and submitted to management. Mr. Spanos will be responsible for all depreciation activities including testimony during a proceeding.

COST OF SERVICE ALLOCATION AND RATE DESIGN STUDY

The cost of service allocation study we propose to conduct for the Company will be based on the base-extra capacity method as described in AWWA Manual M1. This method is the preferred method of the industry and is used and accepted in most jurisdictions. We will develop allocation factors to allocate each element of the cost of service including operation and maintenance expenses, depreciation expense, rate base, return and taxes. The allocation process will be performed in an Excel spreadsheet that will incorporate the pro forma cost information by account supplied by the Company for the future test year ending November 30, 2010.

The proposed rate design will consider the results of the cost allocation study, existing rate structures, and input from Company management. A proof of revenue schedule will be prepared using billing determinants supplied by the Company to ensure that the proposed rate structure generates the desired level of revenue requirement. Bill comparisons will be prepared to show the impact of the proposed rates on customers at various consumption levels. Exhibits and direct testimony of Mr. Paul Herbert will be prepared to present the results of the cost allocation and rate design studies.

Gannett Fleming

Mr. Michael A. Miller
Charleston, WV 25302

- 3 -

September 23, 2009

Subsequent to the filing of the rate case, Gannett Fleming will respond to data requests, assist in responding to the Kentucky Public Service Commission Staff exhibits and testimony of other parties, prepare written rebuttal testimony and testify at hearings. We will work closely with the Company and rate counsel in preparing exhibits and testimony.

BASIS FOR COMPENSATION AND ESTIMATE OF COST

The Valuation and Rate Division of Gannett Fleming, Inc. will perform the above services and other related services which you may authorize on the basis of hourly billing rates in effect at the time the work is performed, plus reimbursement of direct expenses. A copy of the billing rates currently in effect is attached. These billing rates will be subject to review and revision at year-end. Direct expenses include expenditures such as transportation, meals, lodging, incidental expenses incurred while working at the client's location, and any other expenses required by virtue of the assignment and not incidental to the normal conduct of business. Invoices will be rendered monthly for services performed during the preceding month.

The amount of time required to complete studies varies widely, depending on factors such as availability of basic data, the extent to which assistance is provided to public utility personnel, the complexity of the public utility being studied, and the need to support findings under conditions of adverse intervention. The actual charges for the studies will depend on the amount of time required to complete the assignments.

Inasmuch as we have little control over the amount of time which may be required to prepare for and participate in formal litigation in the event the study is contested, the following estimate of costs excludes those incurred subsequent to the completion and filing of the study. Based on our knowledge of conducting similar studies, the estimated cost of our services to complete the assignments is provided below:

Depreciation Study	\$30,000
Cost of Service Allocation and Rate Design Study	25,000

Gannett Fleming

Mr. Michael A. Miller
Charleston, WV 25302


- 4 -

September 23, 2009

We appreciate the opportunity to submit this proposal to you and assure you that we will carry out the assignment as expeditiously and economically as possible. If you have any questions with respect to the scope of services or estimate of cost, we would be pleased to discuss them with you.

Very truly yours,

GANNETT FLEMING, INC.



JOHN SPANOS
Vice President
Valuation and Rate Division

JJS:krm

Attachments

KENTUCKY AMERICAN WATER COMPANY
DATA REQUIREMENTS LIST

- 1 Surviving plant balances by installation year within account as of November 30, 2009. For structures accounts, each installation year should have a location identifier, such as the name of the treatment plant.
- 2 All plant activity by account from January 1, 2007 through November 30, 2009. Transactions include additions, retirements, transfers, sales and acquisitions. Each entry should include account, type transaction, transaction year, installation year, and amount. Years 2007 and 2008 can be sent as soon as they are ready.
- 3 A list of any new locations such as treatment plants, pumping stations, office buildings and standpipes.
- 4 A plant statement by account as of November 30, 2009. Plant statements for calendar years 2007 and 2008 would be helpful for control purposes.
- 5 A reserve statement by account as of November 30, 2009. Reserve statements for calendar years 2007 and 2008 would be helpful for control purposes.
- 6 All reserve data by account from January 1, 2007 through November 30, 2009. Transactions include retirements, cost of removal and gross salvage by account and transaction year. Years 2007 and 2008 can be sent as soon as they are ready.
- 7 Capital budget or forecast plan that details any future replacements or expansion projects for the twelve months ended November 30, 2010.
- 8 A listing by account of the current depreciation rates if they are not the same as the last depreciation study performed as of December 31, 2006.
- 9 A copy of any stipulations or orders from previous studies/cases that might directly affect service life, salvage percents or depreciation accrual rates.

GANNETT FLEMING, INC.
VALUATION AND RATE DIVISION

BILLING RATES

EFFECTIVE JANUARY 3, 2009

<u>Personnel</u>	<u>Hourly Rate</u>
SUPERVISORY STAFF	
P. R. Herbert, President	\$205.00
J. J. Spanos, Vice President	195.00
C. R. Clarke, Director, Western U.S. Services	195.00
L. E. Kennedy, Director, Canadian Services	190.00
H. Walker, III, Manager, Financial Studies	185.00
J. F. Wiedmayer, Jr., Project Manager, Depreciation	150.00
STAFF	
Analysts and Engineers	125.00
Associate Analysts and Engineers	110.00
Assistant Analysts and Engineers	100.00
Senior Technicians	90.00
Technicians	85.00
Support Staff	80.00

B-2009

CONSULTING AGREEMENT

This Agreement dated as of December 1, 2009, with an effective date of December 3, 2009 as agreed by the parties ("Effective Date"), is made between Kentucky American Water, 1600 Pennsylvania Avenue, Charleston, West Virginia 25302 (hereafter referred to as the "Company") and James E. Salsler with an address at 169 Ohio Avenue, Murraysville, WV 26164 (hereafter referred to as the "Consultant").

1. **Consultation Services** The Company hereby retains the Consultant to assist and advise it in connection with the preparation, filing, and discovery process for rate case filed by the Company as well as other matters related to business development and customer relations. The Consultant will provide services and related work products to the Company in accordance with the terms and provisions of this Agreement. The services to be performed are included on the Service Attachment attached hereto and incorporated herein.
2. **Term of Agreement** The term of this Agreement shall be from the Effective Date until completion of rate case and may be extended by mutual, written agreement of the parties. The obligation of each party to maintain confidentiality shall be unlimited in duration.
3. **Independent Contractor** Both the Company and the Consultant agree that the Consultant will act as an independent contractor in the performance of the Consultant's duties under this Agreement. As such, the Consultant will not be eligible for any benefits provided by the Company to its employees. Accordingly, the Consultant shall be responsible for payment of all federal, state and local taxes arising out of the Consultant's activities in accordance with this Agreement, including by way of illustration but not limitation, federal and state income taxes, Social Security taxes, Unemployment Insurance taxes and any other taxes or business license fees required.
4. **Confidentiality** The Consultant agrees that any information provided to the Consultant by the Company in connection with the Consultant's performance under this Agreement which concerns financial or other confidential or proprietary matters of the Company or any of its affiliated companies will be treated by the Consultant in full confidence and will not be revealed to any other persons, firms or organizations without the prior consent of the Company. The Consultant agrees to keep confidential the programs, projections or materials delivered under this Agreement and to avoid making them available to any third party without the prior consent of the Company. This obligation shall survive the termination of this Agreement.
5. **Work Products** All work products generated pursuant to this Agreement shall become the sole and exclusive property of the Company, which may use

CONSULTING AGREEMENT

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5. **Work Products** All work products generated pursuant to this Agreement shall become the sole and exclusive property of the Company, which may use

such work products for any purpose without additional compensation to the Consultant.

6. **Direction and Control/Performance Schedule** The Consultant will be free at all times to arrange the time and manner of performance of the consulting services contemplated by this Agreement and will report to the President or Director, Rates and Revenue, of the Company on such basis as shall be prescribed.
7. **Assignment** The Company specifically contracts for services of the Consultant and the Consultant may not assign, subcontract, or delegate the performance of the services contemplated by this Agreement without the express written consent of the Company.
8. **Performance Standard** All work will be performed to the satisfaction of and all invoices shall be submitted to President or Director, Rates and Revenue, of the Company.
9. **Code of Ethics** The Consultant acknowledges receipt of the Company's Code of Ethics and agrees to comply with such policies (attached hereto).
10. **Compensation** In consideration for the services rendered under this Agreement, the Company agrees to pay the Consultant \$120 (one hundred twenty dollars) per hour, including all expenses except as set forth below. During travel periods, Consultant shall be paid for actual time spent on Company business and travel. The Consultant will provide monthly invoices in a form satisfactory to President or Director, Rates and Revenue, for payment. Such invoices shall include a breakdown of the hours worked daily by the Consultant.
11. **Expenses** The Company will reimburse the Consultant for reasonable out-of-pocket expenses incurred by the Consultant in connection with airline (coach service) and transportation travel, meals and lodging, when necessary. The Consultant will be required to provide documentation of expenses incurred and shall submit request for payment of expenses with documentation to the Company in a timely manner. Authority to incur expenses must be obtained in advance from President or Director, Rates and Revenue.
12. **Termination** This Agreement may be terminated by either party upon thirty (30) days written notice. In the event of termination, all invoices for services and expenses previously rendered, and amounts owed but not yet invoiced for services and expenses, will be due and payable within thirty (30) days after receipt of invoice.
13. **Waivers** No waiver by either party hereto or any failure by the other party to keep or perform any covenant or condition of this Agreement shall be deemed

to be a waiver of any preceding or succeeding breach of the same or other covenant or condition. No failure to enforce any provision hereof shall operate as a waiver thereof or be deemed to be a release of any rights granted hereunder.

14. **Severability** If any provision of this Agreement shall be held or made invalid or unenforceable by a court decision, statute, rule or otherwise, the remaining provisions of this Agreement shall not be affected thereby and shall continue in full force and effect.
15. **Governing Law** This Agreement shall be construed, interpreted and enforced in accordance with, and governed by, the laws of the State of Kentucky, without regard to conflicts of law principles.
16. **Entire Agreement** This Agreement, including the Service Attachment, represents the entire agreement between the parties and is not subject to change or modification except by prior written agreement signed by both parties.

IN WITNESS WHEREOF, for good and valuable consideration and intending to be legally bound hereby, each of the parties hereto has caused this Agreement to be executed on its behalf as of the date first above written.

CONSULTANT

KENTUCKY AMERICAN WATER

By: James E. Salsar
James E. Salsar

By: W. Mill
12.3.09

SERVICE ATTACHMENT

Scope of Services/Responsibilities:

The Consultant is engaged for the purpose of assisting in the filing and discovery related to American Water Southeast Region rate applications and other matters related to business development and customer relations. The Consultant's services shall include, but not be limited to, the responsibilities listed below:

1. Assist in developing schedules for the rate case filing
2. Assist in responding to data requests from regulators and intervenors
3. Testify before the Public Service Commission on matters which lie in Consultant's areas of expertise

In addition to the above, the scope of responsibilities may include other assignments as set forth by and under the direction of the President or Director of Rates and Revenue.

Kentucky American Water Company
2004 Rate Case

MONTH	DESCRIPTION	ACCUUM. BALANCE	AU0184S SERVICE COMPANY	YR2004S LEGAL	COST OF MONEY	YR2004S OTHER	SCB Analysis	consulting
Oct-03	Service Co Billing (Oct 2003)	593.52	593.52					
Nov-03	Service Co Billing (Nov 2003)	1,978.06	1,978.06					
Dec-03	Service Co Billing (Dec 2003)	2,700.48	2,700.48					216.36
Jan-04	James Salsar	216.36						
Feb-04	Service Co Billing (Jan 2004)	4,068.61	4,068.61					
Mar-04	Service Co Billing (Feb 2004)	13,847.36	13,847.36					
Mar-04	James Salsar	16,652.08						16,652.08
	Payroll Labor Distribution	2,721.72				2,721.72		
	Linda Bridwell (P-Card)	116.86				116.86		
	Linda Bridwell (P-Card)	16,331.62		16,331.62				
	Stoll Keenon	8,323.00		8,323.00				
	Stoll Keenon	38,449.07	38,449.07					
Apr-04	Service Co Billing (March 2004)	1,456.90				1,456.90		
Apr-04	Payroll Labor Distribution	1,456.90						
	RLJ Security Consultants	5,710.39						5,710.39
	Coleman Bush	2,475.00						2,475.00
	Linda Bridwell (P-Card)	116.86				116.86		
	Postmaster	30,171.84				30,171.84		
	Payroll Labor Distribution	3,568.25				3,568.25		
	Stoll Keenon	30,729.29		30,729.29				
	Stoll Keenon	975.19		975.19				
	Service Co Billing (April 2004)	32,284.79				32,284.79		
	James Salsar	25,770.96						25,770.96
May-04	Payroll Labor Distribution	3,393.75				3,393.75		
	Coleman Bush	500.00				500.00		
	Richard Svinland (T2)	272.22						
	Rachel Cole (T2)	954.78				272.22		
	Linda Bridwell (T2)	1,833.35				954.78		
	Coleman Bush	10,575.00				1,833.35		
	Baryenbruch & Company	23,107.85					23,107.85	10,575.00
	James Salsar	50,064.53						50,064.53
	Coleman Bush	2,212.50						2,212.50
	Bryan Siler (T2)	653.90				653.90		
Jun-04	Service Co Billing (May 2004)	19,388.03	19,388.03					
	Bryan Siler (T2)	616.10				616.10		
	Rachel Cole (T2)	358.05				358.05		
	Linda Bridwell (T2)	2,166.68				2,166.68		
	Bryan Siler (P-Card)	16.15				16.15		
	Rachel Cole (P-Card)	6.89				6.89		
	Stoll Keenon	44,289.37		44,289.37				
	Payroll Labor Distribution (T2)	833.34				833.34		
	Jackson & Kelly	390.00		390.00				
	Coleman Bush	956.25						956.25
	Payroll Labor Distribution (T2)	(17,459.58)				(17,459.58)		
	Coleman Bush	2,175.00						2,175.00
	Pa Consulting Group (Ky Rate Hearing)	30,323.79						30,323.79
	Rachel Cole (P-Card)	16.10				16.10		
Jul-04	Service Co Billing (June 2004)	38,705.41	38,705.41					
	Stoll Keenon	23,484.33		23,484.33				
	Pa Consulting Group (Ky Rate Hearing)	11,539.11						11,539.11
	Bryan Siler (P-Card)	9.34				9.34		
	James Salsar	3,363.04						3,363.04
	BJW Printing & Office	12,449.20				12,449.20		
	Lisa Brooks (P-Card)	70.50				70.50		
	Lisa Brooks (P-Card)	68.18				68.18		
	Coleman Bush	7,933.44						7,933.44
	Linda Bridwell (P-Card)	20.00				20.00		
	James Salsar	10,050.81						10,050.81

Kentucky American Water Company
2004 Rate Case

MONTH	DESCRIPTION	ACCUM. BALANCE	AU10184S SERVICE COMPANY	YR2004S LEGAL	COST OF MONEY	YR2004S OTHER	SCB Analysis	consulting
	Stoll Keenon	47,019.31		47,019.31				
	Coleman Bush	581.25				16.43		581.25
	Lisa Brooks (P-Card)	16.43						
	Service Co Billing (July 2004)	21,897.42	21,897.42					
Aug-04	Pa Consulting Group (Ky Rate Hearing)	1,895.00				2,053.68		1,895.00
	Payroll Labor Distribution (T2)	2,053.68						
	Jackson & Kelly	195.00		195.00				
	Bryan Siler (P-Card)	204.61				204.61		
	Coleman Bush	2,238.75						
	Lisa Brooks (P-Card)	189.96				189.96		
	Bryan Siler (P-Card)	22.00				22.00		
	Stoll Keenon	30,146.47		30,146.47				2,238.75
	Service Co Billing Aug 2004	19,526.76	19,526.76					
Sep-04	Pa Consulting Group (Ky Rate Hearing)	730.00						730.00
	Lisa Brooks (P-Card)	15.89				15.89		
	Lisa Brooks (P-Card)	14.31				14.31		
	Lisa Brooks (P-Card)	13.25				13.25		
	Rachel Cole (P-Card)	6,968.70						6,968.70
	James Salsler	8,736.46						8,736.46
	Coleman Bush	4,052.88						4,052.88
	Baryenbruch & Company	800.00					800.00	
	Patricia Ballard (p-card)	22.13				22.13		
	Stoll Keenon	35,975.38		35,975.38				
	Lisa Brooks (P-Card)	37.70				37.70		
	Svc Co Billing September 2004	(12,021.92)	(12,021.92)					
	Reclass Authorization Costs 184/253	2,826.95				2,826.95		
Oct-04	Financial Strategy	15,000.00			15,000.00			
	Coleman Bush	2,543.25						2,543.25
	Stoll Keenon	21,554.76		21,554.76				
	Service Co Billing Oct 04	26,131.75	26,131.75					
	Towers Perrin	3,298.00						3,298.00
Nov-04	Lisa Brooks (P-Card)	12.70				12.70		
	Lisa Brooks (P-Card)	41.63				41.63		
	Coleman Bush	4,672.34						4,672.34
	James Salsler	8,848.39						8,848.39
	James Salsler	11,695.22						11,695.22
	Stoll Keenon	78,208.98		78,208.98				
	Service Co Billing (Nov 2004)	17,515.45	17,515.45					
Dec-04	Thelen Reid & Priest LLP	12,075.00		12,075.00				
	Bryan Siler	19.92				19.92		
	Pa Consulting Group (Ky Rate Hearing)	6,205.00						6,205.00
	Coleman Bush	7,265.74						7,265.74
	Baryenbruch & Company	4,726.42					4,726.42	
	James Salsler	10,377.43						10,377.43
	Service Co Billing (Dec 2004)	21,584.05	21,584.05					
Jan-05	Lisa Brooks (P-Card)	26.52				26.52		
	Financial Strategy	22,875.00			22,875.00			
	Thelen Reid & Priest LLP	5,824.88		5,824.88				
	Stoll Keenon	19,631.42		19,631.42				
	Pa Consulting Group (Ky Rate Hearing)	5,177.92						5,177.92
	Coleman Bush	731.25						731.25
	Legal Accrual (Jan 2005) Stoll Keenon	30,274.65		30,274.65				
	Service Co Billing (Jan 2005)	2,933.84	2,933.84					
Feb-05	Service Co Billing (Feb 2005)	587.96	587.96					
	Legal Accrual (Feb 2005) Stoll Keenon	4,178.00		4,178.00				
	James Salsler	4,560.75						4,560.75
	James Salsler	590.08						590.08

Kentucky American Water Company
2004 Rate Case

MONTH	DESCRIPTION	ACCU M. BALANCE	AU0184S SERVICE COMPANY	YR2004S LEGAL	COST OF MONEY	YR2004S OTHER	SCB Analysis	consulting
Mar-05	Legal Fee Accrual	11,073.44		11,073.44				
	Service Co Billing (Mar 2005)	1,232.29	1,232.29					
Apr-05	Legal Fee Accrual	473.33	473.33					
	Service Co Billing (Apr 2005)							
May-05	Amnz Def rate case exp	12,208.52		12,208.52				
	Stoll Keenon	5,308.88		5,308.88				
May-05	Legal Accrual							
	Amnz Def rate case exp	1,850.57		1,850.57				
Jun-05	Stoll Keenon	1,310.89		1,310.89				
	Amnz Def rate case exp							
Jul-05	Stoll Keenon	86.00		86.00				
	Amnz Def rate case exp							
Aug-05	Amnz Def rate case exp							
Sep-05	Amnz Def rate case exp							
Oct-05	Amnz Def rate case exp							
Nov-05	Amnz Def rate case exp							
Dec-05	Stoll Keenon	124.45		124.45				
BALANCE PER G/L @ 10/21/05		1,081,590.66	219,591.47	441,569.40	37,875.00	79,340.10	28,634.27	274,580.42

Kentucky American Water Company
2007 Rate Case Expense

MONTH	DESCRIPTION	ACCUM. BALANCE	SERVICE COMPANY	LEGAL	COST OF MONEY	OTHER	SCB Analysis	SCB consulting
Jun-06	Stoll Keenon	1,095.51		1,095.51				
Jan-07	Service Co Bill	3,212.88	3,212.88					
Feb-07	Stoll Keenon	5,924.38		5,924.38				
	Stoll Keenon	1,442.00		1,442.00				
	Payroll	378.17				378.17		
	Service Co Bill	12,704.68	12,704.68					
Mar-07	Coleman bush	618.75						618.75
	Stoll Keenon	4,003.50		4,003.50				
	Office Max	31.72				31.72		
	Bush Coleman D-PO/	6,763.49						1,106.25
	Service Co Bill	3,281.00		3,281.00				
Apr-07	Stoll Keenon	20,419.76				20,419.76		
	Postmaster	3,562.50						3,562.50
	Coleman bush	6,137.15						
	Service Co Bill	1,225.19						
May-07	Sabrix Tax	9,889.98						
	Stoll Keenon	11,063.12		11,063.12				
	Direct Response	2,906.25						2,906.25
	Coleman bush	19,267.37						19,267.37
	Jim Salsler	29,783.00						29,783.00
	Jim Salsler	988.84						988.84
	Service Co Bill	9,037.33	9,037.33					
	Baryenbruch & co	23,287.50						23,287.50
Jun-07	Coleman bush	35,447.20		35,447.20				
	Stoll Keenon	20.39				20.39		
	Fazoli's	14,173.02						
	Service Co Bill	10,863.39	14,173.02					
Jul-07	Jim Salsler	49,119.26		49,119.26				
	Stoll Keenon	3,858.11						3,858.11
	Jim Salsler	6,715.58						6,715.58
	Coleman Bush	17,250.00			17,250.00			
	Financial Strategy	11,445.33						
	Service Co Bill	27,457.64		27,457.64				
Aug-07	Stoll Keenon Ogden	4,406.62						
	Baryenbruch & Comp	6.86						
	SPEEDWAY 8256	198.49						
	DOUBLETREE SUITES	69.03						
	THE CHOP HOUSE	3,979.67						
	CP	14,427.08						
Sep-07	Stoll Keenon Ogden	3,482.09						
	Bush Coleman D-PO/	3,715.89						
	CP	21,720.15						
Oct-07	Stoll Keenon Ogden	5,243.62						
	CP	3,710.28						
Nov-07	Stoll Keenon Ogden	389.78						
	Salsler, James E	13,500.00						
	CP	1,224.04						
	Financial Strategy	931.71						
Dec-07	Stoll Keenon Ogden	8,488.09						
Jan-08	Towers Perrin - RE	7,800.00						
Apr-08	Spitznagel, Edward					8,488.09		7,800.00
		447,955.56	72,902.68	179,983.03	30,750.00	41,900.82	27,694.12	94,724.91

Kentucky American Water Company
2008 rate case expense

MONTH	DESCRIPTION	ACCUM. BALANCE	SERVICE COMPANY	LEGAL	COST OF MONEY	OTHER	SCB Analysis	consulting
2008 rate case expenses:								
Jul-08	Stoll Keenon Ogden	1,839.00		1,839.00				
Sep-08	Stoll Keenon Ogden CP	4,872.44		4,872.44				
	Stoll Keenon Ogden Direct Response	18,690.38	18,690.38	6,523.51		25,000.00		23,264.87
	Jim Salsler	25,000.00						
	Stoll Keenon Ogden CP	23,264.87		11,169.28				
	Office Max	7,916.77	7,916.77			329.28		
Oct-08	Baryenbruch and co	329.28					26,438.00	
Nov-08	James Salsler	26,438.00						
Nov-08	Direct Response	12,969.24				6,849.14		12,969.24
Nov-08	Stoll Keenon Ogden CP	6,849.14		35,499.26				
Dec-08	Financial Strategy	35,499.26			17,000.00			
	Ed Spitznagel	8,296.72	8,296.72					
	James Salsler	13,793.39	13,793.39					
Jan-09	CP	17,000.00						
Jan-09	CP	9,600.00						9,600.00
Feb-09	Stoll Keenon Ogden CP	19,913.44	19,913.44				6,222.00	4,224.74
Mar-09	Financial Strategy	4,224.74						
	Gannett Fleming	6,222.00			4,675.00			
Apr-09	Stoll Keenon Ogden CP	17,461.92		17,461.92				
May-09	Winston & Strawn	229.63	229.63	1,938.75				
	Towers Perrin - RE	1,938.75		20,630.42				
	James Salsler	20,630.42				3,651.79		
9-Jun	Stoll Keenon Ogden CP	3,651.79						
9-Jul	Stoll Keenon Ogden CP	1,683.51						1,683.51
9-Aug	Stoll Keenon Ogden	492.99	492.99	2,120.90				
	Stoll Keenon Ogden	2,120.90						
	Stoll Keenon Ogden	1,139.82	1,139.82	5,661.46				
	Stoll Keenon Ogden	1,139.82		7,083.51				
	Stoll Keenon Ogden	7,083.51		700.00				
	Stoll Keenon Ogden	700.00						
		416,396.76	78,680.09	194,844.10	21,675.00	35,830.21	32,660.00	52,707.36

Kentucky American Water Company
2010 rate case expense

MONTH	DESCRIPTION	ACCUM. BALANCE	SERVICE COMPANY	LEGAL	COST OF MONEY	OTHER	SCB Analysis	consulting
9-Oct	Stoll Keenon Ogden CP	350.00		350.00				
		77.03	77.03					
9-Nov	Stoll Keenon Ogden CP	350.00		350.00				
		6,635.31	6,635.31					
9-Dec	Jim Salsler CP	1,551.31						1,551.31
		585.26						585.26
10-Jan	Jim Salsler Baryenbruch & Co Stoll Keenon Ogden CP	8,564.49	8,564.49					
		4,543.09						
		26,085.00					26,085.00	4,543.09
		290.00		290.00				
10-Feb	Stoll Keenon Ogden Direct Response CP	6,226.01	6,226.01	7,200.50		23,320.00		
		7,200.50						
		23,320.00						
		2,068.17	2,068.17					
3/2/2010	Baryenbruch & Co	1,528.00						1528
3/11/2010	Stoll Keenon Ogden	15,829.42		15,829.42				
3/19/2010	Direct Response	13,209.44				13,209.44		
3/31/2010	CP	2,822.69	2,822.69					
		121,235.72	26,393.70	24,019.92	-	36,529.44	27,613.00	6,679.66

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller

65. Please provide, in list form, the details of all judgments and/or settlements resulting from suits brought which involved the Company, its parent (American Water Works), its affiliated service company (American Water Works Service Company), or any other affiliates that charge cost to KAWC, as a defendant, 2008, 2009 or 2010 which resulted in the payment during agreement to pay or being ordered to pay an amount in excess of \$10,000, including but not limited to:
- a. The case name;
 - b. The date filed;
 - c. The date of settlement or the date of judgment; and
 - d. The amount the Company was ordered or agreed to pay
 - e. Provide this information even if appeals are pending and note every instance of an appeal.

Response:

See the following information for the only judgment or settlement for which KAW was allocated an amount.

- a. *Donald Toscano v. American Water Works Service Company, Inc. and New Jersey American Water Company*
- b. December 10, 2007
- c. Settlement date July 25, 2008
- d. The total Settlement was for \$93,500; American Water Works Service Company, Inc., paid half, or \$46,750.

For the electronic version, refer to KAW_R_AGDR1#65_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Keith Cartier/Sheila Miller

66. Outside Services Expense. Please provide an itemization of outside services expense in excess of \$20,000 for 2007, 2008, 2009 and by month for 2010 through 9/30/2011. Indicate in what accounts the amounts are recorded, or would be recorded when incurred for the budgeted/forecast items.

Response:

<u>G/L Account</u>	<u>Account Description</u> <u>Explanation</u>	<u>G/L</u> <u>Date</u>	<u>Amount</u>
532000.16	Price Waterhouse Coop	2/11/2009	20,907.00
535000.16	Robert Half Management Resources	8/26/2009	20,500.00

There are no items in excess of \$20,000 included in the budget of 2010 through 9-30-2011.

For the electronic version, refer to KAW_R_AGDR1#66_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Michael A. Miller

67. Please identify the amounts included in cost of service during the test year from the Service Company for the following items:
- a. Membership dues in service, social and professional organization (identify);
 - b. Lobbying expenses;
 - c. Charitable contributions;
 - d. Investor relations expenses;
 - e. Public relations expense, including an explanation of the nature and purpose of the activities, and
 - f. Advertising expenses broken down by categories including project, marketing, corporate, institutional, informational, etc.

Response:

- a. **Membership dues** - \$20,614 for membership dues to various water-related and professional organizations consisting of the following:
 - Accountancy Board of Ohio
 - AICPA
 - American Bar Association
 - American Waterworks Association
 - Association for Financial Professional
 - Business for Social Responsibility
 - Corporate Executive Board
 - Human Resources Association
 - IAPP
 - Institute of Certified Management Accountants
 - Institute for Supply Management
 - ISACA/ITGI

- Kentucky Bar Association
 - Mayor's Water Council
 - National Fire Protection Association
 - NJ Lawyers Fund
 - NJ Society of CPA's
 - PA Institute of CPA's
 - PEBA
 - Philadelphia Chamber of Commerce
 - Society for Human Resource Management
 - THEIIA.ORG
 - US Chamber of Commerce
 - Water Environment Federation
 - WV Board of Accountancy
- b. **Lobbying expenses** - No lobbying expenses are included in Kentucky's Service Company charges for the base or future test years.
- c. **Charitable Contributions** - \$4,026 in contributions to American Cancer Society, Breast Cancer 3-day, Water for People, United Way and other charitable organizations.
- d. **Investor Relations expenses** - \$20,736
- e. **Community Relations expenses** - \$2,419 for contributions, print ads and sponsorship of various civic and community organizations such as local Chambers of Commerce, environmental groups, little leagues, etc.

f. **Advertising expenses** - \$23,629

Advertising - \$9,869 consisting of job listings in publications and internet sites as well as print ads in water-related magazines and journals

Trade Shows - \$5,917 for sponsorship and trade booths at various civic and water industry conferences including Conference of Mayors, Water Environment Federation, American Water Works Association, National League of Cities conference as well as career booths at colleges and universities

Brochures & Handouts - \$7,843 for printing of various corporate and human resources brochures

For the electronic version, refer to KAW_R_AGDR1#67_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller

68. Please provide the most recent actual property tax assessments and rates.

Response:

The most recent property tax payments and associated work papers were filed in response to KAW_R_PSCDR1#1a_WP5-1_031610 pages 1 to 120 of 120. The property tax assessments and rates are detailed in those workpapers.

For the electronic version of this response, refer to KAW_R_AGDR1#68_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Michael Miller/Sheila Miller

69. Uncollectibles. Please provide the following annual data related to uncollectible accounts for 2007, 2007, 2009 and by month as budgeted or forecast for 2010 through 9/30/2011:
- a. Bad debt expense;
 - b. Bad debt write-offs;
 - c. Collections of written-off accounts;
 - d. Billed revenues

Response:

- a. The information for 2007, 2008, and 2009 was provided in response to KAW_R_PSCDR1#1a_031610.pdf, WP3-10_061310 pages 4 and 5 of 9. The excel version of this file was provided in response to KAW_R_AGDR1#1_042610 and labeled as Customer Acctg 10.xls under tab Uncoll 01 thru 1209. The Company did not use the budget to determine its forecasted test-year uncollectible expense. Please see the response to KAW_R_AGDR1#70_042610.pdf.
- b. See response to a.
- c. See response to a.
- d. 2007 - \$50,164,646
2008 - \$56,909,707
2009 - \$58,705,778

Please see the attached for detailed billed revenues by month for the forecasted test year.

For the electronic version of this response, refer to KAW_R_AGDR1#69_042610.pdf.

Kentucky-American Water Company Forecasted Revenues Data Base CASE NO: 2010-00036 AGDR#69																		
Object.Sub	BU	JDE Object Description	Aw Acct	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	L168	L169	Forecast
401110.0	120200	Res Sales Billed	461100	3,349,368	2,708,801	2,649,305	2,620,452	2,355,903	2,628,993	2,465,808	2,706,295	3,129,017	3,694,749	3,591,168	3,322,720	2	2	35,122,579
401120.0	120200	Res Sales Unbilled	461110	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
401210.0	120200	Corn Sales Billed	461200	1,585,856	1,304,880	1,146,820	1,172,711	1,133,496	1,288,347	1,211,870	1,325,333	1,400,297	1,591,044	1,684,597	1,563,857	2	2	16,389,108
401220.0	120200	Corn Sales Unbilled	461210	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
401310.0	120200	Ind Sales Billed	461300	163,040	137,352	127,740	100,518	100,015	109,372	105,866	109,446	111,224	161,126	150,477	157,231	2	2	1,533,407
401320.0	120200	Ind Sales Unbilled	461310	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
401410.0	120200	Pub Fire Prot Ser Billed	463000	228,917	228,917	228,917	228,917	228,917	228,917	228,917	228,917	228,917	228,917	228,917	228,921	2	2	2,747,008
401415.0	120200	Pub Fire Prot Ser Unbilled	463100	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
401420.0	120200	Priv Fire Prot Ser Billed	462000	143,074	143,074	143,074	143,074	143,074	143,074	143,074	143,074	143,074	143,074	143,074	143,076	2	2	1,716,890
401425.0	120200	Priv Fire Prot Ser Unbilled	462100	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
401510.0	120200	Pub Auth Billed	464200	562,075	479,445	384,792	344,436	377,176	361,891	373,853	449,566	501,720	532,910	599,268	688,978	2	2	5,636,110
401520.0	120200	Pub Auth Unbilled	464210	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
401610.0	120200	Sales for Resale-Billed	466000	140,106	116,617	120,231	130,738	118,642	118,111	95,890	123,825	138,700	187,030	160,444	138,396	2	2	1,588,730
401620.0	120200	Sales for Resale Unbilled	466100	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
401710.0	120200	Misc Sales Billed	461400	1,638	1,638	1,638	1,638	1,638	1,638	1,638	1,638	1,638	1,638	1,638	1,638	2	2	19,655
																		64,753,487

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Sheila Miller/Michael A. Miller

70. Uncollectibles. Please provide the net charge-off percentage for uncollectibles for 2007, 2008 and 2009 and as budgeted/forecasted for 2010 through 9/30/2011. Explain any material variations in the percentage between years.

Response:

This calculation was provided in response to KAW_R_PSCDR1#1a_WP3-10_031610 page 6 of 9. The excel version was provided in response to KAW_R_AGDR1#1 and the file is labeled as Customer Acctg 10.xls under tab Uncollectibles. Also refer to the response to KAW_R_AGDR1#69_042610.pdf.

KAW did not use the 2010/2011 budget to determine its forecasted test-year uncollectible expense. Instead the Company utilized the 2009 uncollectible expense to billed revenue ratio applied to the proforma revenues for the forecasted test-year in order to synchronize uncollectible expense in the case. The only driver of variances is related to the weather normalized proforma billed revenue in the forecasted test-year versus 2009 billed revenues.

For the electronic version of this response, refer to KAW_R_AGDR1#70_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Sheila Miller

71. Filing Information. As the Company discovers errors in its filing, identify such errors and provide documentation to support any changes. Please update this response as additional information becomes available.

Response:

The Company has discovered one error in its filing. The sewer allocation of insurance other was inadvertently added to the overall cost and should have been deducted. This resulted in a reduction to the insurance other expense of \$3,853. The related workpaper is attached. The excel version of the allocations file has been provided in response to KAW_R_AGDR1#1 and labeled as KAW Case 2010- Allocation of costs w transportation.xls. This response will be updated if other discrepancies are discovered.

For the electronic version of this response, refer to KAW_R_AGDR1#71_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller/Sheila Miller**

72. Precedent. Are there any aspects of the Company's accounting adjustments and revenue requirement claim which represents a conscious deviation from the principles and policies established in prior Commission Orders? If so:
- a. Identify each area of deviation, and for each deviation explain the Company's perception of the principle established in the prior Commission Orders.
 - b. Explain how the Company's proposed treatment in this rate case deviates from the principles established in the prior Commission Orders.
 - c. Explain the dollar impact resulting from such deviation. Show which accounts are affected and the dollar impact on each account for each such deviation.

Response:

No.

For the electronic version, refer to KAW_R_AGDR1#72_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Sheila Miller

73. Injuries and Damages. State the amount of injuries and damages expense for 2007, 2008 and 2009 and as budgeted/forecasted for 2010 through 9/30/2011.

Response:

Account Number	120119.575490.16
2007	-514.00
2008	-3,549.30
2009	-13,322.52
Budgeted 2010	2,060.00
Forecasted 12-Mo. Ended Sept. 2011	2,030.00

For the electronic version, refer to KAW_R_AGDR1#73_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Sheila Miller

74. Insurance Expense. Itemize each component of insurance expense included in the test year, and provide comparative information for calendar year 2007, 2008 and 2009 and as budgeted/forecasted for 2010 through 9/30/2011. Indicate the accounts and amounts in which each item of insurance is recorded.

Response:

See the attached schedule which details each component of insurance expense from 2005 through 2010 actual, 2010 budget and the forecasted test year for the twelve months ending September 30, 2011. Also included are the percentage changes between each component year over year.

For the electronic version, refer to KAW_R_AGDR1#74_042610.pdf.

Kentucky American Water Insurance other than group AGDR1#74	premium expiration	2010 budget	2010 % ^ over 09	Rate Case Forecast 9/31/11	RC % ^ over 10	Actual 2010 premium	2010 % chg	As of 12/09		As of 12/08		As of 12/07		As of 12/06		As of 12/05	
								Premium	% chg	Premium	% chg	Premium	% chg	Premium	% chg	Premium	% chg
Fiduciary	4/30/2010 557000.16		-100%	\$1,642.34	0%	\$1,642.34	0%	\$1,642.34	-33%	\$2,462.73	-15%	\$2,884.74	-31%	\$4,177.50	59%	2,629.42	
Excess Fiduciary	4/30/2010 557000.16		-100%	\$890	7%	\$828.02	0%	\$828.02	100%	\$36,741.48	13%	\$32,566.12	-4%	\$34,014.42	0%	33,883.65	
Auto Liab	12/31/2010 556000.16	\$42,233	10%	\$37,644	7%	\$35,018	-9%	\$38,393.92	4%	\$227,791.00	-5%	\$240,153.48	-22%	\$307,884.86	65%	186,375.34	
General Liab	12/31/2010 557000.16	\$284,202	11%	\$287,512	8%	\$267,443	4%	\$257,191.68	13%	\$136,713.64	-11%	\$154,206.28	37%	\$112,406.15	-6%	119,385.74	
Worker's compensation	12/31/2010 558000.16	\$151,461	6%	\$129,804	7%	\$121,040	-16%	\$143,522.92	5%	\$4,832.36	-9%	\$5,286.08	-46%	\$9,757.96	48%	6,602.00	
Consulting Fee	12/31/2010 559000.16	\$5,447	11%	\$5,505	10%	\$4,991	2%	\$4,903.72	1%	\$97,179.97	-10%	\$107,863.31	23%	\$87,536.18	27%	69,106.81	
Property - incl terrorist incl terrorism	12/31/2010 559000.16	\$151,745	15%	\$154,176	23%	\$125,054	-5%	\$131,952.04	36%	\$704.54	-9%	\$770.88	-29%	\$1,092.89	100%	50,676.00	
Surety Bond	559000.16		-100%	\$756	100%	\$759.79	8%	\$759.79	8%	\$90,438.12	-15%	\$1,450.00	-41%	\$2,466.16	49%	1,656.53	
Excess Liability	12/31/2010 557000.16	\$87,692	-5%	\$94,173	7%	\$88,374	-5%	\$92,576.54	2%	\$92.48	0%	\$92.48	-57%	\$213.12	100%		
Crime	4/30/2010 559000.16			\$708	-25%	\$940	0%	\$940.18	100%								
Kidnap & ransom	12/31/2010 559000.16			\$96	-1%	\$97	5%	\$92.48	0%								
Rhenas- RWE Liab	557000.16							\$1,664.70	100%								
Network Security & Privacy Liab	12/31/2010 557000.16	\$4,523	55%	\$4,693	16%	\$4,043	39%	\$2,912.53	100%	\$12,869.94	1049%	\$1,120.53	100%				
D&O	4/30/2010 559000.16	\$13,974	14%	\$14,502	18%	\$12,300	0%	\$12,300.33	-4%								
Business Travel	3/31/2011 559000.16		-100%	\$81	-17%	\$98	0%	\$97.87	0%	\$1,887.60	100%						
Premium for Lawyer Liab	6/30/2010 557000.16	\$1,982	23%	\$2,052	27%	\$1,612	0%	\$1,612.05	-15%								
Employment Practices Liab	4/30/2010 557000.16		100%	\$2,376	-20%	\$2,967	0%	\$2,966.60	100%								
Executive risk	557000.16	\$8,973		\$9,651	100%	\$2,967											
All risk	12/31/2010 559000.16			\$774	-100%	\$291	100%	651	-70%	2,202	-7%	\$657,156	1%	\$4,439.45	100%	\$476,917	
Owenton Building - general liability		\$752,232	8%	\$747,037	19%	\$650	0%	\$695,009	13%	\$614,014							
Total		\$29,240		\$29,240	12%	\$667,390	-4%	(46,420.75)	22%	(83,922.00)		(47,081.75)		27,442.22		28,696.92	
		\$781,472	11%	\$776,277		\$696,630	7%	\$648,588		\$530,092	-13%	\$610,074	-10%	\$676,241.82	34%	\$505,614	

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller

75. Legal Expense. Please itemize the amount of non-rate case legal expense, by account, for the test year. For each distinct item over \$20,000, show payee, amount, account, and indicate what services were performed and what the subject matter of the services was.

Response:

The Company objects to this question on the grounds that legal invoices contain information subject to Attorney/Client Privilege and information applicable to the Work Product Doctrine. Notwithstanding the objection please see the summary of non-rate case legal fees attached to the response to KAW_R_AGDR1#390.

For the electronic version of this response, refer to KAW_R_AGDR1#75_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller/Sheila Miller**

76. Are any one time or non-recurring expenses included in the base period or the future test year? If so, provide the dollar amount, account and a brief description of the expense.

Response:

No.

For the electronic version, refer to KAW_R_AGDR1#76_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller**

77. Pension Expense. Please reconcile the amount of pension expense in the test year to the most recent actuarial reports concerning the determination of the net periodic benefit cost for each pension plan in which KAWC employees participate. Identify, quantify and explain each reconciling item.

Response:

The Company used the latest actuarial projections for 2010/2011 to determine the level of FAS 87 pension expense included in the forecasted test-year. Please refer to KAW_R_PSCDR1#1a_WP3-7_031610, page 3 of 4.

For electronic version of this response, refer to KAW_R_AGDR1#77_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Michael A. Miller**

78. OPEB Expense. Please reconcile the amount of OPEB expense in the test year to the most recent actuarial reports concerning the determination of the net periodic benefit cost for each Postretirement Benefit Plan in which KAWC employees participate. Identify, quantify and explain each reconciling item.

Response:

The Company used the latest actuarial projections for 2010/2011 to determine the level of FAS 106 OPEB's expense included in the forecasted test-year. Please refer to KAW_R_PSCDR1#1a_WP3-6_031610, page 3 of 6.

For electronic version of this response, refer to KAW_R_AGDR1#78_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller

79. Mike Miller Exhibits and workpapers in Excel. To the extent not provided in Questions 3 and 4, please provide all of KAWC witness Mike Miller's exhibits and the related workpapers in Excel, with formulas and references intact. This includes, but is not limited to, Exhibits MAM-1 through MAM-8 and all supporting workpapers that were prepared in Excel.

Response:

Please see the information provided in response to KAW_R_AGDR1#2_042610.pdf.

For the electronic version of this response, refer to KAW_R_AGDR1#79_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Patrick Baryenbruch

80. Patrick Baryenbruch Exhibits and workpapers in Excel. To the extent not provided in Questions 3 and 4, please provide all of KAWC witness Patrick Baryenbruch's exhibits and the related workpapers in Excel, with formulas and references intact. This includes, but is not limited to, all calculations, data compilations, analysis, and summaries in the Market Cost Comparison and all exhibits related to that and all supporting workpapers that were prepared in Excel.

Response:

Please see the response to KAW_R_AGDR1#2_042610.pdf.

For the electronic version of this response, refer to KAW_R_AGDR1#80_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Patrick Baryenbruch

81. Provide all workpapers for the Baryenbruch testimony and report that are not in Excel.

Response:

Please see the response to KAW_R_AGDR1#2_042610.pdf.

For the electronic version of this response, refer to KAW_R_AGDR1#81_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Patrick L. Baryenbruch

82. Did KAWC or Mr. Baryenbruch compare KAWC or AWWSC to any water companies? If not, explain fully why not. If so, please identify where that is reflected and provide all related documents.

Response:

It was not possible to compare KAWC or AWWSC to other water companies because their data is not publicly available. If pertinent water company-specific data were publicly available, Mr. Baryenbruch would have incorporated it into his benchmarking analysis for this case.

For the electronic version, refer to KAW_R_AGDR1#82_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Patrick L. Baryenbruch

83. Refer to Baryenbruch testimony page 1, lines 24-26. Provide a copy of the audit reports prepared by his firm for Southern California Edison's 2002, 2003, 2004 and 2005 transactions with its non-regulated affiliate companies.

Response:

Please see attached.

For the electronic version, refer to KAW_R_AGDR1#83_042610.pdf.

**AUDIT OF 2002 AFFILIATE TRANSACTIONS BETWEEN
SOUTHERN CALIFORNIA EDISON COMPANY AND
CERTAIN OF ITS AFFILIATES**

April 2003

**AUDIT OF 2002 AFFILIATE TRANSACTIONS BETWEEN
SOUTHERN CALIFORNIA EDISON COMPANY AND
CERTAIN OF ITS AFFILIATES**

TABLE OF CONTENTS

Executive Summary	1
Background	5
Rule I – Definitions	9
Rule II – Applicability	12
Rule III – Non-Discrimination	16
Rule IV – Disclosure and Information	42
Rule V – Separation	55
Rule VI – Regulatory Oversight	90
Rule VII – Utility Products and Services	98
Rule VIII – Complaint Procedures and Remedies	110
Appendices	
A – Interview Log	116
B – Data Request List	119

Executive Summary

Audit Results

In our opinion, SCE's 2002 affiliate transactions were in compliance with the CPUC's rules and SCE's own compliance plans. Exhibit 1 summarizes our conclusions by rule. In 39 of 41 rule/sub-rules audited, we noted full compliance. The remaining 2 sub-rules were found to be in partial compliance. In the case of Rule V.F – Corporate Identification and Advertising, one affiliate failed to properly use the necessary disclaimer in one advertisement and on some promotional materials. The other incident was quite minor and pertained to Rule VI.B – New Affiliate Compliance Plans, where SCE was unable to report the creation of one new Class A affiliate in the prescribed time. Neither of these incidents resulted in any disadvantage to utility ratepayers or unfair benefit to the affiliates in question. In fact, the affiliate that did not properly use the disclaimer is in the process of going out of business.

We were favorably impressed with SCE's overall compliance program. It is apparent that SCE is serious about adhering to the affiliate rules.

Notable was the level of understanding of the affiliate transaction rules among the managers and staff we interviewed. Clearly, a considerable effort has gone into educating SCE and affiliate personnel and sustaining their commitment to compliance with the affiliate rules. We also found SCE's compliance organization consists of experienced and conscientious professionals committed to ensuring compliance.

Compliance policies and procedures are well-documented and readily available to utility and affiliate personnel. Employees are encouraged to contact SCE's compliance organization with questions or for advice on implementing the rules.

Finally, we found internal controls to be effective at ensuring compliance. Among these are various monitoring activities by the compliance organization and the significant role played by SCE's Audit Services Department.

As shown in Exhibit 1, we had 8 recommendations directed at further improving SCE's compliance process.

Exhibit 1

Southern California Edison Company
2002 Affiliate Transactions Audit
Summary of SCE's Compliance With CPUC Affiliate Transactions Rules

Rule	Sub-Rule	SCE In Compliance?	Recommendations	
I. Definitions	A through G – Definitions	Yes		
II. Applicability	A through I – Applicability	Yes	1 (pg. 15)	
III. Non-Discrimination	A – Preferential treatment	Yes	2 (pg. 26)	
	B – Affiliate transactions	Yes		
	C – Tying of services	Yes		
	D – Assignment of customers	Yes		
	E – Bus development & customer relations	Yes		
	F – Affiliate discount report	Yes		
IV. Disclosure and Information	A – Customer information	Yes	3 (pg. 43)	
	B – Non-customer, non-public information	Yes		
	C – Service provider information	Yes		
	D – Supplier information	Yes		
	E – Affiliate-related advice or assistance	Yes		
	F – Recordkeeping	Yes		4 (pg. 53)
	G – Disclosure	Yes		
	H – FERC reporting requirements	Yes		
V. Separation	A – Corporate entities	Yes		
	B – Books and records	Yes		
	C – Sharing of plant, facilities, equipment or costs	Yes		
	D – Joint purchases	Yes		5, 6 (pgs. 66, 67)
	E – Corporate support	Yes		
	F – Corporate identification and advertising	Partial		7 (pg. 74)
	G – Employees	Yes		
	H – Transfer of goods and services	Yes		
VI. Regulatory Oversight	A – Compliance plans	Yes	8 (pg. 93)	
	B – New affiliate compliance plans	Partial		
	C – Affiliate audit	Yes		
	D – Witness availability	Yes		
VII. Utility Products and Services	A – General rule	Yes		
	B – Definitions	Yes		
	C – Utility products and services that may be offered	Yes		
	D – Conditions precedent to offering utility products and services	Yes		
	E – Requirements to file an advice letter	Yes		
	F – Existing offerings	Yes		
	G – Section 851 application	Yes		
	H – Periodic reporting of non-tariffed products and services	Yes		
	I – Offering of non-tariffed products and services to affiliates	Yes		
VIII. Complaint Procedures and Remedies	A – Enforcement of CPUC rules	Yes		
	B – Standing	Yes		
	C – Procedures	Yes		
	D – Remedies	Yes		

Executive Summary

Audit Objective

The objective of Baryenbruch & Company's evaluation was to express an opinion on the extent to which Southern California Edison (SCE) was in compliance during 2002 with the California Public Utilities Commission's (CPUC or Commission) affiliate transaction rules and its own compliance plans. Rule VI.C requires that affiliate transactions be subjected to an annual audit by an independent firm.

This is the fifth annual Affiliate Transactions Audit since the CPUC established its latest affiliate transaction rules in 1997. These rules were created contemplating the competitive world of Assembly Bill (AB) 1890, not today's market structure. (DR 3, D02-10-062, p. 49) In spite of the changed market situation, SCE continues to be subject to the affiliate transaction rules, most of which are still relevant to ensuring that utility ratepayers remain indifferent to the existence of non-utility affiliates and that the utility is not used for the unfair benefit of such affiliates.

Audit Approach

Baryenbruch & Company conducted its work in accordance with the auditing standards published in the Generally Accepted Government Auditing Standards ("Yellow Book"). These standards provide comprehensive guidance in compliance auditing and cover such issues as audit planning, evidence and report contents.

One of our first steps was to develop evaluative criteria against which we would judge SCE's performance. These criteria represent conditions we would expect to exist if SCE were in compliance with the affiliate transaction rules. Our criteria can be found in the body of this report preceding our conclusions.

We gathered the evidence from the following sources:

- Interviews with almost 50 SCE officers, managers and staff members involved in compliance with the affiliate transaction rules
- Analysis of data from over 170 information requests pertaining to 2002 affiliate transactions
- Tests of various affiliate-related transactions (see Exhibit 2 for an analysis of the transactions we tested)

We developed our conclusions by comparing SCE's evidence of compliance against the evaluative criteria. Where SCE was not in full compliance or where the compliance process could be enhanced, we offered recommendations for improvement.

Exhibit 2

Southern California Edison Company
2002 Affiliate Transactions Audit
Analysis Of Transaction Tests

Transactions Reviewed	Data Request	
	Number	Sample Size
Intercompany billings	161	Sept 2002 billings to EME entities
Internal Service Requests	66	All forms
External Service Requests	10, 126	All
Corporate Support Requests	123	All
Employee moves to affiliates (fee calculation, non-marketing personnel, property transfers, fees)	67	All
Employee moves to SCE	158	All
Property transfers to/from SCE	69	All
Service agreements and contracts between SCE and affiliates	10	All
Incorporation papers	62	All major entities
Facilities tour for separation		Toured GO, Gateway; DC office floor plan
Officer/Directors	15	All
Nontariffed products and services	16	All
ESI billings to affiliates	102	All
IT Security Access	147	12%
General Office Access	97	All visiting affiliate employees during Oct 2002
Internal Audit reports and workpapers	13	All pertaining to affiliate-related audits
Board of Directors minutes	103	All
Customer Calls (residential and commercial/industrial customers)	153	95 Calls
Marketing/advertising/promotional materials	39, 160	All
Bill Inserts	41	All
Presentations to commercial and industrial customers	40, 141	All
Account managers' diary notes	142	10 - 15 %
Joint purchases	83, 84, 85, 144, 145,	All
Review bulk power purchases and sales between SCE and Affiliates (incl QF)	94, 95, 96	All
Review transmission purchases/sales with Affiliates	156	All
Review fuel & fuel transportation purchases/sales with Affiliates	154, 155	All
Review Website Postings: "CISRs," "3B" Reports, "3F" Reports, & "4B" Reports	52, 127, 128, 129, 146	All
CISR processing times and samples of CISR forms	50, 138	All (List) and 3-5 % of Forms
Proposals responding to major customer RFPs	143	All
R&D projects and EPRI targets	91-93; 133-137	All
Trade shows, conferences & marketing events	132	All
File retention review for service agreements and contracts; joint purchases; bulk power purchases & sales; transmission rights & capacity; fuel & fuel transportation	10, 59, 72, 84, 85, 94, 95, 96, 154, 155, 156	14 agrmts/contracts from last three year's DRs

Background

California Affiliate Transaction Regulation

On December 16, 1997, the CPUC issued Decision No. 97-12-088 establishing a new set of rules governing how transactions may be conducted between California's gas and electric utilities and their affiliates. This decision was the culmination of the CPUC's Affiliate Transaction Rulemaking and Investigation, thus the rules are referred to as the "ATR." (DR 2)

The ATR were adopted primarily to prevent California's regulated utilities from using their resources to provide an unfair competitive advantage to their unregulated affiliates, with principal emphasis on the then-anticipated competitive market for the electric commodity and related products and services. Essentially, they cover dealings between a utility and its unregulated affiliates with respect to:

- Transactions
- Sharing of information and assets (tangible and intangible)
- Employee moves and temporary use of utility employees by affiliates

SCE must file a compliance plan with the CPUC demonstrating how it ensures adherence to the ATR. SCE's latest annual update is called the Compliance Plan Update for 2002 (CP02) and is dated December 12, 2002. (DR 20) The CP02, taken together with the Modified Compliance Plan (MCP) filed in December 2001, constitute SCE's compliance plan for all of the ATR established by D.97-12-088.

SCE's Compliance Program

The major elements of SCE's ATR compliance program are described below.

- **Affiliate Compliance Management Oversight** – SCE's Affiliates Oversight Team is responsible for ensuring that SCE and its affiliates comply with affiliate transaction rules adopted by the CPUC and other agencies. The team includes the Affiliates Officer, Designated Affiliates Counsel, and Designated Affiliates Controller. They are supported by professional-level employees reporting to the Affiliates Officer. In addition, personnel in every department and business unit of SCE and its affiliates have been deemed responsible for facilitating compliance with affiliate transaction rules related to their business and business practices. (DR 1)
- **Affiliate Transaction Rule (ATR) Manual** – This manual is SCE's definitive compliance reference tool for employees. The ATR Manual covers the body of rules pertaining to affiliate transactions and provides examples of how CPUC and FERC rules should be implemented. It is available to all utility and affiliate employees on-line via EIX's corporate intranet. (DR 5)
- **Employee Education and Training** – SCE employs regular training and communications programs to educate utility and affiliate employees about the affiliate transaction rules. Notable aspects include:
 - Articles in corporate-wide publications

Background

- Electronic and hard-copy letters to all employees on affiliate-related issues
- Presentations customized for specific employee groups
- SCE and EIX publications describing standards of conduct and business policies
- Responses to individual employees’ questions by SCE’s Affiliates Oversight Team and Affiliate Compliance Organization (e.g., affiliate information hotline, e-mail address) (DR 1)
- **Compliance Reporting Process** – SCE maintains a system of internal accounting controls to ensure that affiliate transactions are recorded and reported in compliance with applicable guidelines. In addition, SCE is required by the Rules previously adopted by the CPUC to provide the Commission with an Annual Report of Affiliate Company Transactions by May 1 each year. (DR 1)
- **Periodic Compliance Reviews** – Annual audits are conducted by an independent consulting firm. In addition, periodic internal reviews of selected affiliate transactions are conducted by SCE staff and the Audit Services Department. A list of these reviews is submitted as part of the Annual Report of Affiliate Company Transactions to the CPUC. (DR 1, DR 13)

Overview of SCE’s Affiliate Transactions

While the ATR themselves do not define the term “transaction,” the interim reporting requirements adopted by the CPUC in 1992 define an affiliate transaction as: the provision of any good, property, service, privilege or act between any two parties for which compensation normally would be provided if each party was independent of the other and action in its best financial interest. (D.93-02-019, Rule I.G.m, DR 5) According to ATR III.B, transactions between a utility and its affiliates are limited to:

- Tariffed products and services
- The sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process
- Joint purchases, as provided for in ATR V.D
- Corporate oversight, governance and support services, as provided for in ATR V.E
- Non-tariffed products and services, as provided for in ATR VII (DR 5)

A summary of affiliate transactions during the past several years is shown below.

(\$ in thousands)	1999	2000	2001	2002
SCE's Provision of Goods and Services to Affiliates (A)	\$ 25,455	\$ 35,395	\$ 30,441	\$ 16,565
Affiliates' Provision of Goods and Services to SCE	\$ 202	\$ 9,261	\$ 3,619	\$ 14,215
Transfers of Tangible Assets	\$ -	\$ 1,830	\$ 3,916	\$ 10
Transfers of Intangible and Intellectual Property	\$ -	\$ -	\$ 205	

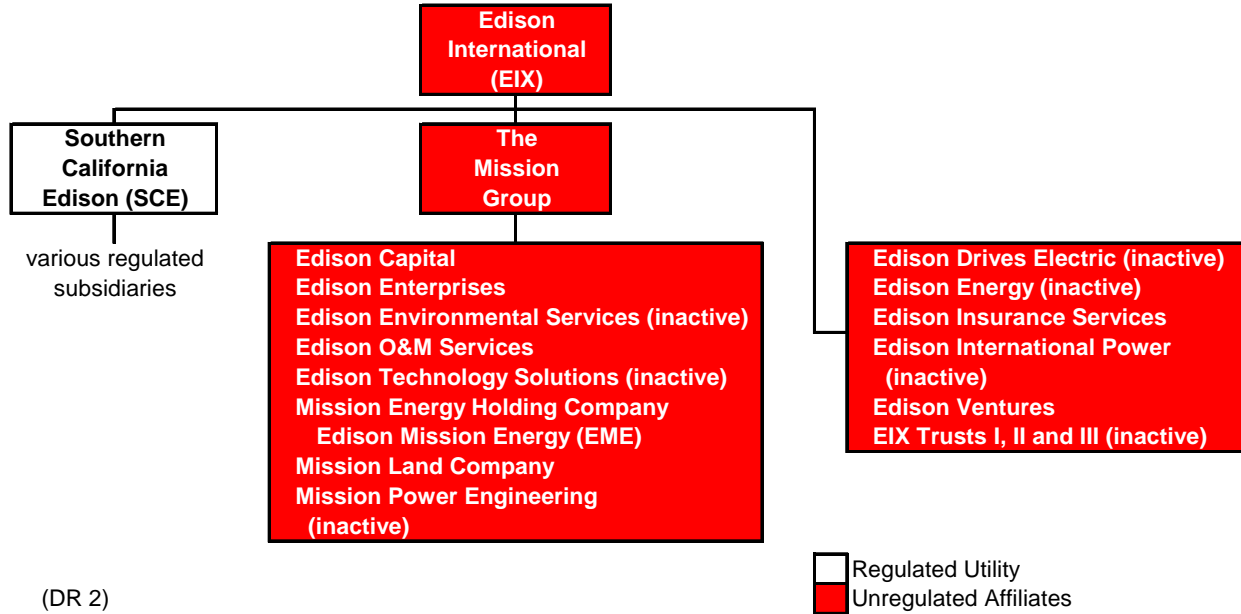
Note A: excludes charges to accounts (146, 236 and 438) not directly related to the provision of goods and services

(DR 2)

Background

Structure of Edison International

The principal unregulated affiliates of SCE are shown below. The holding company arrangement was first established in 1988 (pursuant to CPUC decision D.88-01-063) to facilitate the corporation's venture into unregulated business activities.



Applying the requirements set forth in D.97-12-088, SCE has categorized its affiliates as either covered ("Class A") or not covered ("Class B") by the ATR¹. The Class A affiliates, which provide products that use electricity or services that relate to the use of electricity, are:

Edison Mission Energy (EME) and subsidiaries:	
Edison Mission Energy Services B.V.	ISAB Energy s.r.l.
Edison Mission Operation and Maintenance Services B.V.	CPC Cogeneration LLC
Edison Mission Marketing & Trading, Inc.	Tri-Energy Company Limited
EME Homer City Generation L.P.	EME Fuel Services LLC
Mission Energy Westside, Inc.	CL Power Sales 1,2,6,7,8,9,10, and CP Power Sales 12 and 17, LLCs
Chestnut Ridge Energy Company	Perth Power Partnership
EME Energy Services, Inc.	CBK Power Company Limited
Contact Energy Limited	Kalayaan Power Management Corporation
EcoElectrica LP	Sunrise Power Company LLC
Edison First Power Limited	Coaltrade Services International Pte Ltd.
Midwest Generation, LLC	EMOM Services, Inc.
Italian Vento Power Corporation 4S.r.l.	

Edison Capital subsidiaries:
Storm Lake Power Partners I LLC
Lakota Ridge LLC
Shaokatan Hills LLC
Woodstock Hills LLC
Cade, Edeser, Electropaz, and Empresa de Luz y Fuerza Electrica de Oruro S.A.

Edison Enterprises subsidiary Edison Source Norvik Company
--

Edison O&M Services

Mission Power Engineering Company (inactive)
--

(DR 20)

¹Note that Class B affiliates remain subject to the transaction rules set forth in D.88-01-063.

Background

The Class B affiliates, not subject to the ATR, are:

Edison International (EIX)

Edison Drives Electric (inactive)

The Mission Group and subsidiaries:
Edison Capital and all subsidiaries except for those listed as Class A above
Edison Enterprises
Edison Environmental Services (inactive)
Edison Technology Solutions and subsidiary:
Edison EV (inactive)
Mission Energy Holding Company
Mission Land Company and its subsidiaries

Edison Insurance Services

Edison Ventures and subsidiary Edison TransEnergy

EIX Trusts I, II and III

(DR 20)

ATR-Related Events During 2002

Relatively little happened during 2002 to impact SCE's affiliate transaction compliance requirements. The few affiliate transaction-related 2002 events are described below.

- CPUC shortened the disclaimer language associated with Rule V.F.1 – Corporate Identification and Advertising
- The CPUC dismissed a 1998 complaint regarding Edison Source, a direct access affiliate, now inactive
- On December 12, 2002, SCE filed its annual compliance plan update (Compliance Plan Update for 2002, or CP02). It made minor changes in SCE's compliance statements
- Edison O&M Services (EO&MS) stopped taking new work and is in the process of winding down its business activities. It was established in 2000 as a non-regulated affiliate to provide power plant operations and maintenance services. EO&MS was granted certain exemptions from the ATR by the CPUC in order to help retain the jobs of employees who otherwise would have been laid off. (DR 17, DR 20)

At the time of this report's writing, Ernst & Young LLP, the independent auditor for Mission Energy Holding Company, expressed doubt about Edison Mission Energy's (EME) ability to continue as a going concern. One of EME's units, Edison Mission Midwest Holdings, has \$911 million of debt maturing in December 2003 for which it is not expected to have the cash to repay and therefore must refinance. In a Dow Jones Newswire story, Mission Energy Holding Company was indicated to say there is no assurance that this debt obligation can be refinanced at maturity. The inability to do so could make it necessary for Edison Midwest Holdings to file for a petition for reorganization under Chapter 11. In an interview with SCE's Chairman and CEO and SCE's President and COO, we asked if SCE was directly or contingently liable for any of these debts. They indicated SCE was not and that any default or petition for reorganization would not affect SCE's ability to obtain its own financing or continue providing service to its customers. (INT 32)

Rule I – Definitions

CPUC Rule

Unless the context otherwise requires, the following definitions govern the construction of these Rules:

I.A. “Affiliate” means any person, corporation, utility, partnership, or other entity 5 per cent or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly either by a utility or any of its subsidiaries, or by that utility’s controlling corporation and/or any of its subsidiaries as well as any company in which the utility, its controlling corporation, or any of the utility’s affiliates exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership. For purposes of these Rules, “substantial control” includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of 5% or more by the utility in an entity’s company creates a rebuttable presumption of control.

For purposes of this Rule, “affiliate” shall include the utility’s parent or holding company, or any company which directly or indirectly owns, controls, or holds that power to vote 10% or more of the outstanding voting securities of a utility (holding company) to the extent the holding company is engaged in the provision of products or services as set out in Rule II.B. However, in its compliance plan filed pursuant to Rule VI, the utility shall demonstrate both the specific mechanism and procedures that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding company or another utility affiliate not covered by these Rules as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules, (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as conduit to circumvent any of these Rules.

Regulated subsidiaries of a utility, defined as subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate. However, these Rules apply to all interactions any regulated subsidiary has with other affiliated entities covered by these rules.

I.B. “Commission” means the California Public Utilities Commission or its succeeding state regulatory body.

I.C. “Customer” means any person or corporation, as defined in Sections 204, 205 and 206 of the California Public Utilities Code, that is the ultimate consumer of goods and services.

I.D. “Customer Information” means non-public information and data specific to a utility customer which the utility acquires or develops in the course of its provision of utility services.

I.E. “FERC” means the Federal Energy Regulatory Commission.

I.F. “Fully Loaded Cost” means the direct cost of good or service plus all applicable indirect charges and overheads.

I.G. “Utility” means any public utility named as a respondent to Rulemaking 97-04-011/Investigation 97-04-012, and any other public utility subject to the jurisdiction of the Commission as an Electric Corporation or Gas Corporation, as defined in California Public Utilities Code Sections 218 and 222, which the Commission by subsequent decision or order requires to comply with these Rules.

Audit Criteria

- SCE properly interprets ATR definitions
- Information on affiliate transaction rules is widely distributed, easily accessible and continuously communicated throughout SCE and its affiliates

Rule I – Definitions

Audit Steps

- Verify that SCE has properly interpreted Rule I definitions
- Determine that these definitions have been adequately publicized among those involved in affiliate transactions

Conclusions

SCE is in compliance with Rule I.

The terms defined in Rule I are restated verbatim in SCE’s Modified Compliance Plan MCP and Affiliate Transaction Rule (ATR) Manual. In addition, SCE defines the key terms, listed in the table below, in Chapter 2 of the ATR.

Affiliate	Controlling Corporation	Intangible Asset	Sale of Property
Affiliate QF Contract	Corporate Governance	Labor	Securities
Affiliated Investees	Corporate Support	Leads	Service Providers
Affiliates Compliance Manager	Corporation	Merchant Function	Significant Unaffiliated Third Party
Affiliates Officer	Cost of Sales	Net Book Value	SCE
Affiliate Third Party	Cross Subsidy	Parent Company	Subsidiaries
Affiliate Transaction	Customer	Parent Holding Company	Tariffed Service
Rulemaking/ Investigation (ATRI)	Designated Controller	Permissible Shared Support	Transaction
Allocated Cost	Designated Counsel	Person	Transfer Price
ATRs	Directly Requested Services	PGACT	Transfer of Goods and Services
ATR Manual	Energy Marketing Affiliate	PGACT 88	Type 1-2-3 Rules
Commission	Fair Market Value	Policy	Utility
Company	FERC	PROACT	Utility Investee
Contracts	Fully Loaded Cost	Property	Utility Third Parties

DR 5

We found the ATR Manual’s definitions of these terms to be consistent with the CPUC’s ATR. Our audit work also showed that in course of implementing the ATR, SCE has been careful to consider the broad intent of the rules.

SCE maintains an appropriate level of awareness of Affiliate Transaction Rules through a variety of reference and training materials, including:

- ATR Manual, in which SCE documents its policies and procedures developed to implement the ATR
- Training presentations developed by RP&A and delivered to business units and work groups
- Intranet availability of the ATR Manual and training materials, accessed through MyEdison.net by SCE and affiliate employees
- Periodic communications with employees. In November 2001, the Affiliates Officer circulated to all SCE employees the All-Employee Affiliate Rule Summary, which included a summary of principal rules and verbatim text of Rules III, IV and V.
- “Employee Self Test,” available on MyEdison.net
- Members of the Regulatory Compliance staff act as ATR Subject Matter Experts, available to SCE and affiliate personnel to answer questions and provide advice

Rule I – Definitions

- Telephone and email information hotlines available for affiliate compliance questions
- Articles and information developed by individual business units for inclusion in their hard-copy and electronic communications (DR 169)

As specified by Rule I.A, the MCP contains a letter from SCE’s Affiliates Officer and the EIX Vice President and Controller verifying that “the specific mechanisms and procedures described in SCE’s Modified Compliance Plan are believed to be sufficient to ensure that Southern California Edison is not using its holding company or any of its affiliates not covered by the Rules as a conduit to circumvent any of the Rules.” (DR 5 Appendix B)

Under the “5 percent” threshold established by Rule I.A, there are several hundred entities worldwide that must be considered affiliates of SCE. It became evident in the course of our review, however, that SCE conducts transactions with only a handful of those entities. Most affiliates are subsidiaries of Edison Mission Energy and Edison Capital, and many affiliates have a very specific, limited purpose.

Rule II – Applicability

CPUC Rule

- II.A.** These Rules shall apply to California public utility gas corporations and California public utility electrical corporations identified in Rule I.G.
- II.B.** For purposes of a combined gas and electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted below. For purposes of an electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity.
- For purpose of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or the provision of services that relate to the use of gas.
- II.C.** These Rules apply to transactions between a Commission-regulated utility and another affiliated utility, unless specifically modified by the Commission in addressing a separate application to merge or otherwise conduct joint ventures related to regulated services.
- II.D.** These Rules do not apply to the exchange of operating information, including the disclosure of customer information to its FERC-regulated affiliate to the extent such information is required by the affiliate to schedule and confirm nominations for the interstate transportation of natural gas, between a utility and its FERC-regulated affiliate, to the extent that the affiliate operates an interstate natural gas pipeline.
- II.E. Existing Rules:** Existing Commission rules for each utility and its parent holding company shall continue to apply except to the extent they conflict with these Rules. In such cases, these Rules shall supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent holding company from adopting other utility-specific guidelines, with advance Commission approval.
- II.F. Civil Relief:** These Rules shall not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.
- II.G. Exemption (Advice Letter):** A Commission-jurisdictional utility may be exempted from these Rules if it files an advice letter with the Commission requesting exemption. The utility shall file the advice letter within 30 days after the effective date of this decision adopting these Rules and shall serve it on all parties to this proceeding. In the advice letter filing, the utility shall:
- II.G.1.** Attest that no affiliate of the utility provides services as defined by Rule II B above, and
- II.G.2.** Attest that if an affiliate is subsequently created which provides services as defined by Rule II B above, then the utility shall:
- II.G.2.a.** Notify the Commission, at least 30 days before the affiliate begins to provide services as defined by Rule II B above, that such an affiliate has been created; notification shall be accomplished by means of a letter to the Executive Director, served on all parties to this proceeding; and
- II.G.2.b.** Agree in this notice to comply with the Rules in their entirety.
- II.H. Limited Exemptions (Application):** A California utility which is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application, served on all parties to this proceeding, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates. The applicant has the burden of proof.
- II.I.** These Rules should be interpreted broadly, to effectuate our stated objectives of fostering competition and protecting consumer interests. If any provision of these Rules, or the application thereof to any person, company, or circumstance, is held invalid, the remainder of the Rules, or the application of such provision to other persons, companies, or circumstances, shall not be affected thereby.

Rule II – Applicability

Audit Criteria

- A proper determination has been made as to whether affiliates are involved in “the provision of a product that uses electricity or provision of services that relate to the use of electricity” (this designation determines the applicability of ATR)

Audit Steps

- Determine if SCE’s designation of affiliates as either Class A or B comports with Rule II
- Assess how broadly SCE has interpreted the ATR in term of fostering competition and protecting customer interests

Conclusions

SCE is in compliance with Rule II.

SCE has established a classification process to determine which affiliates are subject to ATR. The ATR Manual describes the two classes as follows:

- Class A – Those affiliates of SCE subject to the ATR. They engage in the provision of a product that uses electricity or the provision of services that relate to the use of electricity.
- Class B – Those affiliates of SCE not subject to the ATR (DR 5)

The MCP and Compliance Plan Update for 2002 (CP02) summarize the Class A and B affiliates. (DR 1, DR 20) A complete list of all Edison International entities is provided in the Annual Report of Affiliate Company Transactions. (DR 2)

Rule II – Applicability

SCE’s principle affiliates and their class status are shown in the table below.

		Affiliate Class
Edison International (EIX) (parent holding company)		B
Southern California Edison (SCE)		na
Subsidiaries of SCE (e.g., ESI) (CPUC regulated)		na
Edison Drives Electric		B
Edison Energy (inactive)		B
Edison Insurance Services		B
Edison International Power (inactive)		B
Edison Ventures		B
Edison TransEnergy		B
EIX Trusts I, II and III (inactive)		B
The Mission Group		B
Edison Capital		B
Entities (4) generating power from wind		A
Elfeo, a Bolivian electric distribution company		A
All other subsidiaries of Edison Capital		B
Edison Enterprises		B
Edison Source		A
Edison Source Norvik		A
Edison Environmental Services (inactive)		B
Edison O&M Services		A
Edison Technology Solutions (inactive)		B
Edison EV (inactive)		B
Mission Energy Holding Company		B
Edison Mission Energy (EME)		A
Midwest Generation		A
Edison Mission Marketing & Trading		A
Other Subsidiaries of EME		A&B
Mission Land Company		B
Mission Power Engineering Company (inactive)		A

(DR 20)

While Edison O&M Services (EO&MS) is categorized as a Class A affiliate, SCE was given certain exemptions in its dealings with EO&MS in order to save the jobs of employees who performed services for SCE generating facilities sold off as part of the 1998 deregulation divestiture process. In Decision 00-07-047, the CPUC permitted SCE access to EO&MS personnel on a non-competitive basis for specialized support to any of SCE’s retained generating facilities. In accordance and in compliance with the Decision, SCE has contracted directly with EO&MS to provide such support. When SCE procures products or services associated with facilities other than its retained generation, EO&MS is not given any special consideration and must compete in the same way as other non-affiliate third party service providers. (INT 27)

As part of the audit, we reviewed the business activities of affiliates and found no instances where a Class B affiliate provides a product that uses electricity or services that relate to the use of electricity. (DR 2)

Rule II – Applicability

In May 2002, SCE notified the CPUC it had changed the status of Edison Technology Solutions (ETS) and Edison EV (EEV) from Class A to Class B. Both entities still exist in legal and corporate form but ceased doing business in 1999. They had previously been engaged in electricity-related businesses. (DR 6) We concur it is appropriate to designate ETS and EEV as Class B affiliates.

It should be noted that Mission Power Engineering Company has also been inactive for many years yet it remains a Class A affiliate. SCE should reclassify this entity too so it is consistent in its rationale for reclassifying ETS and EV.

The following two affiliates were created in 2002:

- EMOM Services, Inc. – Class A affiliate and indirect subsidiary of EME created to perform maintenance/mechanical services for a wind farm generation facility located in Alta, Iowa
- CP Power Sales Seventeen, LLC – Class A affiliate and indirect subsidiary of EME created to enter into power contracts (DR 70)

We concur with the Class A designations given to these new affiliates.

Recommendation

1. Reclassify Mission Power Engineering Company – Although it ceased business activities many years ago, this entity remains a Class A affiliate. Reclassification to Class B would reflect the reality that Mission Power Engineering is no longer “engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity.” It would also be consistent with the 2002 reclassifications of ETS and EEV.

Rule III – Nondiscrimination

CPUC Rule

III.A. No Preferential Treatment Regarding Services Provided by the Utility: Unless otherwise authorized by the Commission or the FERC, or permitted by these Rules, a utility shall not:

III.A.1. represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers; or

III.A.2. provide its affiliates, or customers of its affiliates, any preference (including but not limited to terms and conditions, pricing, or timing) over non-affiliated suppliers or their customers in the provision of services provided by the utility.

Audit Criteria

- SCE does not represent that it will provide preferential treatment to affiliates or affiliates' customers compared to treatment provided to non-affiliates or their customers
- Terms, conditions, and pricing offered by SCE to affiliates or affiliate customers are comparable (non-preferential) to those available to non-affiliates or their customers

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Monitor actual customer conversations with SCE Customer Call Center representatives, both Residential and Commercial & Industrial, to determine if affiliates or customers of affiliates are being provided preference over other customers. Also monitor calls to determine that the representatives are not promoting affiliates' business relationships with SCE.
- Review billing inserts to determine there is no representation that affiliates or affiliates customers will be given preferential treatment
- Review marketing/advertising materials targeted or sent to SCE customers to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Review SCE presentations to large industrial customers to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Sample account manager/account executive journal entries to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Review SCE proposals responding to requests for proposal (RFPs) from major customers to assure there is no preferential treatment being offered for any such customer who also purchases services from an affiliate of SCE

Rule III – Nondiscrimination

- Review Customer Information Service Requests (CISR) processing times to assure no preferential treatment was given to affiliates or affiliates' customers and sample actual CISRs to assure processing times have been accurately reflected
- Review SCE's process for handling Direct Access Service Requests (DASR) to affirm that no DASRs were processed in 2002. If there are DASRs, assure no preferential treatment was given to affiliates or affiliates' customers.
- Where applicable, compare terms, conditions, pricing, and timing for services provided to a sample of affiliate customers to ensure they are the same as those offered to non-affiliates' customers
- Review all service agreements and contracts between SCE and affiliates and compare terms, conditions, pricing, and timing for services provided to ensure they are the same as those offered to non-affiliates
- Review Edison ESI's (ESI) billing practices to assure that neither affiliates nor their customers are provided preferential treatment. ESI is a regulated subsidiary of SCE

Conclusions

SCE is in compliance with Rule III.A.

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. SCE uses appropriate procedural controls for this rule and monitors compliance. Furthermore, we reviewed and sampled a wide range of affiliate transactions to gain confidence that SCE is complying with the rule.

SCE has established several mechanisms to manage compliance with the ATR. Two key documents provide the basis for SCE's interpretation and response to these rules. Notably, the Affiliate Transactions Compliance Plan (comprised of the Modified Compliance Plan, or MCP, filed with the CPUC's Energy Division on December 12, 2001, and the CP-02 Update dated December 12, 2002 -- DR 1); and the Affiliate Transaction Rule (ATR) Manual. (DR 5)

The Affiliate Transactions Compliance Plan, filed with the Commission, lays out the processes by which SCE goes about implementing the Affiliate Transaction Rulemaking and Investigation Rules (ATR or Rules) first enumerated by the Commission in Decision 97-12-088 (as subsequently amended). The ATR Manual, described by SCE as a "day-to-day guidebook for employees of SCE," explains how employees should go about conducting any transactions with SCE affiliates. It covers a broader spectrum of affiliate transaction issues than just those raised by the ATR; specifically, it also includes information on compliance with affiliate transaction rules put forth by the Federal Energy Regulatory Commission (FERC) (DR 60).

The Affiliate Oversight Organization, a team of managers, legal counsel and professionals exists to oversee SCE's ATR-related training and communication. These educational efforts are directed at new and existing employees. (DR 1)

Rule III – Nondiscrimination

For example, for new Customer Call Center personnel, the SCE Customer Services Business Unit includes in its Customer Call Center’s “New Hire Training Manual” topics specific to affiliate transaction rules. (DR 32). And the SCE Procurement and Materials Management Department produces a training aid entitled “Joint Procurement Acquisition Process” (DR 139) to help with rules reinforcement. An “Affiliate Transaction Rules 2002 -- Employee Self Test” is accessible to employees on SCE’s intranet. (DR 36, 37). And many other communication/training vehicles are used. (DR 26, 36, 87, and 88).

During interviews, SCE senior managers further acknowledged an ongoing effort to make sure all employees had good knowledge of, and followed, the Rules. (INT 4, INT 10, INT 12, INT 13, INT 19, INT 26)

Specific to Rule III.A, SCE instructs employees that “SCE will neither claim, nor provide preferential treatment to, its affiliates or its affiliates’ customers” and “employees may not give preference to its affiliates or its affiliates’ customers when providing utility services” (DR 5). Managers representing Customer Communications (INT 4, INT 10), Customer Services Operations (INT 13) and Major Customer Division (INT 26) all affirmed their organizations were in compliance with Rule III.A and that their employees were continuously made aware of this and other Rules.

In evaluating SCE’s compliance with Rule III.A, we reviewed the key channels by which SCE communicates with its customers. The results of this assessment are described below by key channel.

Customer Call Centers

We listened to a large sample of residential and commercial customer calls being handled by Customer Specialists and Customer Solution Representatives. We did not find any preferential treatment being discussed or provided. (DR 153).

Billing Inserts & Advertisements

We reviewed all 34 billing inserts mailed to both commercial and residential customers during 2002. (DR 41). And we examined all mass market advertisements sponsored by either SCE or its affiliates during 2002. (DR 39). The advertisements included 19 print ads, 16 audio spots, 10 video spots and 4 billboard messages. Except for one print ad sponsored by EO&MS, all other items were sponsored by SCE. In none of the inserts or advertisements did we see any evidence of preferential treatment being offered, or given, to any of SCE’s affiliates or their customers. (NOTE: In the case of the EO&MS print advertisement, an issue relative to Rule V.F.1 was identified. See that section for a discussion of the issue.)

Large and Industrial Account Interaction

In addition to the mass market channels discussed above, we also reviewed materials relating to SCE’s channels to the industrial customer markets. SCE’s Major Customer

Rule III – Nondiscrimination

Division provided us access to all presentations available for, or used for, customer updates during 2002. (DR 40; DR 141). A total of 24 presentations were available to SCE Account Managers and Account Executives.

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 142). These notes indicate the topics discussed in meetings held with large customers in 2002. We randomly sampled about 15% of the diary notes created by Account Managers/Executives during 2002.

We asked SCE to provide us a list of Requests for Proposals for energy services or products that were sent to SCE by any of its major customers in 2002, and to indicate which, if any, resulted in an SCE proposal. SCE responded to only one such request with a proposal to privatize a small electric distribution system. We reviewed this proposal. (DR 143).

Nothing in the presentations to large customers, the sample of diary notes, or the SCE proposal for privatization indicated SCE would provide preferential treatment to affiliates or affiliates' customers. And there was no evidence that terms, conditions, and pricing offered affiliates or their customers were better or different than those offered to others.

DASRs and CISRs

A second area of inquiry for preferential treatment was the processing of requests for information and services. Specifically, we determined if there were any preferences given affiliates in SCE's handling of Direct Access Service Requests (DASRs) and Customer Information Service Requests (CISRs).

DASRs are the communication vehicle used by an Electric Service Provider (ESP) to notify SCE of a customer's request to initiate, cancel, or modify their Direct Access account. Essentially, Rule III.A says that SCE may not provide preferential treatment to any customer that is obtaining direct access from an SCE affiliate. Such preferential treatment, if it existed, might show up in quicker turnaround times for DASRs sent to SCE by its affiliates compared to other ESPs.

SCE measures the number of days to process the DASR and compares turnaround times for affiliate customers and other customers. While this procedure is still in place at SCE, it has not been used since 2001, when the Direct Access program in California was suspended by the Commission. (DR 43, DR 44).

CISRs are the communication vehicle used to obtain/approve release of customer information to a third party. For example, if a customer retains an energy management firm to help identify opportunities for energy cost reduction, the customer might use a CISR to ask SCE to release data about their energy usage amounts and patterns to the third party energy management firm.

Rule III – Nondiscrimination

Under Rule III.A, SCE cannot process such requests more quickly for affiliates or affiliates’ customers than for others. SCE’s procedure for handling CISRs includes the measurement of the number of days to process them. Comparisons of turnaround times would show whether any preference was being given to affiliates/affiliates’ customers. The table below shows the results of our analysis of 2002 CISR processing times. SCE processed 745 CISRs during 2002 affecting over 34,000 customer accounts. The average processing time for these CISRs was 3.48 days. (DR 50, DR 138).

CISR Statistics and Processing Times Table

Quarter (2002)	Total CISR Request	Total CISR Accounts	Average Processing (Days)	CISR Requests Involving Affiliates	Average Processing Affiliate Requests (Days)
1 st	180	6,790	3.34	0	NA
2 nd	191	17,200	3.53	0	NA
3 rd	223	8,299	3.63	0	NA
4 th	151	1,722	3.36	0	NA
All Year	745	34,011	3.48	0	NA

Since the sale of Edison Enterprises affiliate companies in August 2001 and the sale of G.H.V. Refrigeration, Inc. in October 2001, SCE has processed no CISRs involving affiliates. Consequently, we have marked the average processing time for affiliate CISRs as not applicable (NA). The SCE Affiliate Notices website entitled List of Customer Information Service Requests (www.sce.com/sc3/005_regul_info/005f_affiliatebb/005fl_notice_of_rel/005fla_list_of_cust_info.htm) verifies that the most recent affiliate CISR was processed in April 2001. (DR 51, DR 53). Based on this analysis, we have concluded that no preferential treatment was given to affiliates through the expedited processing of CISRs.

Service Agreements and Contracts, Including Edison ESI (ESI)

We also reviewed all of the service agreements and contracts in effect during 2002 between SCE and its affiliates. (DR 10). Making up this list are:

- 4 SCE power supply contracts with affiliated Qualifying Facilities (QFs) which pre-date the Rules
- 6 SCE contracts with affiliated QFs for services other than power supply, all pursuant to transmission owner tariffs

Rule III – Nondiscrimination

- 17 non-tariffed contracts, including sixteen Edison ESI contracts with affiliates and one agreement between Edison Carrier Solutions (a division of SCE) and EO&MS. (DR 78).
- 6 SCE contracts with EO&MS related to retained generation
- 3 SCE contracts with EO&MS that were competitively bid
- 1 tax-sharing agreement between Edison International, SCE and the Mission Group
- 1 Edison International promissory note to pay SCE
- 1 office-space lease between SCE and Mission Energy
- 1 Quantity Contract between SCE's regulated subsidiary Edison Material Supply LLC and EO&MS

In none of these service agreements did we observe preferential treatment being extended to affiliate entities.

We reviewed all the 2002 affiliate work performed by ESI, a regulated subsidiary of SCE that performs various services for affiliates and non-affiliate third parties. The work performed by ESI for affiliates was priced out using rates from ESI's standard price list, which is also used to price out non-affiliate third party customers. Thus, we can conclude there was no discrimination in favor of affiliates. (INT 21, DR 102)

CPUC Rule

III.B. Affiliate Transactions: Transactions between a utility and its affiliates shall be limited to tariffed products and services, the sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, or as provided for in Sections V.D and V.E (joint purchases and corporate support) and Section VII (new products and services) below, provided the transactions provided for in Section VII comply with all of the other adopted rules.

Audit Criteria

- Affiliate transactions are limited to: (1) tariffed products and services, (2) the sale or purchase of goods, property, products, or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, (3) joint purchases or corporate support as defined by Sections V.D. and V.E. of the Rules, or (4) new products and services as defined by Section VII of the Rules.

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Evaluate SCE's procurement practices to determine that competitive bidding is used where goods, services, property or products are procured from affiliates. Assess the monitoring and control processes of SCE's Procurement and Materials Management Department that ensure compliance with this provision.

Rule III – Nondiscrimination

- Review all service agreements and contracts between SCE and affiliates to determine if the competitive bidding requirements of this Rule have been followed and that the tariff limitations have been followed
- Review list of parties to wholesale power agreements and sample wholesale power transactions to assure requirements of this rule have been followed
- Review gas and coal contracts to assure requirements of this rule have been followed
- Review transmission contracts to assure requirements of this rule have been followed
- Review joint purchases to assure that no transactions were made other than those allowed under Rule V.D
- Review a sample of SCE transactions (including intercompany billings) with affiliates and affiliate customers to determine they were limited to the type allowed in this ATR
- Review 2002 property sales between SCE and affiliates to assure the sales were the result of a competitive bidding process

Conclusions

SCE is in compliance with Rule III.B.

Nature of SCE's Affiliate Transactions

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. SCE uses appropriate procedural controls for this rule and monitors compliance. Furthermore, we reviewed a sample of affiliate transactions to gain confidence that SCE is complying with the rule.

Specific to Rule III.B, SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both easily accessible by EIX employees, describe the competitive bidding requirements imposed by this rule. SCE purchases from affiliates (except those made under Rules V.D, V.E and VII, as permitted) are required to be made through an open, competitive bidding process.

SCE's Affiliate Transactions Compliance Plan 2002 Update (CP02), adds to the MCP a discussion covering a limited exemption to Rule III.B. This exemption, approved by the Commission in Decision 00-07-047, Ordering Paragraph 9, relates to SCE's access/use, on a non-competitive, sole source basis, of employees that moved from the utility to EO&MS to perform specialized support to any of SCE's retained generating facilities. The Commission further specified that SCE should pay no more than the lower of fair market value or EO&MS fully-loaded costs for any such services. (DR 1). This exemption is also discussed in the ATR Manual. (DR 5).

The Procurement and Materials Management Department (PAMM) is given responsibility for ensuring compliance as described in the MCP. And PAMM documents

Rule III – Nondiscrimination

the procedural requirements that emerge from this responsibility through a number of training materials and procedural manuals. (DR 87, DR 139, DR 140).

Also, SCE's Affiliates Officer must approve purchases of any products or services where the utility or affiliate is the sole available source. (DR 1, DR 5). Managers representing Regulatory Policy and Affairs (INT 1), Energy Supply and Management (INT 19) and Procurement and Materials Management (INT 8, INT 12) affirmed that their organizations were in compliance with Rule III.B and that employees of those departments were continuously made aware of this and other Rules.

In evaluating SCE's compliance with the broad requirements of Rule III.B, we first defined and then reviewed the full range of SCE's transactions with affiliates in 2002. The Commission's definition of an affiliate transaction is "the provision of any good, property, service, privilege, or act between any two parties for which compensation normally would be provided if each party was independent of the other and acting in its best financial interests" (DR 17). Using this definition, the Rules, and various Commission decisions, rulings and orders, we developed the following table of allowable categories of affiliate transactions.

<p>A. SCE Tariffed Products and Services to Affiliates (e.g., distribution services to affiliate end-users; energy and capacity to affiliate end-users without Direct Access; wholesale power to/from an affiliate, including QFs; QF related services to an affiliate subject to transmission owner tariffs; transmission and/or ancillary services to/from an affiliate, etc.)</p> <p>B. SCE Non-tariffed Products and Services to Affiliates (1) Rule VII.F allows SCE to continue offering those non-tariffed products and services in effect prior to 12/16/97, the date the new affiliate rules were established, to affiliates so long as the terms, conditions, prices, etc. do not favor the affiliate over others and the conditions in Rule VII.C and VII.D are met. Such products and services might include: use of communications and computing systems; secondary use of office space; operation and maintenance of generation, transmission, and distribution related facilities and equipment, etc. See ATR Manual, pp.17-12 to 17-20 (DR 5) and Advice Letters 1286-E and 1286-E-A (DR 16) (2) Any new non-tariffed products and services offered by SCE must meet the conditions of Rules VII.C and VII.D and be approved by the Commission</p> <p>C. Affiliate Products and Services to SCE Products & services by affiliates to SCE only through an open, competitive bidding process. However, a waiver to the competitive bidding part of Rule III.B was given by the Commission in D.00-07-047 for services provided by EO&MS to SCE for <u>retained generation</u> facilities only. See CP02 (DR 1) and Decision 00-07-047. (DR 3).</p> <p>D. Joint Purchases by SCE and Affiliates Covered also by Rule V.D (e.g., Joint Contracts such as database software; Single Party – Joint Use Contracts, such as national energy data; Joint Negotiation – Separate Contracts, such as office supplies; etc.)</p> <p>E. Shared Corporate Support Shared corporate oversight, governance, support systems and personnel. Covered also by rule V.E .</p> <p>F. Sales of Assets The transfer of tangible and intangible assets between SCE and affiliates.</p>
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Using this basic framework, we reviewed or sampled all affiliate transactions from calendar year 2002, and the agreements/contracts/tariffs under which they were authorized or prescribed.

Rule III – Nondiscrimination

We reviewed all service agreements and contracts with affiliates. (DR 10). As a result of that review, we verified that during 2002, all of SCE's agreements and contracts with Class A affiliates fell under one of the allowable transaction categories shown in the table above. For a general overview of these service agreements and contracts, see list in Section III.A above.

SCE provides tariffed products and services to affiliates on the same terms it offers to outside customers. Two tariffs, available to all customers regardless of affiliation, provide Category A services: Schedule GS-1 (General Service – Non-Demand) and Schedule GS-2 (General Service – Demand). (DR 16)

As to other Category A tariffed services, during 2002 there were no wholesale power contracts in existence between SCE and an affiliate, except for four allowable QF contracts (DR 94, DR 95, DR 96). Additionally, there were no transmission contracts between SCE and an affiliate nor were there any joint purchases or sales of transmission services. (DR 10, DR 156).

Of the seventeen contracts for Category B non-tariffed products & services in effect during the year (DR 10), eight were new in 2002. (DR 78). The eight new contracts applied to SCE affiliates EO&MS and Watson Cogeneration Co. The remaining seven contracts, with affiliates Sycamore Cogeneration, Kern River Cogen/Omar Hill Cogen, Edison Mission Energy, and EO&MS (via SCE's Edison Carrier Solutions organization), had no activity during 2002. (DR 78) All of these contracts are allowable under the ATR.

Category C had three contracts all of which had been competitively bid, as required. (DR 59). These contracts are for EO&MS to provide services to SCE. EO&MS was awarded the contract in each case because it was either the low bidder, or because of its specific technical ability and availability. In every case, the contract was an allowable arrangement under the Rules.

In 2002, there are several Category D contracts in place pertaining to joint purchasing arrangements between SCE and affiliates. All were allowable under Rule V.D. See the discussion in Section V.D, below. (DR 84, 144, 145).

There are no contracts for Category E, Corporate Support, services. However, we conducted a detailed examination of the intercompany billing process and found all affiliate transactions to be appropriate. (DR 162)

Two Category F asset transfers were recorded in 2002. EME transferred approximately \$800 in PC equipment belonging to an employee that was moved from EME to SCE. The second transfer was for 44 filing cabinets at a cost of \$9,264. (DR 69)

Finally, during 2002, no fuel (e.g., natural gas, coal or nuclear) or fuel transportation or storage contracts were in existence between SCE and an affiliate (DR 10), nor were there any joint fuel purchases or sales. (DR 154, DR 155).

Rule III – Nondiscrimination

Billing and Reporting Affiliate Transactions

The table below shows who in SCE is responsible for billing affiliates for these transactions.

Allowed Affiliate Transactions	Who Bills Affiliates
Tariffed products and services	SCE Customer Services Business Unit
Goods/services available to open market/third parties	SCE department performing the work
Joint purchases	Controller’s Department
Shared corporate support (A)	Controller’s Department
Non-tariffed products and services	SCE business unit performing the work

Note A: these make up the majority of SCE’s affiliate charges
DR 81

For joint purchases and shared corporate support, the Controller’s Department submits a bill to the affiliates shown in the table below.

Mission Energy	Edison Ventures
The Mission Group	Edison Enterprises
Edison Capital	Edison Insurance Services
Mission Land	Edison Technology Solutions
EIX	EUS (no 2002 activity)
Edison EV	Edison Drives Electric
Edison Source	EO&MS
Edison Select (no 2002 activity)	Mission Energy Holding Company

DR 81

The Controller’s Department maintains the “Intercompany Transactions with Nonutility Affiliates” report which shows charge detail by month for shared corporate support and joint purchases for each of these affiliates. For the other types of allowed transactions, there is no on-going tabulation of SCE charges to/from affiliates during the year.

SCE is obligated by D.93-02-019 to provide the CPUC with an Annual Report of Affiliate Company Transactions. SCE charges to affiliates and affiliate charges to SCE are summarized and shown by affiliate and FERC account in Volume III of the Annual Report of Affiliate Company Transactions. SCE has no other obligations to report affiliate transactions to the CPUC in summary form more frequently than this annual report.

The problem with compiling all affiliate charges only once a year is that there is very little time to review and scrutinize the numbers before they must be submitted to the

Rule III – Nondiscrimination

CPUC. We believe it would be beneficial to compile year-to-date affiliate transactions one more time each year. The numbers could be subjected to variance analysis where charges for the current year are compared to those of the previous year and explanations obtained for material differences. This internal control mechanism would help management ensure, during the course of the year, that all transactions are being recorded and properly accounted for.

Recommendation

2. Consider compiling a summary of affiliate transactions at approximately mid-year. The report would show year-to-date total transactions by principal affiliate and by categories currently used to classify transactions, including:

- Allocated corporate support
- Directly charged corporate support
- Directly requested services
- Non-tariffed services
- Other miscellaneous charges and reimbursements
- Outside services
- SCE subsidiary revenue from affiliates

Unusual variances from previous year would be researched and documented.

It would not be necessary to convert this information to FERC accounts since the above categories are more meaningful for analysis and management review.

CPUC Rule

III.B.1. Provision of Supply, Capacity, Services or Information: Except as provided for in Sections V.D, V.E, and VII, provided the transactions provided for in Section VII comply with all of the other adopted Rules, a utility shall provide access to utility information, services and unused capacity or supply on the same terms for all similarly situated market participants. If a utility provides supply, capacity, services, or information to its affiliate(s), it shall contemporaneously make the offering available to all similarly situated market participants, which include all competitors serving the same market as the utility's affiliates.

Audit Criteria

- SCE provides access to information, services and unused capacity or supply on the same terms for all similarly situated market participants
- If SCE provides supply, capacity, services, or information to its affiliate(s), it contemporaneously makes the offering available to all similarly situated market participants

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review instances where unused SCE supply or capacity, information, or services were made available to affiliate(s)

Rule III – Nondiscrimination

- Determine, in such instances, if offerings were on the same terms for all market participants and if it made the offerings available to all market participants

Conclusions

SCE is in compliance with Rule III.B.1

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. SCE uses appropriate procedural controls for this rule and monitors compliance. Furthermore, we determined there were no Rule-specific instances in which SCE provided affiliates discriminatory access to information, services, or unused capacity or supply. We reviewed/sampled affiliate websites and transactions to gain confidence that SCE is complying with the rule.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all EIX employees, describe the requirements of Rule III.B.1 and define "utility information, services, and unused capacity or supply" as covering "all activities of the utility, except as provided for in Rules V.D, V.E, and VII". Both documents clearly lay out the requirement that any goods or services subject to this rule and offered to affiliates would be priced at fair market value and would be offered to non-affiliates on the same terms. Notice of such offerings is given to the market in which the affiliate operates by posting an "Affiliate Transaction Compliance Notice for Provision of Supply, Capacity, Services or Information (3B Report)" on SCE's Affiliate Notices website entitled [Supply/Capacity/Services/Info Offered to Affiliates \(www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f2_supply_cap.htm\)](http://www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f2_supply_cap.htm) (DR 53, DR 146) and by providing notice in at least one trade magazine serving that market. This approach is supported by Commission Resolution E-3539, Finding 27. (DR 3).

The ATR Manual and CPUC Resolution E-3539, Finding 31, confirm that Rule III.B does not apply to tariffed services. (DR 5, DR 3).

The non-discriminatory release of customer data is a requirement of this Rule. One way SCE ensures compliance is through its policy and procedure for handling requests for information by outside parties, including affiliates. The policy/procedure was developed by the Pricing and Load Management Department and is entitled "3rd Party Authorizations Policy and Release of Customer Information Procedures". Under this procedure, the turnaround times for handling Customer Information Service Requests (CISRs) are tracked in order to assure that no preference is inappropriately given to affiliates (DR 49, DR 50, DR 138). CISRs requested by affiliates are also posted to SCE's Affiliate Notices website entitled [List of Customer Information Service Requests \(www.sce.com/sc3/005_regul_info/005f_affiliatebb/005fl_notice_of_rel/005fla_list_of_cust_info.htm\)](http://www.sce.com/sc3/005_regul_info/005f_affiliatebb/005fl_notice_of_rel/005fla_list_of_cust_info.htm). (DR 51).

Managers representing Regulatory Policy and Affairs (INT 1) and Energy Supply and Management (INT 19, INT 22) affirmed that their organizations were in compliance with

Rule III – Nondiscrimination

Rule III.B.1 and that employees of those departments were continuously made aware of this and other Rules.

We performed a number of transaction reviews to determine that SCE was in compliance with Rule III.B.1. The outcome of these reviews is summarized below.

- Unused capacity/supply. We found no instances in 2002 where SCE made unused capacity or supply available to affiliates. (DR 146). And we verified that SCE sold no wholesale energy or capacity to affiliates during 2002. (DR 94, DR 95, DR 96). Any retail energy or capacity sold to affiliates during 2002 was made available under approved tariffs and is not subject to this rule.
- Services. Similarly, none of the services provided to affiliates by SCE in 2002 are applicable because of exclusions written into this Rule. Non-tariffed services fall under the Rule VII exclusion. Joint purchases fall under the Rule V.D exclusion. And shared corporate governance and support services fall under the Rule V.E exclusion.
- Information. We verified that no CISRs and no 3B Reports were posted to the SCE Affiliate Notices website in 2002. (DR 53, DR 138, DR 146).

Since the sale of Edison Select and its subsidiaries in August 2001 and the sale of G.H.V. Refrigeration, Inc., in October 2001, SCE has processed no CISRs involving affiliates. A review of the SCE Affiliate Notices website mentioned above verifies that the most recent affiliate CISR was processed in April 2001. (DR 51). Since there were no instances in 2002 of affiliates being provided information relative to this Rule, no new 3B Reports were posted to the SCE Affiliate Notices website. (DR 146). For historical purposes, that website does contain two relevant notices, one concerning procedure manuals and reference materials transferred to EO&MS in 2000 (at the formation of EO&MS) and the other, a 3B Report dated May 4, 2001, providing notice that EO&MS asked for and received certain PGM data, ITAC data, and pricing information.

CPUC Rule

III.B.2. Offering of Discounts: Except when made generally available by the utility through an open, competitive bidding process, if a utility offers a discount or waives all or any part of any other charge or fee to its affiliates, or offers a discount or waiver for a transaction in which its affiliates are involved, the utility shall contemporaneously make such discount or waiver available to all similarly situated market participants. The utilities should not use the “similarly situated” qualification to create such a unique discount arrangement with their affiliates such that no competitor could be considered similarly situated. All competitors serving the same market as the utility’s affiliates should be offered the same discount as the discount received by the affiliates. A utility shall document the cost differential underlying the discount to its affiliates in the affiliate discount report described in Rule III.F.7 below.

Audit Criteria

- If it offered a discount or waiver to its affiliates, SCE made the discounts or waivers available to all similarly situated market participants

Rule III – Nondiscrimination

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review instances where discounts or waivers were offered to affiliates
- Determine, in such instances, if similar offerings were made available to non-affiliate customers
- Monitor a sample of Customer Call Center customer calls, both residential and commercial, to determine that the tariffs, discounts, or waivers offered to affiliates or affiliates' customers are the same as those offered to non-affiliate customers

Conclusions

SCE is in compliance with Rule III.B.2.

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. Furthermore, we determined there were no instances during 2002 in which SCE provided affiliates with waivers or discounts. We sampled Customer Call Center calls to gain additional confidence that SCE is complying with the rule.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all EIX employees, describe the requirements of Rule III.B.2 and assign responsibilities for its application. The Finance Division of the SCE Customer Services Business Unit is responsible for reviewing any proposed pricing for offerings, including any proposed discounts and fee waivers. Any pricing plans that might include a discount or waiver to tariffed products and services are reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs and are subject to approval by the Commission. Any discounted pricing proposed for non-tariffed products and services would be subject to Rule III.B criteria discussed above.

Managers representing SCE's Regulatory Policy and Affairs (INT 1) and Customer Services Business Unit (INT 4, INT 13, INT 24 and INT 26) affirmed that their organizations were in compliance with Rule III.B.2 and that employees of those departments were continuously made aware of this and other Rules.

We determined that, during 2002, no discounts or waivers were offered to affiliates. (DR 48, DR 127, DR 129).

In addition, we listened to a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any discounts or waivers being discussed or offered. (DR 153).

If any discounts or waivers to have been offered, they would have been documented by the posting of "Affiliate Discount Reports (3F Reports)" on SCE's Affiliate Notices website entitled [SCE Discounts Offered to Affiliates](#) (**Error! Hyperlink reference not**

Rule III – Nondiscrimination

valid.). No such reports were posted. (DR 53, DR 128). See Section III.F below for more information on “3F” Reports.

CPUC Rule

III.B.3. Tariff Discretion: If a tariff provision allows for discretion in its application, a utility shall apply that tariff provision in the same manner to its affiliates and other market participants and their respective customers.

III.B.4. No Tariff Discretion: If a utility has no discretion in the application of a tariff provision, the utility shall strictly enforce that tariff provision.

Audit Criteria

- SCE applies and enforces all tariffs fairly and provides no preferential treatment to its affiliates or its affiliates’ customers

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Monitor a sample of Customer Call Center calls, both Residential and Commercial & Industrial, to determine that the tariffs offered to affiliates and affiliates’ customers are applied in the same way as those offered to non-affiliate customers

Conclusions

SCE is in compliance with Rule III.B.3 and Rule III.B.4.

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. And we sampled Customer Call Center calls to gain additional confidence that SCE is complying with the rule.

SCE’s Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all EIX employees, describe the requirements of Rules III.B.3 and III.B.4. Furthermore, both documents note that the requirements of these two rules were in effect, and were being carried out, for some time prior to the Commission’s issuance of the Rules in D.97-12-088. Also the documents note that these rules are closely related to other Rules, notably Rule III.A.2, Rule III.B.2, and Rule III.F. CPUC Resolution E-3539, Finding 36 agreed. (DR 3).

CPUC Resolution E-3539, Finding 31, notes that “Rule III.B, which is designed to help prevent discrimination in favor of the affiliates, is inapplicable to tariffed services.”

Managers representing Regulatory Policy and Affairs (INT 1), Customer Communications (INT 4), External Communications (INT 10), Customer Services Business Unit (INT 13), and Major Customer Division (INT 26) all affirmed their organizations were aware of and in compliance with Rule III.B.3 and III.B.4.

Rule III – Nondiscrimination

SCE confirmed for us that in no instances during 2002 did the company fail to meet the requirements of these Rules. (DR 168).

We listened to a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any preferential treatment in application of tariffs being discussed or provided. (DR 153).

CPUC Rule

III.B.5. Processing Requests for Services Provided by the Utility: A utility shall process requests for similar services provided by the utility in the same manner and within the same time for its affiliates and for all other market participants and their respective customers.

Audit Criteria

- SCE processes service requests from all market participants in the same manner and within the same time frame as it does for its affiliates

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Review Customer Information Service Requests (CISR) processing times to assure no preferential treatment was given to affiliates or affiliates' customers and sample actual CISRs to assure processing times have been accurately reflected
- Review SCE's process for handling Direct Access Service Requests (DASR) and affirm that no DASRs were processed in 2002. If DASRs were processed, assure no preferential treatment was given to affiliates or affiliates' customers.

Conclusions

SCE is in compliance with Rule III.B.5.

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. We agree with SCE's assessment that this Rule essentially duplicates the requirements of Rule III.A above. Our review and sampling of certain affiliate transactions under Rule III.A, particularly those having to do with service requests, helped us conclude that SCE is complying with the rule.

The MCP and ATR Manual instruct employees that "SCE will neither claim, nor provide preferential treatment to, its affiliates or its affiliates' customers" and "employees may not give preference to its affiliates or its affiliates' customers when providing utility services". (DR 5).

Rule III – Nondiscrimination

Another means SCE has established to assure compliance is described in a policy and procedure for handling requests for information by outside parties, including affiliates. The policy/procedure was developed by the Pricing and Load Management Department and is entitled "3rd Party Authorizations Policy and Release of Customer Information Procedures". Under this procedure, the turnaround times for handling Customer Information Service Requests (CISRs) are tracked in order to assure that no preference is inappropriately given to affiliates. (DR 49, DR 50, DR 138). CISRs requested by affiliates are also posted to SCE's Affiliate Notices website entitled List of Customer Information Service Requests (www.sce.com/sc3/005_regul_info/005f_affiliatebb/005fl_notice_of_rel/005fla_list_of_cust_info.htm). (DR 51).

Managers representing Customer Communications (INT 4, INT 10), Customer Services Operations (INT 13), and Major Customer Division (INT 26) all affirmed their organizations were in compliance with Rule III.B.5 and that their employees were continuously made aware of this and other Rules.

In evaluating SCE's compliance with Rule III.B.5 (and Rule III.A), we targeted SCE's processing of two kinds service/information requests: Direct Access Service Requests (DASRs) and Customer Information Service Requests (CISRs).

DASRs are the communication vehicle used by an Electric Service Provider (ESP) to notify SCE of a customer's request to initiate, cancel, or modify their Direct Access account. Essentially, Rule III.B.5 (and Rule III.A) says that SCE may not provide preferential treatment to any customer that is obtaining direct access from an SCE affiliate. Such preferential treatment, if it existed, might show up in quicker turnaround times for DASRs sent to SCE by its affiliates compared to other ESPs.

SCE's procedure for DASR handling includes the measurement of the number of days to process the DASR, and comparisons between turnaround times given to affiliates' customers and other customers are easily seen. While this procedure is still in place at SCE, it has not been used since 2001, when the Direct Access program in California was suspended by the Commission. (DR 43, DR 44).

CISRs are the communication vehicle used to obtain/approve release of customer information to a third-party. For example, if a customer retained the services of an energy management firm to help them identify opportunities for energy cost reduction, the customer might, using a CISR, ask SCE to release data about their energy usage amounts and patterns to the third-party energy management firm.

Under Rule III.B.5 (and Rule III.A and Rule III.B.1), SCE would be unable to process such requests more quickly for affiliates or affiliates' customers than for others. SCE's procedure for CISR handling also includes the measurement of the number of days to process the CISR. (DR 50, DR 138). As discussed under Rule III.A above, there were no CISRs in 2002, thus there was no discrimination in favor of affiliates.

Since the sale of Edison Select and its subsidiaries in August 2001 and the sale of G.H.V. Refrigeration, Inc., in October 2001, SCE has processed no CISRs involving

Rule III – Nondiscrimination

affiliates. SCE's Affiliate Notices website, mentioned above, verifies that the most recent affiliate CISR was processed in April 2001. (DR 51). Based on this analysis, we have concluded that no preferential treatment was given to affiliates through the expedited processing of CISRs or DASRs.

CPUC Rule

III.C. Tying of Services Provided by a Utility Prohibited: A utility shall not condition or otherwise tie the provision of any services provided by the utility, nor the availability of discounts of rates or other charges or fees, rebates, or waivers of terms and conditions of any services provided by the utility, to the taking of any goods or services from its affiliates.

Audit Criteria

- The terms, conditions and pricing of SCE services are not conditioned on the use of an affiliate's services

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review billing inserts to determine SCE does not condition its service on taking goods or services from affiliates
- Review a sample of marketing/advertising materials targeted or sent to SCE customers to determine SCE does not condition its service on taking goods or services from affiliates
- Review SCE presentations to large customers to determine SCE does not condition its service on taking goods or services from affiliates
- Sample account manager/account executive journal entries to determine SCE does not condition its service on taking goods or services from affiliates
- Review SCE proposals responding to RFPs from major customers to assure the terms, conditions, and pricing of SCE services are not conditioned on the use of an affiliate's services

Conclusions

SCE is in compliance with Rule III.C.

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. Furthermore, we reviewed and sampled a sufficient number of affiliate transactions to gain confidence that SCE is complying with the rule.

Specific to Rule III.C, SCE's Modified Compliance Plan and its ATR Manual, both easily accessible by EIX employees, describe the prohibition of "tying" services of SCE to those of an affiliate.

Rule III – Nondiscrimination

Managers representing Regulatory Policy and Affairs (INT 1), Customer Communications (INT 4), Customer Services Operations (INT 13), and Major Customer Division (INT 26) all affirmed their organizations were in compliance with Rule III.D and that their employees were aware of this and other Rules.

In evaluating SCE's compliance with Rule III.C, we conducted a variety of reviews to affirm that SCE does not condition or tie provision of its services to the taking of goods or services from an affiliate. Included in the review were 2002 bill inserts, mass market advertisements, presentations to large customers, account manager/executive contacts, and SCE proposals responding to Requests for Proposals (RFP) from major customers.

Billing Inserts & Advertisements

We reviewed all 34 billing inserts mailed to both commercial and residential customers during 2002. (DR 41). And we examined all mass market advertisements sponsored by either SCE or its affiliates during 2002. (DR 39). The advertisements included 19 print ads, 16 audio spots, 10 video spots and 4 billboard messages. Except for one print ad sponsored by EO&MS, all other items were sponsored by SCE. In none of the inserts or advertisements did we see any evidence of SCE tying terms, conditions, or pricing to the taking of services from an affiliate.

Large and Industrial Account Interaction

In addition to the mass market channels discussed above, we also reviewed materials relating to SCE's channels to the industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for, or used for, customer updates during 2002. We evaluated a total of 24 presentations which had been given to customers by SCE Account Managers and Account Executives. (DR 40; DR 141).

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 142). These notes provided us some indication of the nature of, and topics discussed in, meetings held with large customers in 2002. We randomly sampled about 15% of the notes created by Account Managers/Executives during 2002.

We asked SCE to provide us a list of Requests for Proposals for energy services or products that were sent to SCE by any of its major customers in 2002, and to indicate which, if any, resulted in an SCE proposal. Only one proposal was so offered by SCE, a proposal for privatization of a small electric distribution system. We also reviewed this proposal. (DR 143).

Neither the presentations to large customers nor the sample of diary notes nor the SCE proposal for privatization provided any evidence of SCE tying terms, conditions, or pricing to the taking of services from an affiliate.

Rule III – Nondiscrimination

Furthermore, in evaluating SCE’s compliance with Rule III.C, we specifically asked SCE to identify for us any instances where SCE tied its products/services to a customer’s use of an affiliate’s products/services. There were none identified for 2002. (DR 45).

CPUC Rule

III.D. No Assignment of Customers: A utility shall not assign customers to which it currently provides services to any of its affiliates, whether by default, direct assignment, options or by any other means, unless that means is equally available to all competitors.

Audit Criteria

- SCE customers are not directed to be served by an affiliate

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Determine that SCE has not assigned its customers to affiliates

Conclusions

SCE is in compliance with Rule III.D.

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. And we concluded that SCE has not assigned customers to any provider in 2002.

SCE’s Modified Compliance Plan and its ATR Manual, both easily accessible by EIX employees, describe Rule III.D’s prohibition of “assigning” customers of SCE to those of an affiliate.

Managers representing Regulatory Policy and Affairs (INT 1), Customer Communications (INT 4), Customer Services Operations (INT 13), and Major Customer Division (INT 26) all affirmed their organizations were in compliance with Rule III.D and that their employees were aware of this and other Rules.

In evaluating SCE’s compliance with Rule III.D, we could identify no instances in 2002 where SCE assigned its customers to affiliates. (DR 46).

CPUC Rule

III.E. Business Development and Customer Relations: Except as otherwise provided by these Rules, a utility shall not:

- III.E.1. provide leads to its affiliates;
- III.E.2. solicit business on behalf of its affiliates;
- III.E.3. acquire information on behalf of or to provide to its affiliates;
- III.E.4. share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates’

Rule III – Nondiscrimination

- III.E.5. request authorization from its customers to pass on customer information exclusively to its affiliates;
- III.E.6. give the appearance that the utility speaks on behalf of its affiliates or that the customer will receive preferential treatment as a consequence of conducting business with the affiliate; or
- III.E.7. give any appearance that the affiliate speaks on behalf of the utility.

Audit Criteria

- SCE does not provide leads to its affiliates or solicit business on behalf of its affiliates (III.E.1, E.2)
- SCE does not acquire information for affiliates, share proprietary or non-public information with affiliates, or request its customers to authorize release of customer information exclusively to affiliates (III.E.3, E.4, E.5)
- SCE does not give any appearance that the utility speaks on behalf of affiliates or give any appearance that the affiliate speaks on behalf of SCE (III.E.6, III.E.7)

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Sample/monitor Customer Call Center calls from both residential and commercial customers to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment; and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review billing inserts to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment; and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review marketing/advertising materials of both SCE and affiliates to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment; and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review SCE presentations to large industrial customers to determine (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment; and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Sample account manager/account executive journal entries contained in Major Customer Division's contact management system to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment; and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review SCE proposals responding to RFPs from major customers to assure business is not being solicited on behalf of affiliates, or that SCE speaks on behalf of affiliates

Rule III – Nondiscrimination

- Review R&D Projects and EPRI target purchases and usage to assure that proprietary information was not shared with affiliates

Conclusions

SCE is in compliance with Rules III.E.1, III.E.2, III.E.3, III.E.4, III.E.5, III.E.6, and III.E.7.

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. SCE uses appropriate procedural controls for this rule and monitors compliance. Furthermore, we reviewed and sampled a wide range of affiliate transactions to gain confidence that SCE is complying with the rule.

SCE's Modified Compliance Plan (MCP) and its ATR Manual, both easily accessible by EIX employees, describe the requirements of Rule III.E. The ATR is particularly relevant.

For Rules III.E.1 and III.E.2, SCE reiterates its strict policy prohibiting employees from giving leads to affiliates, providing affiliates' phone numbers/addresses (even when specifically requested by a customer), or encouraging/suggesting that customers consider purchasing goods and services from affiliates. We believe SCE properly interprets Rule III.E.1 in that it does not apply to third parties who are not customers requesting information and (e.g., regulatory or governmental agencies).

Similarly, for Rule III.E.3, SCE expresses the appropriate prohibition to employees and notes that the Rule should not apply to the acquisition and exchange of information necessary to perform corporate support functions authorized by Rule V.E.

Rule III.E.4 and Rule IV.B are closely related. SCE implements these rules by generally just prohibiting the sharing of market analysis or other types of proprietary or non-publicly available reports. Where the sharing of such information is allowed, the requirements of Rule IV.B would prevail. That is, notice must be given to the market that the sharing has occurred. Any such shared information would be posted on SCE's Affiliate Notices website entitled Non-Customer Specific, Non-Public Information Offered to Affiliates (www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f4_noncust_spec.htm). (DR 52, DR 53).

Rule III.E.5 is related to Rules V.F.1 and V.F.4, which prohibit SCE from trading upon, promoting, or advertising its affiliates' relationship with SCE, and which prohibit joint advertising or marketing. The Rule III.E.5 prohibition against asking a customer for permission to pass customer information to affiliates is simply an extension of the other two rules.

For Rules III.E.6 and III.E.7, SCE clearly prohibits all conflicts of interest and the appearance of conflict of interest. SCE employees are specifically instructed to not serve in a representative capacity on behalf of affiliates.

Rule III – Nondiscrimination

Managers representing Regulatory Policy and Affairs (INT 1), Customer Communications (INT 4), External Communications (INT 10), Strategic Communications (INT 10), Research, Development and Demonstration (INT 16), Customer Services Operations (INT 13) and Major Customer Division (INT 26) all affirmed their organizations were in compliance with Rule III.E and its sub-parts and that their employees were aware of this and other Rules.

In evaluating SCE's compliance with Rule III.E and its sub-parts, we conducted a variety of data reviews to affirm that SCE does not develop business for affiliates, acquire/provide information from its customers or from proprietary sources for its affiliates, or give the appearance that SCE speaks on behalf of affiliates, or vice-versa. Included in the year 2002 data samples were customer calls, bill inserts, mass market advertisements, presentations to large customers, account manager/account executive contacts, SCE proposals responding to Requests for Proposals (RFP) from major customers, and EPRI research products. The results of our review are described below.

Customer Call Centers

We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any business being solicited on behalf of an affiliate, any appearance that SCE was speaking on behalf of affiliates, or any appearance that the an affiliate speaks on behalf of SCE. (DR 153).

Billing Inserts & Advertisements

We reviewed all 34 billing inserts mailed to both commercial and residential customers during 2002. (DR 41). And we examined all mass market advertisements sponsored by either SCE or its affiliates during 2002. (DR 39). The advertisements included 19 print ads, 16 audio spots, 10 video spots and 4 billboard messages. Except for one print ad sponsored by EO&MS, all other items were sponsored by SCE. In none of the inserts or advertisements did we see any evidence that business was being solicited on behalf of an affiliate(s), any appearance that SCE was speaking on behalf of affiliates, or any appearance that the an affiliate speaks on behalf of SCE.

Large and Industrial Account Interaction

In addition to the mass market channels discussed above, we also reviewed materials relating to SCE's channels to the industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for, or used for, customer updates during 2002. We evaluated a total of 24 presentations which had been given to customers and which provided good examples for future presentations by SCE Account Managers and Account Executives. (DR 40; DR 141).

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 142). These

Rule III – Nondiscrimination

notes provided us some indication of the nature of, and topics discussed in, meetings held with large customers in 2002. We randomly sampled about 15% of the diary notes created by Account Managers/Executives during 2002.

We asked SCE to provide us a list of Requests for Proposal for energy services or products that were sent to SCE by any of its major customers in 2002, and to indicate which, if any, resulted in an SCE proposal. Only one proposal was so offered by SCE, a proposal for privatization of a small electric distribution system. We also reviewed this proposal. (DR 143).

We found no evidence in the presentations to large customers, the sample of diary notes, or the SCE proposal for privatization that SCE solicited business on behalf of an affiliate, spoke on behalf of an affiliate, or made it appear that an affiliate spoke on behalf of SCE.

EPRI and R&D

SCE is a member of the Electric Power Research Institute (EPRI). Through that membership, SCE pays for, and is able to selectively choose to have copies of, a large amount of EPRI research information. We evaluated the availability of these research information 'deliverables' to affiliates in 2002. Some of the EPRI deliverables describe state-of-the-art approaches to utility operations and maintenance, and might contain information valuable for affiliate business development. We confirmed that none of the EPRI research products had been made available for use by affiliates. (DR 167, DR 92, DR 93, INT 16).

In our review of 2002 Intercompany Service Requests (ISRs), we noted no instances where SCE employees performed business development-related work for Class A affiliates. (DR 66)

Finally, we determined there were no instances where SCE had provided leads to affiliates, solicited business for affiliates, acquired information for affiliates, shared proprietary or non-publicly available information with affiliates, or requested authorization from its customers to pass information exclusively to affiliates. (DR 166, DR 47). And we verified there were no instances in 2002 where SCE had given any appearance that it spoke for an affiliate, or that one of the affiliates spoke for SCE. (DR 152).

CPUC Rule

III.F. Affiliate Discount Reports: If a utility provides its affiliates a discount, rebate, or other waiver of any charge or fee associated with services provided by the utility, the utility shall, within 24 hours of the time at which the service provided by the utility is so provided, post a notice on its electronic bulletin board providing the following information:

1. the name of the affiliate involved in the transaction;
2. the rate charged;
3. the maximum rate;
4. the time period for which the discount or waiver applies;
5. the quantities involved in the transaction;

Rule III – Nondiscrimination

6. the delivery points involved in the transaction;
7. any conditions or requirements applicable to the discount or waiver, and a documentation of the cost differential underlying the discount as required in Rule III B 2 above; and
8. procedures by which a nonaffiliated entity may request a comparable offer.

A utility that provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee associated with services provided by the utility shall maintain, for each billing period, the following information:

9. the name of the entity being provided services provided by the utility in the transaction;
10. the affiliate's role in the transaction (i.e., shipper, marketer, supplier, seller);
11. the duration of the discount or waiver;
12. the maximum rate;
13. the rate or fee actually charged during the billing period; and
14. the quantity of products or services scheduled at the discounted rate during the billing period for each delivery point.

All records maintained pursuant to this provision shall also conform to FERC rules where applicable.

Audit Criteria

- If it offered a discount, waiver, or rebate to any of its affiliates, SCE posted notice such within 24 hours and maintained the prescribed billing information for each billing period

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review instances where affiliates were offered discounts, waivers, or rebates
- Determine, in such instances, if notices were posted to SCE's electronic bulletin board

Conclusions

SCE is in compliance with Rule III.F

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. Furthermore, we determined there were no instances during 2002 in which SCE provided affiliates discounts, waivers, or rebates.

SCE's Modified Compliance Plan (MCP) and its ATR Manual, both of which are available to all EIX employees, clearly describe the requirements of Rule III.F. As noted in Rule III.B.2 above, the Finance Division of the SCE Customer Services Business Unit is responsible for reviewing any proposed pricing for offerings, including any proposed discounts and fee waivers. Any pricing plans that might include a discount or waiver to tariffed products and services must be reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs and are subject to approval by the Commission. Any proposals for discounted non-tariffed products and services would be subject first to Rule III.B.2 criteria, and then Rule III.F.

Rule III – Nondiscrimination

Managers representing Regulatory Policy and Affairs (INT 1), Customer Communications (INT 4), Customer Services Operations (INT 13) and Major Customer Division (INT 24, INT 26) affirmed that their organizations were in compliance with Rule III.F and that employees of those departments were aware of this and other Rules.

We determined that, during 2002, SCE offered no discounts, waivers or rebates to affiliates. (DR 48, DR 127, DR 129).

Were any discounts or waivers to have been offered, they would have been documented by the posting of “Affiliate Discount Reports (3F Reports)” on SCE’s Affiliate Notices website entitled [SCE Discounts Offered to Affiliates \(www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f3_discounts.htm\)](http://www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f3_discounts.htm). No such reports were posted. (DR 53, DR 128).

Rule IV – Disclosure and Information

CPUC Rule

IV.A. Customer Information – A utility shall provide customer information to its affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior affirmative customer written consent.

Audit Criteria

- SCE does not discriminate in providing customer information to affiliates and non-affiliates. Such information is only provided with the customer's written consent

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review SCE's process for authorizing and supplying customer information to affiliates and non-affiliates to determine that affiliates are not given preferences. Determine that: (1) the customer has given written, affirmative consent to the release of information and (2) the information is made available, subject to the customer's authorization, to both affiliates and their competitors.
- Review a sample of Customer Information Service Request (CISR) forms associated with affiliate and non-affiliate customer information requests
- Review CISR postings to determine that notices have been posted to the SCE Affiliate Notices website whenever SCE receives CISR forms authorizing release of customer information to a Class A affiliate

Conclusions

SCE is in compliance with Rule IV.A.

SCE's uses an effective process to comply with the requirements of this Rule. Our review of data associated with the Rule showed no evidence of instances of non-compliance.

"3rd Party Authorizations Policy and Release of Customer Information Procedures" (December 12, 2002) is SCE's procedure covering Rule IV.A. It provides detailed instructions covering the Customer Information Standardized Request (CISR-S) form – the mechanism by which third parties obtain SCE customer information. Customers are required to give written, affirmative consent on a CISR-S form before their information is released. SCE's Customer Services Business Unit – Pricing and Load Management Group – is responsible for administering this process. (DR 49).

The Modified Compliance Plan (MCP) and Affiliate Transaction Rule (ATR) Manual also describe procedural requirements related to Rule IV.A. (DR 1, DR 5). Both describe the role of the Affiliate Compliance Organization in deciding upon the release of customer information to a Class A affiliate. In such an event, after the receipt of a customer's written authorization, the Affiliate Compliance Organization arranges for the posting of a notice on SCE's Affiliate Notices website, called the List of Customer Information

Rule IV – Disclosure and Information

Service Requests (www.sce.com/sc3/005_regul_info/005f_affiliatebb/005fl_notice_of_rel/005fla_list_of_cust_info.htm). (DR 51).

As discussed earlier in Sections III.A, III.B.1 and III.B.5, another way SCE ensures there is no preference given to affiliates with regard to customer information is through the tracking of turnaround times for handling CISRs. (DR 50, DR 138).

There were no CISR forms relating to affiliates processed in 2002. Edison International subsidiaries no longer have non-regulated retail operations in California since the sale of Edison Select and its subsidiaries in August 2001 and the sale of G.H.V. Refrigeration, Inc., in October 2001. SCE has processed no CISRs involving affiliates. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 51, DR 53).

Managers representing Customer Communications (INT 4, INT 10), Customer Services Operations (INT 13) and Major Customer Division (INT 26) all affirmed their organizations were in compliance with Rule IV.A and that their employees were continuously made aware of this and other Rules.

SCE's procedure and associated forms for dealing with the release of customer information have changed over the past few years. However, the MCP and ATR Manual have not been updated to reflect these changes. The text in both the MCP and the ATR Manual still refers to older CISR and CISR-B forms and not the newer CISR-S form. While this has not impacted SCE's compliance with Rule IV.A, it is administrative oversight should be corrected.

Recommendations

3. Update text in SCE's next compliance plan and next revision of the ATR Manual to reflect new CISR-S protocols. Update references and descriptions to cover CISR-S forms.

CPUC Rule

IV.B. Non-Customer Specific Non-Public Information – A utility shall make non-customer specific non-public information, including but not limited to information about a utility's natural gas or electricity purchases, sales, or operations or about the utility's gas-related goods or services, electricity-related goods or services, available to the utility's affiliates only if the utility makes that information contemporaneously available to all other service providers on the same terms and conditions, and keeps the information open to public inspection. Unless otherwise provided by these Rules, a utility continues to be bound by all Commission-adopted pricing and reporting guidelines for such transactions. Utilities are also permitted to exchange proprietary information on an exclusive basis with their affiliates, provided the utility follows all Commission-adopted pricing and reporting guidelines for such transactions, and it is necessary to exchange this information in the provision of the corporate support services permitted by Rule V E below. The affiliate's use of such proprietary information is limited to use in conjunction with the permitted corporate support services, and is not permitted for any other use. Nothing in this Rule precludes the exchange of information pursuant to D.97-10-031.

Rule IV – Disclosure and Information

Audit Criteria

- Non-customer, non-public information is made available to affiliates and non-affiliates on the same terms and conditions. Any such information made available must be open for public inspection.

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review instances where requests for non-customer, non-public information were made available to affiliates, and then determine if equal access was given to non-affiliates
- Determine that notices of the transfer to affiliates of non-customer, non-public information have been posted to SCE's Affiliate Notices website

Conclusions

SCE is in compliance with Rule IV.B.

SCE effectively communicates the requirements of this Rule to employees and management of both the utility and its affiliates. Furthermore, we determined there were no instances during 2002 in which SCE provided affiliates with non-customer, non-public information.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all EIX employees, describe the requirements of Rule IV.B. (DR 1, DR 5). Both documents clearly note the restrictions on sharing of non-customer specific, non-public information. Notice of any such offerings is required to be given to the market in which the affiliate operates by posting a "Provision of Non-Customer Specific, Non-Public Information (4B Report)" on SCE's Affiliate Notices website (www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f4_noncust_spec.htm). (DR 53, DR 52).

Managers representing Regulatory Policy and Affairs (INT 1) and Energy Supply and Management (INT 19, INT 22) affirmed that their organizations were in compliance with Rule IV.B and that employees of those departments were well aware of the requirements of this Rule.

We found no instances in 2002 where SCE made non-customer specific, non-public information available to affiliates. (DR 52). We also verified that no "4B Reports" were posted to the SCE Affiliate Notices website. (DR 52, DR 53).

Rule IV – Disclosure and Information

CPUC Rule

IV.C. Service Provider Information:

IV.C.1 Except upon request by a customer or as otherwise authorized by the Commission, or approved by another governmental body, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities. A utility shall submit lists approved by other governmental bodies in the first semi-annual advice letter filing referenced in Rule IV.C.2 following such approval, but may provide customers with such lists pending action on the advice letter.

IV.C.2 If a customer requests information about any affiliated service provider, the utility shall provide a list of all providers of gas-related, electricity-related, or other utility-related goods and services operating in its service territory, including its affiliates. The Commission shall authorize, by semi-annual utility advice letter filing, and either the utility, the Commission, or a Commission-authorized third party provider shall maintain on file with the Commission a copy of the most updated lists of service providers which have been created to disseminate to a customer upon a customer's request. Any service provider may request that it be included on such list, and, barring Commission direction, the utility shall honor such request. Where maintenance of such list would be unduly burdensome due to the number of service providers, subject to Commission approval by advice letter filing, the utility shall direct the customer to a generally available listing of service providers (e.g., Yellow Pages). In such cases, no list shall be provided. If there is no Commission-authorized list available, utilities may refer customers to a generally available listing of service providers (e.g., the Yellow Pages). The list of service providers should make clear that the Commission does not guarantee the financial stability or service quality of the service providers listed by the act of approving this list.

Audit Criteria

- SCE maintains a process by which vendors may request to be added to an SCE-maintained list of service providers
- SCE files a semi-annual advice letter with the Commission which includes the SCE-maintained list of service providers
- When a customer requests information about affiliated service providers, SCE either (1) provides the SCE-maintained list as approved by the Commission or (2) directs the customer to “generally available” lists or to the Internet
- When a customer requests information about non-affiliated service providers, SCE provides only lists that have been approved by the Commission or other government bodies

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Review SCE's process for handling service provider self-nominations for lists to assure that the requirements of Rule IV.C.2 are met
- Note that SCE files semi-annual advice letters related to these Rules
- Review all service provider lists to assure appropriate disclaimers are included
- Determine how SCE resolves customer questions and requests for recommendations for providers of electricity-related or other utility related goods and services, including SCE affiliates
- Monitor actual customer conversations with SCE Customer Call Center representatives to determine that requests for service provider lists are handled appropriately

Rule IV – Disclosure and Information

- Review billing inserts and marketing/advertising materials to determine that requests for service provider lists are handled appropriately
- Review SCE presentations to major customers and account manager/account executive journal entries documenting meetings with major customers to determine that requests for service provider lists are handled appropriately

Conclusions

SCE is in compliance with Rule IV.C.

SCE has established formal mechanisms to manage service provider lists. The Modified Compliance Plan (MCP) with its CP-02 Update (DR 1) and the Affiliate Transaction Rule (ATR) Manual (DR 5) describe the policies, procedures, and types of service provider lists SCE uses to meet the requirements of Rule IV.C. The necessary Advice Letters documenting the same have been submitted to the Commission for approval. (DR 21).

SCE must follow strict guidelines covering information it gives out to customers who request the name of qualified vendors and service providers. There are several types of lists, including:

For customers requesting information about affiliated service providers:

- Self-nominated service provider list
- Generally available service provider list

For customers requesting information about non-affiliated vendors or service providers:

- Focused lists of vendors not related to energy efficiency
- Focused lists of vendors of energy efficiency and self-generation products
- Government approved lists of service providers

Self-nominated service provider list

Rule IV.C.2 requires SCE to maintain a list of service providers, all of whom have requested to be included on the list through a process called self-nomination. Such requests are mailed or transmitted via e-mail to SCE, as specified by the Affiliate Notices website “Service Provider Lists” (www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f5_serv_prov/default.htm). (DR 23, DR 53). We found the entire process well documented on the website, in the MCP/CP02, ATR Manual, and ten Advice Letters to the Commission (dating from October 1998 to December 2002). (DR 1, DR 5, DR 21).

As required by Rule IV.C.2, SCE submitted the following two Advice Letters to the Commission during 2002:

- Advice Letter 1491-E-D, “Semi-Annual Filing Regarding Service Provider Lists Pursuant to Affiliate Transaction Rule IV.C.2”, dated June 20, 2002.

Rule IV – Disclosure and Information

- Advice Letter 1491-E-E, “Semi-Annual Filing Regarding Service Provider Lists Pursuant to Affiliate Transaction Rule IV.C.2”, dated December 18, 2002. (DR 21)

Before 2002, no contractors had requested to be included on SCE’s list of service providers. As part of its required submission for approval, SCE’s Semi-Annual Filing Regarding Service Provider Lists (Advice Letter 1491-E-E), notice was provided to the Commission that SCE’s first instance of a self-nomination had been received in late 2002. The advice letter request for approval of this semi-annual update included this “list of one”. The list is included in Appendix F of the Letter. SCE was concerned that a list of just one contractor might create a false impression that this single contractor is the only one endorsed by SCE or the Commission (notwithstanding disclaimers noting that no endorsement is implied). For that reason, SCE requested authority in its December 2002 advice letter to continue referring customers to “generally available” lists of providers. (DR 21). We concur with this request.

Generally available service provider list

Never before having a self-nominated provider to use for its list of service providers, SCE has instead, for nearly five years, opted to follow the part of the Rule that allows it to alternately furnish customers with referrals to “generally-available” lists of providers, like the Yellow Pages or Internet keyword search websites. In its December 18, 2002 request, SCE asks the Commission to allow continuation of this practice.

Focused lists of vendors (not related to energy efficiency)

In approving Advice Letters 1342-E-B and 1450-E, the Commission authorized SCE to resume distribution of “focused lists” of non-affiliated service providers and “government-approved lists” to customers requesting them. Focused lists cover providers of specific goods (e.g., food service equipment vendors, uninterruptible power suppliers, etc.) and of services (e.g., contractors that perform underground construction and sub-station work). (DR 22). Additional and updated focused lists have been submitted to the Commission for approval in Advice Letters 1491-E, 1491-E-A, 1491-E-B, 1491-E-C, 1491-E-D, and 1491-E-E. Unless they relate to energy-efficiency or self-generation products, these lists are not yet being distributed since they have not been approved by the Commission.

Focused lists of energy efficiency and self-generation products

In general, it is SCE’s policy not to distribute focused lists to customers when the Commission has not given their approval. During the energy crisis, an exception was made when focused lists of vendors providing equipment for load reduction and backup generation were given to customers. In every such case going back to Advice 1491-E-A in March 2001, SCE has informed the Commission of its intent to make these distributions. The Commission has yet to comment on this practice.

Rule IV – Disclosure and Information

Government-approved lists of service providers

The two government-approved lists approved by the Commission are: (1) Electric Service Providers (ESPs) registered with the CPUC and listed on the Commission website (www.cpuc.ca.gov/published/ESP_Lists/esp_udc.htm); and (2) Suppliers of Water-Based Cleaning Materials and/or Equipment as approved by the South Coast Air Quality Management District. (DR 24).

We reviewed all focused lists of non-affiliated suppliers and the “list of one” provided in the most recent Advice Letter to determine if appropriate disclaimers had been used. In every case, all list contained appropriate disclaimers. (DR 21).

During interviews, managers representing Regulatory Policy and Affairs (INT 1), Customer Communications (INT 4), Customer Service Operations (INT 13) and Major Customer Division (INT 24, INT 26) affirmed that their organizations were in compliance with Rule IV.C and that employees of those departments were well aware of the requirements of the Rule.

We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls did we note any lists being requested or provided to customers. (DR 153).

We reviewed all 34 billing inserts mailed to both commercial and residential customers during 2002. (DR 41). We examined all mass market advertisements sponsored by either SCE or its affiliates during 2002. (DR 39). In no instance did we see any evidence of lists being provided.

We also reviewed materials relating to major customers. SCE’s Major Customer Division provided us access to all presentations used for customer updates during 2002. (DR 40; DR 141). We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 142). These notes document meetings held with large customers in 2002. Nothing in the presentations or the sample of diary notes indicated that lists of service providers had been provided to major customers.

CPUC Rule

IV.D. Supplier Information: A utility may provide non-public information and data which has been received from unaffiliated suppliers to its affiliates or non-affiliated entities only if the utility first obtains written affirmative authorization to do so from the supplier. A utility shall not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.

Audit Criteria

- Non-public information SCE receives from unaffiliated suppliers is only provided to affiliates after receiving written authorization from the supplier

Rule IV – Disclosure and Information

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Identify instances where non-public information and data from unaffiliated suppliers was provided by SCE to affiliates or non-affiliates
- In any such instances determine that the supplier provided written authorization for the release of this information

Conclusions

SCE is in compliance with Rule IV.D.

SCE effectively communicates the requirements of this Rule to employees and management. Furthermore, we determined that appropriate authorizations were received in every instance where non-public information from unaffiliated suppliers was provided to affiliates.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all EIX employees, describe the requirements of Rule IV.D. (DR 1, DR 5). Both documents clearly note the prior authorization requirements for releasing supplier information. The SCE Procurement and Materials Management Department (PAMM) is designated to obtain such authorizations and keep them on file. PAMM documents this requirement in its Joint Procurement Acquisition Process Guideline. (DR 139, DR 54, DR 87).

Managers representing Regulatory Policy and Affairs and Procurement and Materials Management confirmed for us that their organizations follow these procedures, comply with Rule IV.D, and ensure their employees are continuously reminded of the Rule's requirements. (INT 8, INT 12).

Eight new joint purchases were awarded in 2002. All of these took the form of Joint Negotiations with Separate [Affiliate] Contracts (see Rule V.D). These eight purchases were related to six Requests for Proposals (RFP) (three awards were associated with one of the Requests for Proposals). Three other RFPs were contemplated, but did not become joint procurements. A total of 35 companies responded to these RFPs. (DR 55, DR 84)

For each of the 35 companies, we physically inspected the available records. In every case, we found that written authorization to share supplier information with affiliates had been obtained. (DR 55).

Rule IV – Disclosure and Information

CPUC Rule

IV.E. Affiliate-Related Advice or Assistance: Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers.

Audit Criteria

- SCE does not offer or provide advice or assistance to its customers regarding its affiliates or non-affiliates

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Monitor actual customer conversations with SCE Customer Call Center representatives to determine that SCE does not offer or provide advice or assistance to its customers regarding affiliates or other service providers
- Review SCE presentations to major customers to assure no advice or assistance was offered or given regarding affiliates or other service providers
- Sample account manager/account executive journal entries to determine that no advice or assistance was offered or given regarding affiliates or other service providers

Conclusions

SCE is in compliance with Rule IV.E.

Our review concluded that SCE effectively communicates the requirements of Rule IV.E to employees and management. Both the Modified Compliance Plan (MCP) and the Affiliate Transaction Rule (ATR) Manual describe SCE's prohibition against providing advice and assistance regarding affiliates or other service providers. (DR 1, DR 5). SCE confirmed its policy against providing advice or assistance regarding specific energy service providers. (DR 131).

In Decision 99-05-034, the Commission clarified its interpretation of Rule IV.E as it relates to responses to customers complaining to SCE about their chosen Energy Service Provider (ESP). (DR 3). In such cases, SCE may direct the customer to phone the ESP and may provide the ESP's phone number only if the customer is having a problem with his/her ESP. If the caller is not having a problem with his/her ESP, but just seeking information, SCE may not provide that information.

During interviews, managers representing Regulatory Policy and Affairs (INT 1), Customer Communications (INT 4), Customer Services Operations (INT 13) and Major Customer Division (INT 24 and INT 26) affirmed that their organizations were in compliance with Rule IV.E and that employees of those departments were well aware of the requirements of the Rule.

Rule IV – Disclosure and Information

We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls did we note advice or assistance given regarding affiliates or other service providers. (DR 153).

We also reviewed materials relating to the industrial customer markets. SCE's Major Customer Division provided us access to all presentations used in customer updates during 2002. (DR 40; DR 141). We sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 142). These notes document meetings held with large customers in 2002.

Nothing in the presentations or the sample of diary notes indicated that any advice or assistance was given to major customers regarding affiliates or other service providers.

CPUC Rules

IV.F. Record-Keeping: A utility shall maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates, including but not limited to, all waivers of tariff or contract provisions and all discounts. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. The utility shall make such records available for third party review upon 72 hours' notice, or at a time mutually agreeable to the utility and third party.

If D.97-06-110 is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 request for confidentiality within 24 hours of service.

IV.G. Maintenance of Affiliate Contracts and Related Bids: A utility shall maintain a record of all contracts and related bids for the provision of work, products or services to and from the utility to its affiliates for no less than a period of three years, and longer if this Commission or another government agency so requires.

Audit Criteria

- SCE maintains a record of all contracts and bids for work, products and services to/from the utility to affiliates for no less than three years
- SCE maintains contemporaneous records of all tariffed and non-tariffed transactions with affiliates. This information is maintained for at least three years and is kept in such a manner as to be produced quickly

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Sample service agreements, contracts, and bid documents between SCE and affiliates to determine that records are maintained for at least three years
- Review requests for affiliate transaction information to ensure they were fulfilled within the 72-hour deadline
- Sample affiliate transactions to determine that they have been properly recorded in SCE's accounting records

Rule IV – Disclosure and Information

Conclusions

SCE is in compliance with Rules IV.F and IV.G.

Our review concluded that SCE effectively communicates the requirements of Rules IV.F and IV.G to its employees and managers. Procedural guidance regarding recordkeeping is readily available. Samples of service agreements, contracts, bids, joint purchases and transaction records resulted in our concluding that SCE maintains such records for three years or more.

The Modified Compliance Plan (MCP) and Affiliate Transaction Rule (ATR) Manual fully describe the requirements of Rules IV.F and IV.G. (DR 1, DR 5). Business units of SCE that conduct transactions with affiliates must maintain the associated records for three years. They are required to forward such documentation (or summaries of it) to the Affiliate Compliance Organization annually. Requests by third parties for affiliate transaction information which invoke the 72-hour requirements of Rule IV.F are coordinated by the Affiliate Compliance Organization.

Additional procedural guidance for record keeping is provided in manuals of the Procurement and Materials Management (PAMM). (DR 54, DR 87, DR 140). We did note however, that the PAMM's "Affiliate Transaction Resource Manual" has not been updated to include the latest versions of the ATR Manual or the Affiliate Transactions Compliance Plan. Tab 4 of the PAMM manual includes selected portions of the PROACT manual dated March 16, 1999, the ATR Manual's predecessor. Also, Tabs 11-21 of the PAMM manual contain portions of SCE's Revised Affiliate Transaction Compliance Plan (RCP) filed with the Commission as Advice Letter 1278-E-B on October 17, 1998. We believe the PAMM manual should be updated to reflect the latest versions of the ATR Manual and Compliance Plan (MCP/CP02).

Managers and employees representing Regulatory Policy and Affairs (INT 1), Procurement and Materials Management Department (INT 8, INT 12), Controller's (INT 15) and Human Resources (INT 14) affirmed that their organizations were in compliance with Rules IV.F and IV.G, and that employees of their departments were well aware of these Rules.

SCE verified for us that during 2002 there were no requests to provide affiliate transaction information that would be covered under the 72-hour requirements of Rule IV.F. (DR 58).

To verify that SCE maintains records of contracts and related bids for work between SCE and affiliates we conducted a sampling exercise. We randomly selected 10 to 20 percent of the joint purchases, service agreements/contracts, and bids listed in responses to document requests from the 2002, 2001 and 2000 Affiliate Transaction Audits. The following items were sampled:

- Five joint purchase contracts (DR 84, 2001 NSDR 30, 2000 NSDR 30)

Rule IV – Disclosure and Information

- Bids for two SCE purchase orders which included bids from affiliates (DR 85, DR 59)
- Two QF and QF-related service agreements/contracts (DR 10, DR 96, 2001 NSDR 9, 2000 NSDR 9)
- Two contracts between Edison ESI and affiliates (DR 10, 2001 NSDR 9, 2000 NSDR 9)
- One contract with EO&MS (DR 10, 2001 NSDR 9)
- Two office leases/subleases (DR 10, 2001 NSDR 9, 2000 NSDR 9)

For each of the selected items, we physically inspected the available records. In every case, we found documentation to be complete and we were therefore able to conclude that the 3-year records maintenance requirements of Rule IV.G were being met.

With regard to record keeping requirements for waivers, discounts, or price concessions offered or given to affiliates, we determined that no such waivers, discounts, or price concessions were offered or given in 2002. Thus, there was no documentation to review. (DR 48, DR 127, DR 128).

We reviewed a sample of intercompany billings and noted that SCE charges to affiliates for corporate support were ultimately recorded to intercompany receivable and payable accounts, as shown in the general ledger summary trial balance. (DR 162) This is an indication of the contemporaneous maintenance of affiliate transaction records.

Recommendations

4. Update the PAMM Affiliate Transaction Resource Manual to reflect latest versions of SCE's Compliance Plan (MCP/CP02) and the Affiliate Transaction Rule (ATR) Manual. The Procurement and Materials Management Department's Affiliate Transaction Resource Manual contains out-of-date excerpts from both the Compliance Plan and the ATR Manual. It should be brought up-to-date and steps should be taken by PAMM to assure future updates are promptly incorporated.

CPUC Rule

IV.H. FERC Reporting Requirements: To the extent that reporting rules imposed by the FERC require more detailed information or more expeditious reporting, nothing in these Rules shall be construed as modifying the FERC rules.

Audit Criteria

- SCE has not used the ATR to modify more detailed FERC recordkeeping and reporting requirements

Audit Steps

- Assess whether SCE has taken appropriate steps to assure that their plan for meeting the ATR does not modify FERC rules

Rule IV – Disclosure and Information

Conclusions

SCE is in compliance with Rule IV.H.

We found no instances where SCE's implementation of ATR was in conflict with FERC standards for recordkeeping and reporting. SCE has analyzed the requirements of the ATR and FERC in the development of the ATR Manual. Both sets of rules are listed in the Manual (ATR - Chapter 18, FERC Standards – Chapter 19). The Manual effectively delineates SCE's recordkeeping and reporting requirements. (DR 5, INT 1).

During review of these materials, we discovered no instances in which SCE's procedural response to the ATR modified FERC's requirements. Furthermore, Resolution E-3539 confirmed that Rule IV.H is not at issue. (DR 1, DR 3, DR 5).

Rule V – Separation

CPUC Rule

V. Separation

V.A. Corporate Entities: A utility and its affiliates shall be separate corporate entities.

Audit Criteria

- SCE and its affiliates are organized as separate corporate entities

Audit Steps

- Examine incorporation papers evidencing that SCE and its affiliate are separate corporate entities

Conclusions

SCE is in compliance with Rule V.A.

Each of SCE's principal affiliates is a separate corporation, limited liability company or trust. We determined this by examining the articles of incorporation for SCE and its affiliates, including the following:

- Edison Capital/Edison Mission First Financial (September 1988)
- Edison Enterprises (June 1997)
- Edison Insurance Services (September 1997)
- Edison Mission Energy (August 2001)
- Edison O&M Services (August 1999)
- Edison TransEnergy (August 1996)
- EIX (May 1996)
- Mission Energy Holding Company (June 2001)
- Mission Horizons (September 1987)
- Mission Land Company (March 1987)
- The Mission Group (September 1988) (DR 62)

CPUC Rule

V.B. Books and Records: A utility and its affiliates shall keep separate books and records.

V.B.1. Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Principles (GAAP).

V.B.2. The books and records of affiliates shall be open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Section 314.

Audit Criteria

- SCE and its affiliates maintain separate accounting records
- SCE's records are maintained in accordance with applicable Uniform System of Accounts and Generally Accepted Accounting Principles

Rule V – Separation

Audit Steps

- Review accounting records and reports and note that financial information is maintained separately for SCE and its affiliates
- Review Internal Audit reports for evidence that SCE and its affiliates maintain separate books and financial records
- Note that the financial statements of EIX and SCE have been certified as being prepared in accordance with generally accepted accounting principles by an outside auditing firm
- Interview accounting personnel and review accounting transactions to ensure that separate records are maintained by SCE and its affiliates

Conclusions

SCE is in compliance with Rule V.B.

SCE was found to maintain accounting records separate from its affiliates. We were able to develop this conclusion based on evidence discussed below.

First, the ATR Manual states that “Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Procedures [Principles] (GAAP)”. (DR 5)

In its 2001 annual report, SCE’s Chairman and Chief Executive Officer and SCE’s Controller signed the Responsibility for Financial Report letter, in which they stated “SCE’s independent public accountants, Arthur Andersen LLP, are engaged to audit the financial statements in accordance with auditing standards generally accepted in the United States and to express an informed opinion on the fairness, in all material respects, of SCE’s reported results of operations, cash flows and financial position”. In the 2001 annual report, Arthur Andersen found SCE’s 2001 financial statements to be “in conformity with accounting principles generally accepted in the United States.” (DR 12)

EIX’s 2001 and 2002 annual reports break out separate results for its major business units, including SCE, Mission Energy, Mission Energy Holding Company, Mission Capital and EIX parent company and other. Information presented by business unit includes: revenues, earnings(loss), earnings(loss) per share contribution, assets and equity. EIX financial statements are subject to audit by public accounting firms, Arthur Andersen (2001) and PricewaterhouseCoopers (2002). The ability to produce financial reports by business unit indicates a separation in the underlying books and records. (DR 12)

We reviewed a sample of intercompany billings and noted that SCE charges to affiliates for corporate support were ultimately recorded to intercompany receivable and payable accounts, as shown in the general ledger summary trail balance. (DR 162) This is another indication of separate accounts and records.

Rule V – Separation

Every year, SCE's Audit Services Department conducts a number of affiliate transaction-related audits. During 2002, they reviewed the intercompany receivables for the Mission Group and EO&MS (both reports were dated May 24, 2002). (DR 13) This provides further evidence of the existence of separate financial accounts and records.

SCE appears to ensure that the books and records of affiliates are open to examination by the Commission and its staff. In 2002, the Office of Ratepayer Advocates (ORA) conducted an audit of SCE in connection with the Company's General Rate Case. Among other things, the audit's scope covered affiliate transactions that impact ratepayers. There was no indication in their report that ORA was prohibited from viewing the records of affiliates in connection with this audit. (DR 34)

CPUC Rule

V.C. Sharing of Plant, Facilities, Equipment or Costs: A utility shall not share office space, office equipment, services, and systems with its affiliates, nor shall a utility access the computer or information systems of its affiliates or allow its affiliates to access its computer or information systems, except to the extent appropriate to perform shared corporate support functions permitted under Section V E of these Rules. Physical separation required by this rule shall be accomplished preferably by having office space in a separate building, or, in the alternative, through the use of separate elevator banks and/or security-controlled access. This provision does not preclude a utility from offering a joint service provided this service is authorized by the Commission and is available to all non-affiliated service providers on the same terms and conditions (e.g., joint billing services pursuant to D.97-05-039).

Audit Criteria

- Except as it relates to corporate support functions, SCE does not share office space, equipment, services or systems with affiliates. There is appropriate physical separation. SCE's information systems cannot be accessed by affiliates except where it relates to corporate support functions.

Audit Steps

- Identify the location of SCE and affiliate buildings and facilities
- Examine select SCE facilities to verify appropriate physical separation from affiliates
- Interview IT security personnel to determine how SCE manages access to its business applications and IT infrastructure
- Verify a sample of affiliate personnel to determine if their access to SCE's information systems is controlled and is associated with their shared corporate support-related activities

Conclusions

SCE is in compliance with Rule V.C.

Rule V – Separation

Facilities – Affiliate Sharing

The ATR Manual states that SCE shall not share office space and office equipment with its Class A affiliates except where there is appropriate physical separation. “Shared office space” is defined as facilities that do not have separate security controlled access for utility- and affiliate-occupied space. (DR 5)

SCE occupies 74 non-electric facilities, of which 68 are owned and 7 leased. As shown in the table below, two affiliates occupy a small portion of SCE facilities.

Facility Types	SCE Owned/Leased Facilities Occupied By					
	SCE		EIX		EME	
	Number	Sq. Feet	Number	Sq. Feet	Number	Sq. Feet
Office	8	1,265,089	1	21,564	1	1,820
Service Centers	37	1,461,857				
Computer/Phone Center	4	363,396				
Local Offices	5	12,175				
Other	13	1,119,062				
Leased	7	181,531				
Total	74	4,403,110	1	21,564	1	1,820

Source: DR 8

SCE leases to EME, a Class A affiliate, space in its Gateway Business Center, an office park in Irwindale. It is used as a backup emergency operations center and contains EME-owned computer and telecommunications equipment. It is a “lights-out” operation, so no EME personnel regularly occupy the space. EME’s space abuts SCE office space but there are floor-to-ceiling walls that separate them and access to both offices is controlled. There are no common or shared areas. (DR 64) SCE charges EME market rental rates for the space. There are other third-party tenants in the Gateway Business Center. We conducted an inspection of this EME’s space and found it to be hard-wall separated from SCE’s space. EME’s office was locked and accessible only with an EME security card. The adjacent SCE space was also locked and accessible only with an SCE security card.

SCE leases space in its Rosemead General Office #1 building to EIX, its parent company, a Class B affiliate. A total of 30 EIX executives and their staff maintain their offices here. We inspected this space and noted that there was hard-walled separation between EIX and SCE offices. There were a few adjoining doors, which were kept closed and locked. (DR 8, DR 115)

EIX is the leaseholder of the Washington, D.C. office which is shared by EIX, EME, SCE and a non-affiliate third-party. The office has a common lobby and separate office suites for each entity. The suites are separated by floor-to-ceiling walls. Access to SCE’s office is card controlled, so EIX and EME personnel cannot enter SCE’s suite. We confirmed this arrangement by reviewing the office blueprints. (DR 64, DR 124) We also evaluated the basis for allocating the Washington, D.C. office and found it to be reasonable. (DR 125)

Rule V – Separation

SCE maintains temporary office space (also known as “hotels”) in one room of its Rosemead General Office #1 building. This space is outfitted with desks and PCs and is available only to SCE employees who are visiting the General Office. We inspected this office and noted signs throughout indicating that the space is restricted to SCE personnel. The PCs require a SCE-specific logon ID and password, thus are not accessible by affiliate employees. (DR 5)

There are a few instances where SCE personnel are located in affiliate offices. During 2002, SCE’s Audit Services Department had 12 auditors and 1 administrative staff located in an Edison Mission Energy building in Irvine. Also, SCE’s Vice President and General Auditor has office space in the same location. The auditor’s activities are allowed under Rule V.E (corporate support). Separate offices and filing systems are maintained for this audit staff to ensure that confidential information is not transferred from SCE to an affiliate. (DR 116) We agree with SCE’s interpretation that this arrangement is allowable under Rule V.C.

Facilities – Affiliate Access

The ATR Manual specifies that Class A affiliate personnel are prohibited from visiting SCE facilities except:

- to perform shared corporate oversight, governance and support functions pursuant to Rule V.E (corporate support),
- to attend a meeting pursuant to provision of Rule V.F.4.a (joint meeting requested by a customer), or
- where attendance is open to non-affiliates. (DR 5)

Authorized affiliate personnel visiting the General Office must be accompanied by an SCE employee. Affiliate badges are a different color and are oriented differently than those of SCE employees so they can be easily distinguished. (INT 15)

Access to the Rosemead General Office is controlled as described below:

- Buildings #1 and #4 (corporate offices) – These adjoining buildings have four access points, each requiring electronic badge-in for SCE and EIX employees and contractors. Visitors, including affiliate employees, must sign-in with security guards at one of two access points. The other two entrances have revolving doors that are activated by scanning an EIX or SCE identification badge. Video cameras allow security to monitor these revolving door entrances. Affiliate employee identification badges will not be permitted entry through these doors.
- Building #2 (data center and office space) – Access is limited to SCE employees who work in or are authorized to be in Building #2. Building #2 has security guards stationed at its two access points and entry requires identification badge-in. Turnstiles will be installed by summer 2003.
- Building #3 (IT, T&D Engineering, Customer Services Business Unit) – badge-in entry. (INT 15)

Rule V – Separation

We reviewed a sample of 36 affiliate employee visitors who logged-in with security when they visited the Rosemead General Office Buildings 1-2-3-4 during October 2002. We noted each affiliate guest had designated an SCE employee that they were visiting.

Information Systems and IT Infrastructure

In accordance with Rule V, the ATR Manual specifies that SCE and Class A affiliates are prohibited from accessing each other's computing systems except:

- to perform shared corporate oversight, governance and support functions pursuant to Rule V.E (corporate support), or
- where access is open to non-affiliates. (DR 5)

Security hardware and software, including firewalls, protect SCE's IT assets from outsider access. With the exception of EIX, the IT assets of all affiliates reside outside of SCE's network perimeter. (DR 5) Servers belonging to EIX, a Class B affiliate, are kept in SCE's data center, inside its network perimeter. (DR 65)

Access to SCE's systems and IT infrastructure is also managed through the use of standards, security mechanisms, and procedures. (DR 5) IT security procedures are described in SCE's IT Policies, covering the following topics:

- Security controls
- Applications and data security
- Network security
- Physical security
- Electronic mail. (DR 111)

In 2002, there were no instances in which affiliate employees had access to SCE information systems other than for Corporate Support purposes as allowed by the Affiliate Transaction Rules. In 2002, SCE allowed 8 employees from Edison Mission Energy (EME) through the SCE network perimeter and specifically assigned them access to EIX servers for the purposes of performing work for EIX. This access was authorized by SCE's Affiliates Officer only after it was determined that access to the EIX servers would not allow the EME employees into any SCE information or data systems, except those in which access for the employee was specifically created. (DR 65)

Each EIX company maintains a separate communications infrastructure. SCE and some Class A affiliates use Lotus Notes as their email system. However SCE and Class A affiliates maintain separate mail servers and use different network to route messages to addressees. (DR 5) Thus, it is not possible for any affiliate employee to somehow hack into SCE email in an effort to gain information that is prohibited by the ATR.

Affiliate access to SCE systems is limited to business applications associated with common support functions allowed by the Rule V.E. Approximately 150 affiliate

Rule V – Separation

employees (DR 147) have access to 13 SCE applications (DR 99), as shown in Exhibit 3. After reviewing these applications, we found them to be related to shared corporate support.

Requests for network and application access are processed by SCE's IT Security Administration unit using the Information Systems Security Menu (ISSM). An affiliate employee fills in the online ISSM form with personal information and designates which business applications they must access. The employee's supervisor electronically approves the form and sends it on to the affiliate human resources unit who routes it for necessary approvals. An affiliate employee must have approvals from the following to gain access to SCE applications:

- President of the affiliate company
- SCE's Affiliates Officer or his/her designee
- Manager of the department who owns the application(s) being requested
- Supervisor/manager of Network Operations (INT 17, DR 5)

Once all approvals have been received, the employee's data is entered into the Global Database System, IT Security Administration's central database of all users, their IDs and their application access. IT Security then activates the employee for their approved access to the SCE network and applications. A note is sent to the employee asking them to call IT Security to obtain an ID and a password to enable their access. (INT 17) We selected a sample of affiliate employees with access to SCE applications and determined that they had received all necessary approvals. (DR 147)

When an affiliate employee is leaving or no longer requires access, their supervisor notifies the affiliate human resources unit who enters the termination into the Global Database System. The system produces a "Former Report" from which IT Security Administration creates an ISSM form for the employee. The employee access is then suspended and their supervisor is contacted to confirm that the person's access should be terminated. After suspension, the person cannot access SCE's systems. Once confirmation is received from the supervisor, the employee's access is permanently terminated. (INT 17)

During 2002, Audit Services conducted 7 audits covering IT security. (DR 110) In January 2003, they completed their report on an Affiliate IT Access Approvals audit in which they concluded "The system and supporting processes are adequate for ensure that affiliate employees access to SCE data and applications is appropriately restricted." (DR 13)

Exhibit 3

**2002 Affiliate Transactions Audit of SCE
Analysis Of Affiliate Personnel Access To SCE Applications**

Application	EIX	EME	Mission O&M	Mission Energy NY	EME Homer City	Edison Mission M&T	Mission Land	Midwest Gen	Midwest Gen LLC	EO&MS
A & I (Approval & Inquiry) - Automated system that routes employee job data changes. For affiliates, any job data changes must be made directly in the PeopleSoft application.	6	11	2	-	3	3	-	8	15	16
ATSLAN (Distributed Time Keeping) - Required for processing employee time sheets.	11	6	7	-	6	3	2	7	68	13
ATSSD002 (ATSLAN System Test) - Test region for ATSLAN	-	-	-	-	-	-	-	2	-	1
CICS Online - An extension to the operating system of IBM mainframe computers. An ID created for each person accessing the mainframe computer. This does not mean that the ID owner has access to SCE customer data.	15	6	2	-	6	3	1	5	19	11
APS ALL (Accounts Payable) - Application used by the Accounts Payable department.	1	-	-	-	-	-	-	-	-	-
CRD ALL (Credit Card Recon) - Application used for reconciling credit card data.	2	-	-	-	-	-	-	-	-	-
DRS ALL (R/DARs) - Required for viewing the RDARS reports on the host system. This application allows payroll personnel to view payroll information, i.e., time sheet errors, paycheck data, etc.	1	6	2	-	6	3	1	5	19	11
FAR ALL - Financial Reporting	10	-	-	-	-	-	-	-	-	-
FAS ALL - Corporate Accounting	10	-	-	-	-	-	-	-	-	-
MTS ALL - Material Management	7	-	-	-	-	-	-	-	-	-
DSS HR (Decision Support Sys HR) - Dynamic system which allows users to generate reports on a range of data, limited by access privileges, that includes time keeping, payroll, and demographic tables.	1	11	2	-	6	3	1	11	15	8
PAS (Payroll Adjustment Sys) - Required to adjust past payroll information to reflect time or rate changes.	1	5	2	-	6	3	1	5	20	10
PSOFT (Peoplesoft) - Required to maintain and update a variety of personnel information including: benefit; in. service dates; emergency contacts; job history; vacation and sick. time balances; and education level.	1	8	2	-	6	3	1	11	12	11

Source: DR 99

Rule V – Separation

Desktop Support

Resolution E-3539 specified that SCE is not permitted to perform desktop maintenance and troubleshooting as a corporate support function for fear that confidential SCE information could be passed to an affiliate. We obtained statistics for 2002 affiliate employee calls to SCE's Help Desk and determined that all were resolved as Tier 1 issues. Tier 1 activities are a permissible type of support under Rule V.E., as described in SCE's Compliance Plan ("IT Service Center Support [Not including desktop support]). None of these calls required on-site troubleshooting. (DR 100)

CPUC Rule

V.D. Joint Purchases: To the extent not precluded by any other Rule, the utilities and their affiliates may make joint purchases of goods and services, but not those associated with the traditional utility merchant function. For purposes of these Rules, to the extent that a utility is engaged in the marketing of the commodity of electricity or natural gas to customers, as opposed to the marketing of transmission and distribution services, it is engaging in merchant functions. Examples of permissible joint purchases not permitted include gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. The utility must insure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions of such purchases, and in accordance with applicable Commission allocation and reporting rules.

Audit Criteria

- SCE and its affiliates engage in no joint purchases of the following items: electricity for resale, gas, gas transportation, coal, coal transportation, electric transmission, system operations, or marketing services
- When SCE and its affiliates make joint purchases of goods and services, SCE ensures that joint purchases are priced, reported and conducted in a manner that makes utility and affiliate portions of the purchase clearly identifiable

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review the process for joint purchases
- Identify the types of goods and services that are purchased jointly by SCE and affiliates. Review all service agreements and contracts, including purchases of bulk power, fuel, fuel transportation, transmission and marketing services.
- Sample/evaluate the methodology for allocating the costs of joint purchases to ensure SCE is not subsidizing affiliates

Conclusions

SCE is in compliance with Rule V.D.

Our evaluation of various joint purchase transactions provided no evidence of any violation of this Rule. And our review concluded that SCE employs a sound compliance process for assuring that any joint purchase with a Class A affiliate meets the

Rule V – Separation

requirements of Rule V.D. However, we have suggestions for improvement in the compliance process. Details are provided below.

General requirements of this Rule are explained in the MCP and the ATR Manual. (DR 1, DR 5). Joint purchases of goods and services associated with the utility merchant function are specifically prohibited. Joint purchases of other goods and services, under specific conditions, are allowable. Particularly important are conditions that payments for joint purchases, and reporting of those payments, clearly identify/segregate the SCE and affiliate portions. Although not explicitly stated in the wording of this Rule, the spirit of other Rules establishes an expectation that SCE and an affiliate would share equally in any benefit derived from a joint purchase.

In addition, a number of more detailed procedures regarding joint purchases were identified. (DR 87, DR 54). The four business procedures most related to fulfilling Rule V.D requirements are:

- The Procurement and Materials Management Department's "Affiliate Transactions Resource Manual", particularly Tabs 5, 6 and 7. Tab 5, dated October 30, 1997, provides a checklist of the kinds of procurement and contract management actions that would require approval of SCE's Affiliates Officer. Tab 6, dated December 1999, describes four ways joint purchases may be executed: (a) joint purchases through the utility; (b) joint negotiations; (c) renegotiations of a purchase order to allow affiliate use; and (d) affiliate writes a purchase order for itself and utility. And Tab 7, dated December 1999, presents flowcharts for "Third Party Affiliate Procurements" and for "Joint Procurement Transactions". (DR 140).
- PAMM's "Joint Procurement Acquisition Process", dated November 2001, provides good background information on when and how joint purchasing might be undertaken. It includes a flowchart of the "Joint Procurement Acquisition Process". And it includes a list of the four basic types of joint purchases: (a) joint purchase through SCE; (b) joint negotiations; (c) renegotiation of an SCE purchase order to allow an affiliate use; and (d) affiliate writes a purchase order for itself and SCE. (DR 139).
- The ATR Manual's section entitled "Separation – Shared Support – Specific Services – Procurement," dated March 21, 2002, provides discussion of the joint purchase rules and gives examples of the kinds of arrangements considered joint purchases pursuant to Rule V.D: (a) joint contracts; (b) single-party contracts, joint use; (c) joint negotiations resulting in separate contracts. This third kind of arrangement, the ATR Manual notes, is the preferred method because it allows for complete separation of cost between SCE and an affiliate. (DR 5).
- Regulatory Policy and Affairs' (RP&A) requirement for using the Joint Procurement Notification Form. This form provides a mechanism by which preliminary reviews and approvals of proposed purchasing arrangements can be obtained from RP&A before a request for proposal is released. And the form sets

Rule V – Separation

the stage for expedited final approvals by SCE's Affiliates Officer once the contract is ready to be awarded. (INT 8, DR 83)

Key managers representing PAMM and RP&A confirmed for us that their organizations follow these procedures, comply with Rule V.D, and ensure their employees are continuously reminded of the Rule's requirements. (INT 8, INT 12).

As will be described below, we closely reviewed all of the joint purchases made by SCE and affiliates during 2002 and found no evidence of any compliance problem or failure. And we found the individuals most involved in the process of handling joint purchases to be fully aware of all the things that need to be done to assure continued compliance.

However, we also found inconsistencies in the written procedures addressing this subject. The categories of allowable joint purchases in some cases are out of date, or do not match the categories listed in the ATR. The PAMM procedures do not reflect the use of Joint Procurement Notification Forms. PAMM's Affiliate Transaction Resource Manual includes material that is out of date (e.g., contains copy of RCP, not the more recent MCP/CP02). Two different flowcharts for the joint purchase process are used. None of this material is inconsistent with the requirements of Rule V.D, but could cause confusion nonetheless.

In evaluating SCE's compliance with Rule V.D, we reviewed all joint purchase arrangements initiated in 2002 or in effect during 2002. (DR 84). The list of joint purchases includes:

- Three joint contracts with SCE and affiliate(s) as original parties to the contract
- Ten single party joint contracts for which the supplier later agreed to extend the terms of the contract to an affiliate
- Twenty-one joint negotiations which resulted in separate SCE and affiliate contracts

None of the contracts or negotiations covered goods and services associated with the traditional utility merchant function. For further verification of this part of the Rule, we reviewed wholesale power transactions, fuel purchases, and transmission purchases.

During 2002 there were no wholesale power contracts in existence between SCE and an affiliate except for four allowable and preexisting QF contracts and no joint purchases of wholesale power with affiliates. (DR 94, DR 95, DR 96). Additionally, there were no transmission contracts between SCE and an affiliate nor were there any joint purchases or sales of transmission services. (DR 10, DR 156). And finally, no fuel (e.g., natural gas or coal) or fuel transportation contracts were in existence between SCE and an affiliate (DR 10), nor were there any joint fuel purchases or sales. (DR 154, DR 155).

Rule V – Separation

We also verified that all joint purchase arrangements initiated in 2002 followed the internal procedure that requires RP&A to provide preliminary approval of the arrangement using Joint Procurement Notification Forms. (DR 83).

To test SCE's adherence to the part of Rule V.D requiring "clear identification of utility and affiliate portions" of joint purchases, we reviewed the methodology/formulas used to allocate costs between SCE and affiliates in the case of the thirteen joint contracts. And we sampled actual 2002 payments made for two of the contracts. In all cases, SCE was able to clearly distinguish between SCE and affiliate portions of the payments and effectively explain the methodology/formulas used. (DR 144).

We also sampled payments for goods and services made under the terms of the twenty-one joint negotiations that ultimately resulted in separate contracts between (1) the vendor and SCE and (2) the vendor and affiliate. By their nature, these kinds of arrangements automatically meet the "clear identification of utility and affiliate portions" requirements of Rule V.D. (DR 145). The following standard language is inserted in "joint-negotiation-resulting-in-separate contracts" to:

If sales to any other Affiliate of an Edison International Company are consummated, the services requested by such company shall be made pursuant to a separate Purchase Order or Letter Agreement. If any sales of any services to an Edison International Company or an Affiliate of an Edison International Company include a greater discount or incentive than has been previously provided with respect to the prior sales of the same services to another Edison International Company or an Affiliate of an Edison International Company, the discount or incentive thereafter used to compute the price payable for such services shall be the same as the largest discount or incentive provided to any Edison International Company or an Affiliate of an Edison International Company for such services.

Vendors risk a breach of contract if, after the negotiations, they offer better terms to an affiliate compared to SCE. This issue is important and as an added measure of protection, we believe that joint purchases should periodically be subjected to audit in which vendor invoices to SCE and to affiliates are compared to make sure the unit prices are the same.

Recommendations

5. Update procedural guidance related to Rule V.D approvals and categories. Procurement and Materials Management's Affiliate Transaction Resource Manual and Joint Procurement Acquisition Process guideline should include a discussion of the Joint Procurement Notification Form. The ATR should include in Chapter 14 a section called "Procedure" that addresses the key elements of the Rule V.D process, particularly the need for preliminary and final approvals of joint purchasing arrangements by RP&A and the SCE Affiliates Officer. Varying flowcharts should be

Rule V – Separation

combined into one. Category lists for allowable types of joint purchases should be merged.

6. Audit “joint negotiation/separate contracts” vendor invoices for consistency in terms and conditions. Periodically compare vendor invoices to SCE and to affiliates to ensure prices are the same for similar items.

CPUC Rule

V.E. Corporate Support: As a general principle, a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems, and personnel. Any shared support shall be priced, reported and conducted in accordance with the Separation and Information Standards set forth herein, as well as other applicable Commission pricing and reporting requirements.

As a general principle, such joint utilization shall not allow or provide a means for the transfer of confidential information from the utility to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of the specific mechanisms and procedures in place to ensure the utility follows the mandates of this paragraph, and to ensure the utility is not utilizing joint corporate support services as a conduit to circumvent these Rules.

Examples of services that may be shared include: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment practices), employee records, regulatory affairs, lobbying, legal, and pension management.

Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing.

Audit Criteria

- Shared corporate services involve allowed joint corporate oversight, governance, support systems and personnel; services specifically precluded by Rule V.E are not shared
- The basis for allocating shared corporate support expenses is equitable and does not cross-subsidize affiliates
- Corporate support arrangements are not used to transfer confidential information from SCE to affiliates or create unfair opportunities for affiliates

Audit Steps

- Review shared corporate services and determine that they meet the specifications of Rule V.E
- Evaluate the allocation methods for shared corporate support
- Determine that there are safeguards against inappropriate sharing of confidential SCE information with affiliates who participate in shared corporate services

Conclusions

SCE is in compliance with Rule V.E.

Rule V – Separation

Corporate Support Services

We found SCE’s definition of corporate support services is in line with the requirements of Rule V.E.

In the MCP and the ATR Manual, SCE defines in detail what it considers allowable corporate support functions under Rule V.E. We reviewed the description of the 60 functions and found SCE’s interpretation met the following guidelines as to what qualifies as corporate support:

- Activities that are integral to corporate governance and oversight necessary to meet management’s fiduciary responsibilities,
- Activities that are essential to maintain corporate, regulatory and other critical standards and policies, or
- Activities that produce economies of scale by serving the entire enterprise and that ultimately benefit ratepayers (DR 5)

In addition to clearly defining corporate support activities, SCE has further delineated such work by specifying areas of the company that may provide these services to affiliates. For each of the 60 or so corporate support functions, organizational units (called Core Areas of Responsibility, or Core AORs) are named in the ATR Manual as authorized to provide that service. For example, Human Resources and Treasurer’s are designated as the Core AORs that perform the corporate support activity “pension management”. If, for instance, the Treasurer’s Department required assistance from a statistician in the ES&M Department in the provision of pension management services, then ES&M Department would be required to complete a Corporate Support Authorization Form (CSR) to obtain the necessary approvals before performing the work. There were only 5 CSRs in 2002, which we reviewed and found to be appropriate. Each month, the Controller’s Department prepares an exception report showing charges for corporate support by non-Core AORs. This report is used to verify that the charges were appropriate and that a CSR form was prepared, if necessary. All of this establishes further control over what is defined as corporate support. (DR 5)

The MCP and ATR Manual, SCE specifies it will not provide affiliates with the services precluded by Rule V.E. Those are employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. (DR 1, 5) We found no instances where these services were being provided to affiliates by SCE.

Under Rule V.C, we determined there were adequate controls over affiliate personnel with access to business applications and networks in connection with shared corporate services. We also cover the issue of transfer of confidential information under Rule IV.

As specified by Rule V.E, the MCP and CP02 contain a letter from SCE’s Affiliates Officer and Vice President and Controller verifying that “specific mechanisms and

Rule V – Separation

procedures in place are believed to be sufficient to ensure: a) that SCE follows the mandates of Rule V.E., and b) that SCE is not utilizing joint corporate support services as a conduit to circumvent the Rules.” (DR 5 Appendix B)

Allocation of Corporate Support Expenses

We found SCE’s methodology for allocating corporate support expenses is appropriate and meets the requirements of Rule V.E.

The analysis below shows the trend in corporate support charges to affiliates during the past several years.

	2000	2001	2002
Directly Charged Services	\$10,272,781	\$ 6,269,838	\$ 8,034,851
Allocated Corporate Support	\$11,178,436	\$ 9,853,471	\$ 6,403,777
Total	\$21,451,217	\$16,123,309	\$14,438,628

(DR 157)

Note: Internal Audits charges are included in 2002 but not in 2000 or 2001

Shared corporate support expenses are assigned to affiliates based on the nature of the underlying work, as described below.

- **Directly Charged** – Work is performed for one affiliate who is charged with the cost of the service. It is possible to readily identify the amount of time spent on these activities and the affiliate(s) benefiting from the activities. Examples of this type of work include internal audits, preparation of tax returns and legal work.
- **Time-Identified** – Work that benefits affiliates but whose cost cannot be directly associated and assigned to specific affiliates. Time-identified costs are allocated to affiliates. Examples of this type of work include cash management, corporate accounting, tax department support, legal work and information technology.
- **Automatically Allocated** – Work that indirectly benefits affiliates. Examples of this type of work include corporate governance, corporate security, equal opportunity, mail services and corporate communications. (DR 5)

The following factors are used to allocate the cost of corporate support services that cannot be directly charged to affiliates:

- **Multi-Factor Method** – This formula is based on each company’s share of operating revenues, operating expenses (excluding income taxes and cost of sales), number of employees and total assets. Each factor is given equal weight in calculating the composite multi-factor ratio. This is the most common method. Examples of departments whose costs are allocated this way include IT (telephone operators), Corporate Communications, Community Involvement, Corporate Security and Corporate Mail. (DR 5)
- **Equity Investment and Advances Method** – This formula is based each company’s share of equity as calculated for Edison International consolidated

Rule V – Separation

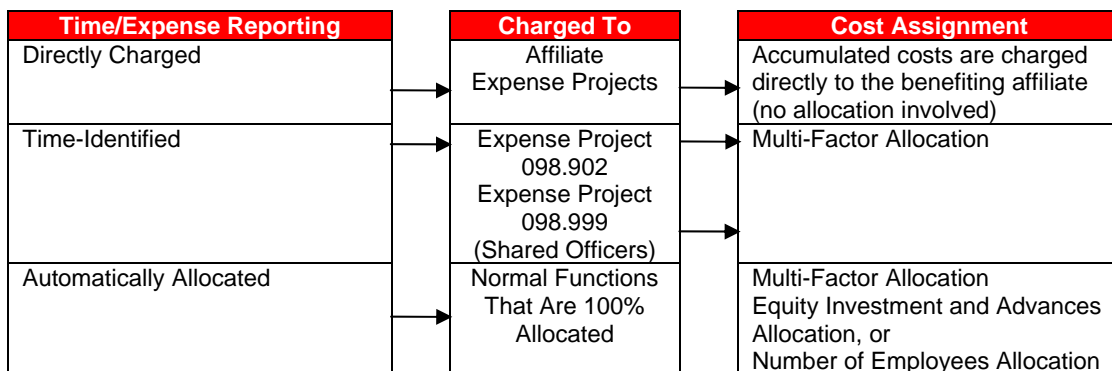
financial statements. Examples of departments whose costs are allocated this way include Shareholder Meetings, Investor Relations, Corporate Governance and Controller’s (Outside Services). (DR 5)

- **Number of Employees Method** – This formula is based on each company’s number of regular employees. Examples of departments whose costs are allocated this way include Equal Opportunity (Equal Opportunity Division), Treasurer’s (Investments) and Controller’s (Outside Services and Benefits Accounting). (DR 5)

The allocation factors are recalculated every month. (INT 31) We believe these allocation factors are appropriate. Our conclusion is supported by a 2002 examination by the Office of Ratepayer Advocate’s (ORA) related to SCE’s general rate case. ORA assessed the basis for allocating Corporate Support costs and concluded:

Based on the documents received from SCE and information on the methodology used by SCE when calculating the allocation factors, ORA concludes that SCE’s allocations formulas and calculations used to allocate costs of certain shared support services appear reasonable. (DR 34)

The “expense project” is SCE’s accounting mechanism for accumulating and assigning many corporate support expenses to affiliates. Approximately 125 expense projects have been established for this purpose. (DR 114) Essentially, employees charge time and expenses to the appropriate expense project. Every month, the accumulated charges are then assigned to affiliates. The table below summarizes this process.



Expense project costs are reported on the monthly intercompany invoices presented to affiliates. (INT 31) This provides them with detail they need to validate the charges.

As part of our audit work, we performed a detailed review of the September 2002 intercompany invoices to four EME entities to validate corporate support charges were accumulated and charged properly. The line items on the invoices were: charges by expense project, labor markup and facility charge (i.e., cost of the General Office complex). We reviewed the calculation of labor markup and facilities charges and found them to be appropriate. We traced expense project charges back to supporting detailed

Rule V – Separation

accounting reports. We also reviewed that month's calculation of the three allocation factors (multi-factor, equity investment and advances, and number of employees) and found them to be appropriate. Finally, we tied the invoice total into the general ledger trial balance. We noted no problems in this review. (DR 162)

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.1. A utility shall not trade upon, promote, or advertise its affiliate's affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:

V.F.1.a. The affiliate "is not the same company as [i.e. PG&E, Edison, the Gas Company, etc.], the utility," and the affiliate "is not regulated by the California Public Utilities Commission

V.F.1.b. In the case of energy service provider affiliates, the disclaimer will be:

The affiliate "is not the same company as [i.e., PG&E, Edison, the Gas Company, etc.], the utility and the California Public Utilities Commission does not regulate the terms of [the affiliate's] products and services."

The application of the name/logo disclaimer is limited to the use of the name or logo in California.

Audit Criteria

- Affiliates do not trade upon, promote or advertise their affiliation with SCE. Affiliate publications do not incorporate SCE's name or logo except where they appropriately disclose that the affiliate is not the same company as SCE and not regulated by the CPUC.

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review SCE and affiliate marketing/advertising/promotional materials (e.g., publications, advertisements, web pages) to assure affiliations with SCE are not promoted without proper name/logo disclaimers
- Review billing inserts to determine if they have been used to promote affiliate's business. Review billing inserts to assure affiliations with SCE are not promoted without proper name/logo disclaimers.
- Review SCE presentations to large industrial customers to assure affiliations with SCE are not promoted without proper name/logo disclaimers

Conclusions

SCE failed to fully comply with Rule V.F.1 on two occasions during 2002.

During the course of our audit, as requested documentation was being gathered, SCE learned of two cases in which an affiliate's 2002 advertising/promotional activities did not sufficiently comply with the requirements of Rule V.F.1. Regulatory Policy and

Rule V – Separation

Affairs has already notified the Commission of these situations in separate letters to the Executive Director of the Commission, dated December 9, 2002 and February 25, 2003. (DR 161).

The first instance of non-compliance involved a one-page print advertisement picturing two wrestlers and used by the EO&MS affiliate to promote its business. It was printed in three trade magazines and one trade show program guide. A disclaimer was included in the ad, but it ran perpendicular to the text of the main copy of the ad, and was printed in a type size less than half the size of the type used for the name of the affiliate. This placement and type size differed from the guidance given by the Commission in Decision 98-04-029 and Decision 98-11-027. Because the trade show was held in California, and the three magazines have circulation in California, the disclaimer requirements of Rule V.F.1 apply.

The ad is no longer being used. It did not seem to provide EO&MS with any significant advantage. In fact, during 2002 a decision was made to shut down EO&MS because of a downturn in its business and poor future prospects for its profitability. Accordingly, we agree with SCE's conclusion that the ad did not materially benefit EO&MS' business. (DR 161)

The second instance of non-compliance involved five low-cost promotional items given out to customers and potential customers of EO&MS which did not contain disclaimers as required by Rule V.F.1. The five items included a 3-½ inch flashlight/key fob, a computer monitor dust brush, a ballpoint pen, a pad of adhesive paper, and a coffee mug. The five items included the holding company tagline "An Edison International Company". According to the Rules, Decision 98-11-027, and Decision 02-02-046, if this tagline is used, the disclaimer must be added. But the promotional items did not contain either of the appropriate disclaimers, stating either that EO&MS "is not the same company as Southern California Edison, the utility, and is not regulated by the California Public Utilities Commission" or that EO&MS "is not the same company as SCE and the California Public Utilities Commission does not regulate the terms of 'EO&MS' products and services".

As mentioned previously, EO&MS is being dissolved and SCE determined that promotional activity is no longer taking place. A recurrence of this specific situation is therefore unlikely. We agree with SCE's conclusion that the giving away of these items did not materially benefit EO&MS. Nonetheless, we believe that SCE and its affiliates should review their processes for ensuring compliance with Rule V.F concerning the use of a disclaimer in connection with advertising, business proposals or promotional items.

We reviewed the materials that SCE uses to communicate the requirements of this Rule to employees of both SCE and affiliate companies. We also reviewed a significant amount of other marketing and advertising material, finding no other evidence of deviation from Rule V.F.1.

Rule V – Separation

The Modified Compliance Plan (MCP) with its CP-02 Update and the Affiliate Transaction Rule (ATR) Manual go to appropriate lengths to describe the requirements of this Rule. (DR 1, DR 5).

Managers representing the Regulatory Policy and Affairs (INT 1), External Communications (INT 10), Strategic Communications (INT 10) and Major Customer Division (INT 26) all affirmed their organizations were in compliance with Rule V.F.1 and that their employees were aware of this and other Rules.

In evaluating SCE's compliance with Rule V.F.1, we conducted a variety of data reviews to affirm that SCE does not trade upon, promote, or advertise its affiliates' affiliation, or allow its affiliates to imply an affiliation with SCE. Included in the year 2002 data samples were bill inserts, mass market advertisements, presentations to large customers, SCE proposals responding to Requests for Proposals (RFP) from major customers, and promotional items. The results of our review are described below.

Billing Inserts & Mass Market Advertisements

We reviewed all 34 billing inserts mailed to both commercial and residential customers during 2002. (DR 41). We examined all mass market advertisements sponsored by either SCE or its affiliates during 2002. (DR 39). The advertisements included 19 print ads, 16 audio spots, 10 video spots and 4 billboard messages. Except for one print ad sponsored by EO&MS, all other items were sponsored by SCE. And except for the previously mentioned non-complying ad, we found no evidence in any of the inserts or advertisements of non-compliance with Rule V.F.1.

Large and Industrial Account Interaction

In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for customer updates during 2002. We evaluated a total of 24 presentations which had been given to customers and provided good examples for future presentations by SCE Account Managers and Account Executives. (DR 40; DR 141)

We asked SCE to provide us a list of Requests for Proposals for energy services or products that were sent to SCE by any of its major customers in 2002, and to indicate which, if any, resulted in an SCE proposal. In 2002, SCE made only one proposal, for privatization of a small electric distribution system. We also reviewed this proposal. (DR 143).

We found SCE to be in compliance with Rule V.F.1 with respect to its contact with large and industrial customers.

Rule V – Separation

Promotional Materials

In addition to the five non-complying promotional items described above, we reviewed seven other similar low-cost promotional items given out by EO&MS during 2002. We found these items to be in full compliance with Rule V.F.1. No other SCE affiliates produced promotional items during 2002. (DR 160).

Recommendation

7. Improve the processes for ensuring compliance with Rule V.F.1 concerning the use of a disclaimer in connection with advertising, business proposals or promotional items. At a minimum, this should involve reiterating Rule V.F.1's requirements with affiliate personnel and advertising agencies responsible for designing and producing marketing-related materials.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.2. A utility, through action or words, shall not represent that, as a result of the affiliate's affiliation with the utility, its affiliates will receive any different treatment than other service providers.

Audit Criteria

- SCE does not represent that its affiliates will receive different treatment than other service providers

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Monitor actual customer conversations with SCE Customer Call Center representative, both Residential and Commercial & Industrial, to determine affiliates are not being provided preferential treatment
- Review billing inserts to determine there is no representation that affiliates receive different treatment than other service providers
- Review SCE and affiliate marketing/advertising/promotional materials (e.g., publications, advertisements, web pages) to assure there is no representation that affiliates receive different treatment than other service providers
- Review SCE presentations to large industrial customers to assure there is no representation that affiliates receive different treatment than other service providers
- Sample account manager/account executive journal entries to determine there is no representation that affiliates customers will be given preferential treatment
- Review SCE proposals responding to requests for proposal (RFPs) from major customers to assure there is no representation that affiliates customers will be given preferential treatment

Rule V – Separation

Conclusions

SCE is in compliance with Rule V.F.2.

Our review concluded that SCE effectively communicates the requirements of the Rule V.F.2 to employees and management of both the utility and its affiliates. Furthermore, we reviewed and sampled a wide range of affiliate transactions to gain confidence that SCE is complying with the rule.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all EIX employees, describe the requirements of Rule V.F.2. (DR 1, DR 5). Specifically, these documents say that "SCE will neither claim, nor provide preferential treatment to, its affiliates or affiliates customers".

Managers representing Regulatory Policy and Affairs (INT 1), Customer Communications (INT 4), External Communications (INT 10), Strategic Communications (INT 10), Customer Services Operations (INT 13), Energy Supply and Management (INT 19), and Major Customer Division (INT 26) all affirmed their organizations were in compliance with Rule V.F.2 and that their employees were continuously made aware of this and other Rules.

We performed a number of transaction reviews to determine that SCE in compliance with Rule V.F.2. The outcome of these reviews is summarized below.

Customer Call Centers

We listened in on a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any preferential treatment being discussed or provided. (DR 153)

Billing Inserts & Advertisements

We reviewed all 34 billing inserts mailed to both commercial and residential customers during 2002. (DR 41). And we examined all mass market advertisements sponsored by either SCE or its affiliates during 2002. (DR 39). The advertisements included 19 print ads, 16 audio spots, 10 video spots and 4 billboard messages. Except for one print ad sponsored by EO&MS, all other items were sponsored by SCE. In none of the inserts or advertisements did we see any evidence of preferential treatment being offered, or given, to any of SCE's affiliates or their customers.

Large and Industrial Account Interaction

In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for customer updates during

Rule V – Separation

2002. (DR 40; DR 141) A total of 24 presentations were available to SCE Account Managers and Account Executives.

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 142). These notes document meetings held with large customers in 2002. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2002.

We asked SCE to provide us a list of Requests for Proposal for energy services or products that were sent to SCE by any of its major customers in 2002, and to indicate which, if any, resulted in an SCE proposal. SCE responded to only one with a proposal to privatize a small electric distribution system. We reviewed this proposal. (DR 143).

Nothing in the presentations to large customers, the sample of diary notes, or the SCE proposal for privatization indicated SCE would provide preferential treatment to affiliates. And there was no evidence that terms, conditions, and pricing offered affiliates or their customers were better or different than those offered to others.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.3. A utility shall not offer or provide to its affiliates advertising space in utility billing envelopes or any other form of utility customer written communication unless it provides access to all other unaffiliated service providers on the same terms and conditions.

Audit Criteria

- Affiliates advertise using SCE's bill inserts only if the same opportunity is available to unaffiliated service providers for the same terms and conditions

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review all billing inserts to determine if they have been used to promote affiliate's business. If so, determine that non-affiliate suppliers were offered the same terms and conditions to utilize bill inserts to advertise.

Conclusions

SCE is in compliance with Rule V.F.3.

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. Furthermore, we reviewed all bill inserts used during 2002 to gain confidence that SCE is complying with this Rule.

Rule V – Separation

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all SCE and affiliate employees, describe the requirements of Rule V.F.3. (DR 1, DR 5).

Managers representing Regulatory Policy and Affairs (INT 1), External Communications (INT 10) and Strategic Communications (INT 10) affirmed that SCE was in compliance with Rule V.F.3, and that their employees were well aware of this and other Rules.

We reviewed all 34 billing inserts mailed to both commercial and residential customers during 2002. (DR 41). In none of the inserts did we see any evidence of affiliate advertisements.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.4. A utility shall not participate in joint advertising or joint marketing with its affiliates. This prohibition means that utility may not engage in activities which include, but are not limited to the following:

V.F.4.a. A utility shall not participate with its affiliates in joint sales calls, through joint call centers or otherwise, or joint proposals (including responses to requests for proposals (RFPs)) to existing or potential customers. At a customer's unsolicited request, a utility may participate, on a nondiscriminatory basis, in non-sales meetings with its affiliates or any other market participant to discuss technical or operational subjects regarding the utility's provision of transportation service to the customer;

V.F.4.b. Except as otherwise provided for by these Rules, a utility shall not participate in any joint activity with its affiliate. The term "joint activities" includes, but is not limited to, advertising, sales, marketing, communications and correspondence with any existing or potential customer;

V.F.4.c. A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.

Audit Criteria

- SCE does not participate in joint advertising or marketing with affiliates including joint sales calls, proposals, or trade shows

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review billing inserts to determine there is no joint advertising or marketing with affiliates
- Review SCE and affiliate marketing/advertising/promotional materials (e.g., publications, advertisements, web pages) to assure there is no joint advertising or marketing with affiliates
- Review SCE presentations to large industrial customers to assure there is no joint advertising or marketing with affiliates
- Sample 2002 calendar and journal information contained in Major Customer Division's contact management system to assure that SCE does not make joint sales calls with affiliates

Rule V – Separation

- Review SCE proposals responding to RFPs from major SCE customers to assure there is no joint marketing with affiliates
- Review trade shows, conferences, and marketing events attended by both SCE and affiliates to assure elements of the rule were followed

Conclusions

SCE is in compliance with Rule V.F.4.

Our review concluded that SCE effectively communicates the requirements of the rule to employees and management of both the utility and its affiliates. SCE uses appropriate procedural controls for this rule and monitors compliance. Furthermore, we reviewed and sampled a wide range of transactions to gain confidence that SCE is complying with this Rule.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all SCE and affiliate employees, describe the requirements of Rule V.F.4 and its sub-rules. (DR 1, DR 5). The ATR Manual is particularly relevant.

In addition to the overall prohibitions, the ATR Manual provides examples of proper and improper acts under Rule V.F.4. For example, the ATR Manual instructs affiliate employees to never raise marketing issues in meetings where SCE employees are present. It instructs any SCE employee attending such meetings to explain the prohibition on joint marketing included in this Rule if marketing or sales promotion issues are raised unexpectedly by a third party.

Managers representing Regulatory Policy and Affairs (INT 1), Customer Communications (INT 4), External Communications (INT 10), Strategic Communications (INT 10) and Major Customer Division (INT 26) affirmed that SCE was in compliance with Rule V.F.4 and its sub-rules, and that their employees were well aware of this and other Rules.

SCE confirmed that in 2002 there were no instances in which SCE participated in joint advertising or marketing with an affiliate. (DR 130).

We performed a number of transaction reviews to determine that SCE in compliance with Rule V.F.4 and its sub-rules. The outcome of these reviews is summarized below.

Billing Inserts & Advertisements

We reviewed all 34 billing inserts mailed to both commercial and residential customers during 2002. (DR 41). And we examined all mass market advertisements sponsored by either SCE or its affiliates during 2002. (DR 39). The advertisements included 19 print ads, 16 audio spots, 10 video spots and 4 billboard messages. Except for one print ad sponsored by EO&MS, all other items were sponsored by SCE. In none of the inserts

Rule V – Separation

or advertisements did we see any evidence of joint advertising or marketing between SCE and any affiliate.

Web Pages

We reviewed all websites maintained by affiliates of SCE. Only EO&MS maintained such a site in 2002, www.edisonoms.com. (DR 42, DR 37). No evidence of joint advertising or marketing was apparent on that site. EO&MS' dissolution has led to the shut down of their website.

Large and Industrial Account Interaction

In addition to the mass market channels discussed above, we also reviewed materials relating to SCE's channels to the industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for customer updates during 2002. (DR 40; DR 141). A total of 24 presentations were available to SCE Account Managers and Account Executives.

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 142). These notes document meetings held with large customers in 2002. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2002.

We asked SCE to provide us a list of Requests for Proposals for energy services or products that were sent to SCE by any of its major customers in 2002, and to indicate which, if any, resulted in an SCE proposal. SCE responded to only one with a proposal to privatize a small electric distribution system. We reviewed this proposal. (DR 143).

Nothing in the presentations to large customers, the sample of diary notes, or the SCE proposal for privatization provided any evidence of joint advertising or marketing, joint sales calls, or joint proposals.

Trade shows, conferences and marketing events

SCE confirmed that at no time in 2002 did representatives of SCE attend a trade show, conference, or other information/marketing event in California that also was attended by representatives of a Class A affiliate. (DR 132).

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.5. A utility shall not share or subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research.

Rule V – Separation

Audit Criteria

- SCE’s funding of research and development and advanced technologies does not somehow subsidize affiliates

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Review R&D projects funded in 2002 to assure they are not funded by affiliates

Conclusions

SCE is in compliance with Rule V.F.5.

Our review concluded that SCE effectively communicates the requirements of the rule to its employees and management. Furthermore, we reviewed R&D projects funded by SCE in 2002 to determine that there was no sharing or subsidizing of costs, fees, or payments with its affiliates.

SCE’s Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all SCE and affiliate employees, describe the requirements of Rule V.F.5. (DR 1, DR 5). SCE states as its policy that it “will neither share nor subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research”.

Managers representing Regulatory Policy and Affairs (INT 1) and Research, Development and Demonstrations (INT 16) affirmed that SCE was in compliance with Rule V.F.5 and that employees were well aware of this Rule.

During 2002, thirty-two internal research, development and demonstration projects were active within SCE. (DR 91, DR 133). In addition, SCE participates in research conducted by the Electric Power Research Institute (EPRI).

We evaluated whether any of this research information was relevant to affiliates. Some of the EPRI deliverables describe state-of-the-art approaches to utility operations and maintenance and definitely would be of value to affiliates. (DR 92). However, we confirmed that none of the EPRI research products had been made available for use by affiliates. (DR 167, DR 93, INT 16).

We confirmed that none of the thirty-two research projects or the EPRI research were jointly funded by SCE and an affiliate. (DR 134). Further, we established that SCE and its affiliates did not share or subsidize any costs, fees, or payments for research and development activities, or for advanced technology research. (DR 137).

We also verified that none of the research projects conducted in 2002 were undertaken with the intent to benefit any affiliate. (DR 135). And SCE validated that it has not

Rule V – Separation

transferred or licensed to any of its affiliates any end products or rights associated with any of its R&D projects. (DR 136)

CPUC Rule

V.G. Employees: Joint Directors, Officers and Employees

V.G.1. Except as permitted in Section V E (corporate support), a utility and its affiliates shall not jointly employ the same employees. This Rule prohibiting joint employees also applies to Board Directors and corporate officers, except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to affiliates that operate within California. In the case of shared directors and officers, a corporate officer from the utility and holding company shall verify in the utility's compliance plan the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules. In its compliance plan required in Rule VI, the utility shall list all shared directors and officers between the utility and affiliates. No later than 30 days following a change to this list, the utility shall notify the Commission's Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 of any change to this list.

Audit Criteria

- SCE does not jointly employ personnel with affiliates
- Directors and officers of SCE do not serve as officers and directors of Class A affiliates except where they provide corporate support activities defined by Rule V.E
- SCE has monitoring and reporting mechanisms that prevent prohibited sharing of directors and officers, and joint employment of personnel with affiliates

Audit Steps

- Review the Annual Report of Affiliated Company Transactions to identify instances of shared officers and directors in 2002
- Review the list of directors and officers of EIX, SCE and affiliates for positions held during 2002
- Search for instances where personnel were jointly employed by SCE and affiliates

Conclusions

SCE is in compliance with Rule V.G.1.

Officers and directors of SCE and affiliates are listed in the Annual Report of Affiliated Company Transactions (DR 2), as required by Rule V.G.1. It can be noted which individuals are shared officers and directors of SCE and affiliates. The accuracy of the 2001 Annual Report of Affiliated Company Transactions was verified by SCE's Affiliates Officer, who signed that the report is complete and accurate with no material omissions. In 2002, there were no changes to this list that required 30-day notification of the CPUC and applicable parties.

Rule V – Separation

No instances were found in which a director of SCE was also a director of a Class A affiliate during 2002 (DR 15). There was one instance where an officer of SCE was also an officer of two Class A affiliates. This is SCE's Vice President and Secretary who also serves as the Secretary of Edison Source and EO&MS, both Class A affiliates. Rule V.G.1 specifies that an officer of SCE may not be an officer of a Class A affiliate. SCE petitioned the CPUC for clarification of this rule to allow such arrangements where the officer's duties constituted a shared corporate support function allowed by Rule V.E. In Decision D.98-08-035 (DR 3), the CPUC ruled in SCE's favor, stating:

We clarify that Rules V.E and V.G.1, when read together, can provide for limited sharing of directors and officers not only as explicitly set forth in Rule V.G.1, but also in their performance of the corporate support functions set forth in Rule V.E, and as set forth in the examples cited above which Edison has provided, namely, the Chief Financial Officer or General Counsel. (DR 3)

The MCP (DR 1) and the ATR Manual (DR 5) both state that the joint employment of the same person by SCE and a Class A affiliate is prohibited. "Joint employment" exists when an employee earns wages simultaneously from SCE and an affiliate (i.e., such that those earnings would be recorded toward W-2 earnings from both SCE and an affiliate during the same time period). We noted no such instances where an employee of SCE was also an employee of Class A affiliate. SCE also affirmed this in response to our data request. (DR 15, DR 107)

As required by Rule V.G.1., the MCP contains a letter from SCE's Affiliates Officer and EIX Vice President and Controller verifying that "specific mechanisms and procedures in place are believed to be sufficient to ensure that SCE is not utilizing shared officers and directors as a conduit to circumvent any of the Rules." (DR 5 Appendix B)

CPUC Rule

V.G. Employees: Employee Movements

V.G.2. All employee movement between a utility and its affiliates shall be consistent with the following provisions:

V.G.2.a. A utility shall track and report to the Commission all employee movement between the utility and affiliates. The utility shall report this information annually pursuant to our Affiliate Transaction Reporting Decision, D.93-02-016, 48 CPUC2nd 163, 171-172 and 180 (Appendix A, Section I and Section II H.).

V.G.2.b. Once an employee of a utility becomes an employee of an affiliate, the employee may not return to the utility for a period of one year. This Rule is inapplicable if the affiliate to which the employee transfers goes out of business during the one-year period. In the event that such an employee returns to the utility, such employee cannot be retransferred, reassigned, or otherwise employed by the affiliate for a period of two years. Employees transferring from the utility to the affiliate are expressly prohibited from using information gained from the utility in a discriminatory or exclusive fashion, to the benefit of the affiliate or to the detriment of other unaffiliated service providers.

V.G.2.c. When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 25% of the employee's base annual compensation, unless the utility can demonstrate that some lesser percentage (equal to at least 15%) is appropriate for the class of employee included. In the limited case where a rank-and-file (non-executive) employee's position is eliminated as a result of electric industry restructuring, a utility may demonstrate that no fee or a lesser percentage than 15% is appropriate. The Board of Directors must vote to classify these

Rule V – Separation

employees as “impacted” by electric restructuring and these employees must be transferred no later than December 31, 1998, except for the transfer of employees working at divested plants. In that instance, the Board of Directors must vote to classify these employees as “impacted” by electric restructuring and these employees must be transferred no later than within 60 days after the end of the O&M contract with the new plant owners. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment (i.e. credited to the Electric Revenue Adjustment Account or the Core and Non-core Gas Fixed Cost Accounts, or other ratemaking treatment, as appropriate), on an annual basis, or as otherwise necessary to ensure that the utility’s ratepayers receive the fees. This transfer payment provision will not apply to clerical workers. Nor will it apply to the initial transfer of employees to the utility’s holding company to perform corporate support functions or to a separate affiliate performing corporate support functions, provided that that transfer is made during the initial implementation period of these Rules or pursuant to a §851 application or other Commission proceeding. However, the rule will apply to any subsequent transfers or assignments between a utility and its affiliates of all covered employees at a later time.

V.G.2.d. Any utility employee hired by an affiliate shall not remove or otherwise provide information to the affiliate which the affiliate would otherwise be precluded from having pursuant to these Rules.

Audit Criteria

- Employee movements between SCE and affiliates are tracked and reported to the CPUC in the annual Affiliate Transaction Report
- Movement of employee to affiliates adheres to Rule V.G.2.a-d timing requirements. Employees moving to affiliates are prohibited from using SCE information in a way that provides affiliates with a competitive advantage over unaffiliated service providers.
- Affiliates pay SCE the required fee for the transfer of its employees
- SCE employees are given temporary or intermittent assignments with affiliates, except those involved in marketing power, in a way that complies with the ATR

Audit Steps

- Determine that the proper fees were paid when SCE employees moved to affiliates in 2002
- Determine that affiliate employees who moved to SCE in 2002 had not been employed by SCE for a period of more than one year previous to their move to SCE, unless the affiliate went out of business or significantly scaled back its business (in the case of EO&MS) in which case the one-year residency requirement does not apply
- Determine that all 2002 employee movements between SCE and affiliates are reported in the Annual Affiliate Transaction Report
- Evaluate the controls in place to ensure that confidential SCE information is not given to an affiliate by a moving employee

Conclusions

SCE is in compliance with Rule V.G.2.a through d.

SCE’s Human Resources Department is responsible for processing movements of utility employees to Class A and B affiliates, including obtaining acknowledgement by the

Rule V – Separation

employee of restrictions pertaining to use of utility information and of residency requirements. Exit interviews are conducted for all utility employees to remind them of the prohibition against sharing of utility information. All relevant paperwork is reviewed by RP&A to ensure conformity with the ATR. (INT 14, DR 5, DR 90)

During 2002, 3 SCE employees moved to affiliates. We reviewed these moves and found transfer fees had been properly calculated and paid by the affiliate. (DR 108) We also confirmed that SCE's Affiliates Officer approved these transfers. (DR 67)

In 2002, there were 44 affiliate employees who transferred to SCE. We reviewed a sample of these employee moves and found that all met the residency requirements of Rule V.G.2.b. We also noted that SCE's Affiliates Officer approved these moves. (DR 67)

SCE properly reports employee movements, which are detailed in its Annual Report of Affiliate Company Transactions, Volume II, Section H – Movement of Employees report to the CPUC. (DR 2)

CPUC Rule

V.G. Employees: Temporary Assignments

V.G.2.e. A utility shall not make temporary or intermittent assignments, or rotations to its energy marketing affiliates. Utility employees not involved in marketing may be used on a temporary basis (less than 30% of an employee's chargeable time in any calendar year) by affiliates not engaged in energy marketing only if:

V.G.2.e.i. All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 10% of direct labor cost, or fair market value. When the affiliate obtains the services of an executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value.

V.G.2.e.ii. Utility needs for utility employees always take priority over any affiliate request;

V.G.2.e.iii. No more than 5% of full time equivalent utility employees may be on loan at a given time;

V.G.2.e.iv. Utility employees agree, in writing, that they will abide by these Affiliate Transaction Rules; and

V.G.2.e.v. Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers.

Audit Criteria

- SCE employees are not temporarily assigned to marketing affiliates
- SCE personnel involved in marketing cannot be temporarily assigned to Class A affiliates
- SCE employees can be temporarily assigned no more than 30% of their time during calendar year
- Affiliates are charged for temporarily assigned SCE employees at their fully loaded labor costs plus a markup of 10% of direct labor cost for non-executives and 15% of direct labor for executives
- SCE employees agree in writing that they will abide with ATR

Rule V – Separation

- All necessary written approvals obtained from utility and affiliate officers
- No more than 5% of SCE FTEs may be on loan at a given time

Audit Steps

- Review all instances where SCE personnel performed work on a temporary basis for affiliates and determine if there was adherence to Rule V.G.2.e

Conclusions

SCE is in compliance with Rule V.G.2.e.

An Intercompany Service Request (ISR) form must be completed whenever an Affiliate requests services from SCE except for services performed as permissible shared support pursuant to Rule V.E. (DR 5, 66) The ISR documents the services being requested, estimated hours required for the task and all required approvals. The ISR process is monitored through the "Loaned Labor Report" which shows every SCE employee who has charged time on a "directly requested" basis. Controller's Department reviews the report to determine that ISRs are in place, where appropriate, for all employees in the report. (DR 113)

The following have been determined to be "marketing affiliates":

- CL Power Sales Six, LLC
- Coalinga Cogeneration Company
- Edison Mission Marketing and Trading, Inc.
- Edison Source
- Harbor Cogeneration Company
- Kern River Cogeneration Company
- March Point Cogeneration Company
- Midway-Sunset Cogeneration Company, LP
- Mid-Set Energy Company
- Salinas River Cogeneration Company
- Sargent Canyon Cogeneration Company
- Sunrise Power Company, LLC
- Sycamore Cogeneration Company
- Watson Cogeneration Company. (DR 120)

With respect to SCE employees, the terms "marketing" and "involved in marketing" have not been defined by the Commission for purposes of Affiliate Transaction Rule V.G.2.e. In order to comply with the Rules, SCE has itself defined these terms in its ATR Manual and its Modified Compliance Plan. The determination that a particular SCE employee is or is not "involved in marketing" for purposes of Rule V.G.2.e is made in the first instance by the employee's SCE manager when responding to a affiliate's request for use of that employee pursuant to an ISR. He or she will compare the requested employee's job function(s) with the definitions referred to above. Before the ISR can be

Rule V – Separation

processed, the manager is required to attest that the employee is not involved in marketing (Section III of the ISR form). This approval is separate and distinct from the manager's approval of the assignment itself. In reviewing the ISR prior to submittal to the Affiliates Officer for approval, RP&A staff will ensure, first, that this managerial attestation is signed. RP&A personnel will then note the department or division for which the requested employee works, and will inquire further with the employee and/or his or her manager, if there is ambiguity, or if it appears that the employee's SCE responsibilities might be construed to fall under the definition of "involved in marketing" as presented in the ATR Manual and in the Modified Compliance Plan. RP&A does not maintain a list of individual employees or functions that may be considered "involved in marketing." (DR 119)

During 2002, there were 82 ISRs. We examined each ISR and were able to reach the following conclusions:

- No SCE employees were assigned to marketing affiliates
- No SCE personnel involved in marketing were assigned to Class A affiliates
- No SCE employees was temporarily assigned more than 30% of their time during calendar year
- Every SCE employees agree in writing (on the ISR form) that they will abide with ATR
- All written approvals were obtained from utility and affiliate officers

SCE has over 12,000 employees. (DR 162) Rule V.G.2.e. states that no more that 5%—about 600—be temporarily assigned to affiliates at one time. SCE had only 82 temporary assignments throughout all 2002 and did not come close to the 5% limit.

We reviewed a sample of the 82 ISRs and were able to determine that:

- The employees' total payroll expense was accurate
- Appropriate payroll overheads (payroll taxes and benefits) were applied
- The appropriate markup and facilities charge was applied
- Fully loaded labor, markup and facilities charges were included on the affiliate invoices

CPUC Rule

V.H. Transfer of Goods and Services: To the extent that these Rules do not prohibit transfers of goods and services between a utility and its affiliates, and except for as provided in Rule V.G.2.e, all such transfers shall be subject to the following pricing provisions:

V.H.1. Transfers from the utility to its affiliates of goods and services produced, purchased or developed for sale on the open market by the utility will be priced at fair market value.

V.H.2. Transfers from an affiliate to the utility of goods and services produced, purchased or developed for sale on the open market by the affiliate shall be priced at no more than fair market value.

V.H.3. For goods or services for which the price is regulated by a state or federal agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods and services, this Commission's pricing provisions govern.

Rule V – Separation

<p>V.H.4. Goods and services produced, purchased or developed for sale on the open market by the utility will be provided to its affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.</p> <p>V.H.5. Transfers from the utility to its affiliates of goods and services not produced, purchased or developed for sale by the utility will be priced at fully loaded cost plus 5% of direct labor cost.</p> <p>V.H.6. Transfers from an affiliate to the utility of goods and services not produced, purchased or developed for sale by the affiliate will be priced at the lower of fully loaded cost or fair market value.</p>
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Audit Criteria

- Transfers from SCE to affiliates of goods and services are valued according to the requirements of Rule V.H
- SCE does not discriminate in favor of affiliates in its offering of goods and services
- Transfers from affiliates to SCE of goods and services are valued according to the requirements of Rule V.H

Audit Steps

- Determine the policies and methodology for valuing affiliate transactions
- Examine a sample of 2002 transactions and determine if SCE and affiliates are following the valuation guidelines of Rule V.H
- Determine what management controls exist over the valuation of affiliate transactions
- Evaluate 2002 property transfers to ensure they were properly valued

Conclusions

SCE is in compliance with Rule V.H.

We noted that the ATR Manual correctly specified how a value will be ascribed to each item covered by this Rule. SCE’s guidelines are summarized in the table below.

	Goods & Services Category	Valuation
SCE to Affiliate	V.H.1 For sale on open market (e.g., non-tariffed products & services)	Fair market value; no discrimination in favor of affiliates (V.H.4)
	V.H.3 Regulated by state or fed (e.g., tariffed products & services)	Fair market value (tariffed rate)
	V.H.5 Not for sale on open market (e.g., corporate support services)	Fully loaded costs plus 5% (10% or 15% for requested support)
Affiliate to SCE	V.H.2 For sale on open market (e.g., EO&MS services)	No more than fair market value
	V.H.6 Not for sale on open market (e.g., support services)	Lower of fully loaded cost or fair market value

DR 5

In the course of our audit work, we reviewed the valuation method for several of these categories of transactions. The results of those reviews are described below.

Rule V – Separation

- V.H.1 SCE Open Market Product/Service Sales to Affiliates - We reviewed all the 2002 affiliate work performed by Energy Services, Inc. (ESI), a regulated subsidiary of SCE and an entity of SCE that performs various services for affiliates and non-affiliate third parties. The work performed by ESI for affiliates was priced out using rates from ESI's standard price list, which is also used to price out non-affiliate third party customers. Thus, we can conclude these sales were at "fair market value" and there was no discrimination in favor of affiliates. (INT 21, DR 102)
- V.H.3 SCE Tariffed Product/Service Sales to Affiliates – We found no instances where SCE provided affiliates with discounts off their tariffed products and services. The ATR Manual states "SCE will provide no preferential treatment by the utility, such as discounts, in favor of affiliates." There are a number of internal controls in place to guard against such discounts. First, the Finance Division of SCE's Customer Services Business Unit, in consultation with SCE's Controller's Department, is responsible for reviewing the proposed pricing of all customer offerings, including proposed discounts and fee waivers. Pricing plans that may include a discount from the otherwise applicable tariff are also reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs and are subject to review and approval by the Commission. All of these reviews ensure that proposed offerings are not discriminatory. Thus, we can conclude these sales were at "fair market value." (DR 5)
- V.H.5 SCE Not-For-Sale Services to Affiliates – We reviewed the calculation of SCE corporate support charges to EME entities for one month in 2002 and found the proper calculation of fully loaded labor, overheads and the fee. Thus, we can conclude that these transactions were at "fully loaded costs plus 5%." (DR 162)
- V.H.2 – Affiliates Open Market Product/Service Sales to SCE – We reviewed a sample of 2002 EO&MS invoices to SCE and EO&MS invoices to third party non-affiliates and found hourly rates charged to SCE were 28% less compared to charges to third-party non-affiliated companies, for the same type of workers. This indicates that SCE paid no more than fair market value for these services. (DR 150, DR 151)
- V.H.5 Affiliates Not-For-Sale Services to SCE – We noted none of these transactions in 2002. If there had been any, it is SCE's stated policy to value them at the lower of fully loaded cost or fair market value. (DR 5)

There were only two instances during 2002 where assets were transfer between SCE and affiliates. (DR 69) The first occasion occurred when an EME employee moved to SCE and brought PC-related equipment along. The assets were valued at \$767. The second asset transfer was for the purchase of 44 file cabinets valued at \$9,264. The appropriate affiliated companies were compensated for these assets. SCE's policy is to value transferred assets at "fair market value," regardless of the direction of the transfer. (DR 5)

SCE's Controller's Department is responsible for ensuring that property transfers are calculated and recorded appropriately. Where Controller's questions the amount

Rule V – Separation

charged for goods and services, it will notify RP&A, the affected affiliate and affected utility business units for review of the transactions. (DR 1)

Rule VI – Regulatory Oversight

CPUC Rule

VI.A. Compliance Plans: No later than December 31, 1997, each utility shall file a compliance plan demonstrating to the Commission that there are adequate procedures in place that will preclude the sharing of information with its affiliates that is prohibited by these Rules. The utility should file its compliance plan as an advice letter with the Commission’s Energy Division and serve it on the parties to this proceeding. The utility’s compliance plan shall be in effect between the filing and a Commission determination of the advice letter. A utility shall file a compliance plan annually thereafter by advice letter served on all parties to this proceeding where there is some change in the compliance plan (i.e., when a new affiliate has been created, or the utility has changed the compliance plan for any other reason).

Audit Criteria

- SCE’s compliance plan is filed annually and served on all parties to the proceeding where there has been a reportable change (e.g., creation of a new affiliate subsidiary)

Audit Steps

- Determine that compliance plans in effect during 2002, the period of audit, sufficiently demonstrate that SCE has adequate procedures in place to adhere to the ATR, including prohibitions against sharing of information
- Determine that an updated compliance plan was filed in 2002

Conclusions

SCE is in compliance with Rule VI.A.

As shown in the table below, SCE has followed this Rule’s requirement to file annual updates to its compliance plan from 1998 through 2002. (DR 5)

Compliance Plan	Period Covered
PCP (Preliminary Compliance Plan)	1/1/98 – 1/29/98
SCP (Supplemental Compliance Plan)	1/30/98 – 9/16/98
SCP & Resolution E-3530	9/17/98 – 10/15/98
RCP (Revised Compliance Plan)	10/16/98 – 12/12/01
ARCP (Amended Revised Compliance Plan)	2/5/99 – 11/12/99
UCP (Updated Compliance Plan)	11/12/99 – 12/12/01
ACP (Amended Compliance Plan)	5/9/00 – 12/12/01
MCP (Modified Compliance Plan)	12/12/01 – present
CP02 (Compliance Plan Update for 2002)	12/12/02 – present

DR 17

The most recent compliance plan, CP02, introduced relatively minor changes in SCE’s implementation of the ATR. Highlights of those changes are described below.

- Rule II.B: added three new Class A affiliates, identified a newly inactive affiliate, and noted the reclassification of two affiliates from Class A to Class B
- Rule III.B: added language describing SCE’s understanding of the limited exemption granted in D.00-07-047 regarding Edison O&M Services

Rule VI – Regulatory Oversight

- Rule IV.C: noted the filing date of the most recent Rule IV.C advice letter
- Rule V.E: reintroduced the list of services that may not be shared in response to a 2001 Northstar audit recommendation and updated the description of a small number of shared support functions
- Rule V.F.1: modified to reflect changes in Rule V.F.1 as a result of D.02-02-046 (pertaining to disclaimer text) and to reflect D.02-10-033 (dismissing the 1998 complaint regarding an Edison Source mailing)
- Rule VI.A: referred to CP02 as fulfilling, in part the requirements of this rule
- Rule VI.B: referred to the two new affiliate advice letters filed in 2002 and noted that CP02 and MCP will serve as the compliance statement for those affiliates and that the pending advice letters will be withdrawn

During 2002, the following compliance plans covered the indicated rules:

Rule	Prevailing Compliance Plan	
	1/1/02 – 12/11/02	12/12/02 – 12/31/02
I	MCP	MCP
II.A-B	MCP	CP02
II.C through III.A	MCP	MCP
III.B	MCP	CP02
III.B.1 through IV.B	MCP	MCP
IV.C	MCP	CP02
IV.D through V.D	MCP	MCP
V.E, V.F.1	MCP	CP02
V.F.2 through V.H	MCP	MCP
VI.A, VI.B	MCP	CP02
VI.C through VII	MCP	MCP

DR 1, DR 20

We reviewed both the MCP and CP02 to assess whether they sufficiently demonstrate that SCE has adequate procedures in place to adhere to the ATR. (DR 1, DR 20) The MCP covers every Rule since it was meant to incorporate and supercede the compliance statements of several previous plans. Our review of the MCP showed SCE’s commitments to be complete and to generally involve a comprehensive interpretation of the Rules.

CP02 was meant to cover specific Rule updates so it is a more concise document than the MCP. Essentially, the language of the MCP is annotated with updates in the CP02. We reviewed these changes in light of the applicable Rules and found them to be appropriate. (DR 20)

We compared information and commitment statements in the MCP and the CP02 to the contents of the ATR Manual, the resource used by employees for directions on compliance with the ATR. We found the MCP and CP02 to be consistent with the detailed instructions in the ATR Manual. (DR 1, DR 20, DR 5)

Rule VI – Regulatory Oversight

It should be noted that in Resolution E-3539, Finding 91, the CPUC found SCE’s process for updating its compliance plans reasonable.

CPUC Rule

VI.B. New Affiliate Compliance Plans: Upon the creation of a new affiliate which is addressed by these Rules, the utility shall immediately notify the Commission of the creation of the new affiliate, as well as posting notice on its electronic bulletin board. No later than 60 days after the creation of this affiliate, the utility shall file an advice letter with the Energy Division of the Commission, served on the parties to this proceeding. The advice letter shall demonstrate how the utility will implement these Rules with respect to the new affiliate.

Audit Criteria

- SCE communicates to affiliates the need to be promptly informed when new affiliates are created
- SCE properly reports on a timely basis, the creation of new affiliates which are subject to the ATR

Audit Steps

- Review communications between SCE and affiliates regarding the creation/establishment of new affiliates
- Review new affiliate advice letters to determine that the CPUC was notified of new affiliates in no later than 60 days after their creation

Conclusions

SCE is in partial compliance with Rule VI.B.

The ATR Manual states that SCE will notify the CPUC within 3 business days of the creation of a new affiliate. This deadline is more rigorous than the 60-day limit of Rule VI.B. (DR 5)

The CPUC has not defined “creation” for purposes of this Rule. SCE has therefore determined it will consider an affiliate created “when it [affiliate] begins providing products and services that would render it an affiliate as defined in the Rules.” This may occur some time after the affiliate has been established. (DR 5) We find this position to be reasonable.

The last sentence of this Rule states that each new affiliate advice letter “shall demonstrate how the utility will implement these Rules with respect to the new affiliate.” Taken literally, it would seem this means SCE must have some customized compliance plan for each affiliate. However, SCE has taken the position that the existence of an adequate overall plan of compliance (as called for by VI.A) is sufficient to meet Rule VI.B. We concur with this approach.

Rule VI – Regulatory Oversight

Two Class A affiliates were created in 2002:

- CP Power Sales Seventeen, LLC – indirect subsidiary of EME created on January 23, 2002 to enter into power contracts
- EMOM Services, Inc. – indirect subsidiary of EME created on December 16, 2002 to perform maintenance/mechanical services to a wind farm generation facility located in Alta, Iowa (DR 70)

In 2002, SCE submitted advice letters notifying the CPUC of three new Class A affiliates. Besides the two created in 2002, notification was given for Coaltrade Services International Pte Ltd, an indirect subsidiary of EME that provides coal trading services to PT Adaro, an Indonesian company that owns a coal mine and supplies coal to the PT Paiton project. (DR 61). Coaltrade was created in December 2000 and its 60-day notification deadline was missed. The table below shows the duration between creation and notification associated with the 2002 Advice Letters.

Affiliate	Date		Number of Days
	Created	CPUC Notified	
Coaltrade Services International Pte Ltd	12/19/00	7/16/02	574
CP Power Sales Seventeen, LLC	1/23/02	1/25/02	2
EMOM Services, Inc	12/16/02	12/20/02	4

DR 61

Regulatory Policy and Affairs (RP&A) is responsible for filing advice letters concerning new affiliates. RP&A relies on certain affiliate executives and managers to notify them when new Class A affiliates are created. In response to a recommendation in the 2001 Affiliate Transactions Audit, SCE’s Affiliates Officer sent a letter on June 12, 2002 to these employees reminding them of their affiliate notification responsibilities. The letter clearly described the criteria to use in determining if an entity should be reported. (DR 170) In addition to this letter, SCE’s Affiliates Officer held a meeting with affiliate personnel on March 18, 2002 covering the need to report on new affiliates. As an alternative check for unreported new affiliates, RP&A reviews the EIX Tier List and Affiliate Entity List, both prepared semi-annually by the Law Department. (DR 171)

While SCE missed Coaltrade’s filing deadline, this did not result in any inappropriate dealings with Coaltrade. SCE has no direct dealings with Coaltrade and corporate support is provided at the EME parent company level. However, we feel it necessary to recommend that a “new affiliate creation” notification reminder letter be sent to affiliate executives and managers in 2003.

Recommendation

8. Send a note to affiliate executives and managers reminding them of their responsibility to notify SCE’s Affiliates Officer when a new Class A affiliate is created.

Rule VI – Regulatory Oversight

CPUC Rule

VI.C. Affiliate Audit: No later than December 31, 1998, and every year thereafter, the utility shall have audits performed by independent auditors that cover the calendar year which ends on December 31, and that verify that the utility is in compliance with the Rules set forth herein. The utilities shall file the independent auditor's report with the Commission's Energy Division beginning no later than May 1, 1999, and serve it on all parties to this proceeding. The audits shall be at shareholder expense.

Audit Criteria

- An annual audit of affiliate transactions is performed by independent auditors whose report is filed with the CPUC by May 1 after the calendar year of the audit
- The audit is conducted at shareholder expense

Audit Steps

- Determine that audits were conducted when required in the past and the reports were filed on time
- Determine that the audits were conducted at shareholder expense

Conclusions

SCE is in compliance with Rule VI.C.

As required by this Rule, SCE has engaged independent auditors to perform the affiliate transaction audits since 1999. Each audit report was filed with the CPUC on a timely basis. The audits were performed at shareholder expense. (DR 118)

The disposition of Northstar's 2001 audit recommendations is shown in Exhibit 4.

CPUC Rule

VI.D. Witness Availability: Affiliate officers and employees shall be made available to testify before the Commission as necessary or required, without subpoena, consistent with the provisions of the Public Utilities Code Section 314.

Audit Criteria

- Affiliate officers and employees are available to testify before the CPUC without subpoena

Audit Steps

- Determine SCE's level of cooperation on witness availability

Conclusions

SCE is in compliance with Rule VI.D.

Rule VI – Regulatory Oversight

The ATR Manual evidences SCE's witness availability commitment by restating verbatim the text of this Rule. (DR 5) During 2002, no SCE or affiliate officers or employees were called upon to testify before the CPUC with regard to affiliate transactions.

2002 Affiliates Transactions Audit of SCE
Status of 2001 Audit Recommendations

Rule	Recommendation	SCE Disposition
III	1. Formally clarify Decision 00-07-047, Ordering Paragraph 9 regarding services from EO&MS	SCE accepted this recommendation and incorporated its understanding of the meaning of Ordering Paragraph 9 in both the Affiliate Transaction Rule (ATR) Manual, and in SCE's next compliance plan update
III	2. Compare the products and services that SCE obtains from EO&MS, to those of other potential service providers with regard to both cost and quality	SCE rejected this recommendation and explained in a response to the CPUC that any services obtained through EO&MS would be secured under established qualification and approval processes or pursuant to the exemption authorized by D.00-07-047
III	3. Develop and strictly adhere to a formal agreement with EO&MS for specified services, including cost and quality	SCE accepted this recommendation and established a number of formal agreements with EO&MS
III	4. Audit EO&MS' business practices related to affiliate transactions during 2002	SCE accepted this recommendation and Audit Services conducted the recommended audits in 2002
III	5. Audit ESI's adherence to SCE internal controls during 2002	SCE accepted this recommendation and Audit Services conducted the recommended audit in 2002
III	6. Discontinue tracking completion of Direct Access Service Requests (DASRs) until California reinstates Direct Access	SCE rejected this recommendation because it is obligated by the CPUC to track DASRs
III	7. Discontinue tracking completion of Customer Information Service Requests (CISRs) until such time that an SCE-affiliated service provider is created and requests customer information	SCE rejected this recommendation because it is obligated by the CPUC to track CISRs
III	8. Discontinue the "Notice of Customer Information to Affiliates" website until SCE has new affiliate information requests to post	SCE rejected this recommendation because it is obligated by the CPUC to maintain the website
III	9. Discontinue the "SCE Discounts to Affiliates" website until SCE provides a discount, rebate, or waiver to an affiliate	SCE rejected this recommendation because it is obligated to by the CPUC maintain the website
III	10. Discontinue the "Non-Customer, Non-Specific Information Provided to Affiliates" website until SCE provides this information to an affiliate	SCE rejected this recommendation because it is obligated by the CPUC to maintain the website
V	11. Provide the table of Services That May Not Be Shared in SCE's next Compliance Plan update	SCE accepted this recommendation and included the specified table in the 2002 Compliance Plan update (CP02)
V	12. Review the policy for adding disclaimers to inserts in affiliate promotional brochures, especially if inserts have potential of becoming standalone documents	SCE accepted this recommendation and conducted a review of its corporate policy for adding disclaimers to advertising and media materials that had the potential to become standalone material

(DR 11)

2002 Affiliates Transactions Audit of SCE
Status of 2001 Audit Recommendations

Rule	Recommendation	SCE Disposition
V	14. SCE's Controller's organization should perform an analysis of direct charges to affiliates each month. The results of this analysis highlighting charges for which no approved ISR is in place, should be explicitly reported to RP&A, Audits, and the respective functional area executive management	SCE accepted this recommendation. The Controller's organization worked with Audit Services to develop and implement a process that reviews charges for directly requested services and ties those charges to approved ISRs. Controllers notifies RP&A of any instances in which a directly requested service charge is made, but Controllers is not able to identify a corresponding approved ISR. Both departments will continue to work together to investigate and resolve any issues in this area.
V	15. Perform an analysis of directly charged time (ISRs) to affiliates and include a "root cause analysis" of any discrepancies between reported and actual time	SCE accepted this recommendation and Audit Services conducted a review of the ISR process in 2002.
V	16. Test the effectiveness of modifications recently made to the Loaned Labor Report in terms of the accuracy and timeliness of information reported	SCE accepted this recommendation and Audit Services conducted a review of the ISR process in 2002.
V	17. Develop a long-term, automated solution to the Loaned Labor Report's dependence on manual intervention and correction	SCE rejected this recommendation saying that further changes to the Loaned Labor Report were not warranted because the manual intervention took only one hour per month.
VI	18. Send an Internet notice to affiliate executives and managers, similar to the one sent in June 2001, that reminds them of the need to inform SCE's Affiliates Officer about each and every new affiliate immediately after its creation or acquisition and reminds them that it is a regulatory requirement	SCE accepted this recommendation and SCE's Affiliates Officer sent a reminder note to relevant affiliate executives and managers in June 2002.
VII	19. Provide ESI products and services to affiliates solely on a time and materials basis	SCE accepted this recommendation and ESI no longer performs fixed price work for affiliates.

(DR 11)

Rule VII – Utility Products and Services

CPUC Rule

VII. Utility Products and Services

VII.A. General Rule: Except as provided for in these Rules, new products and services shall be offered through affiliates.

Audit Criteria

- New products and services are only offered by affiliates except where provided by this ATR

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.A
- Determine that new products and services are only offered through affiliates

Conclusions

SCE is in compliance with Rule VII.A.

SCE's current offerings of non-tariffed products and services were conditionally approved by the CPUC on January 6, 2000 when it issued Resolution E-3639 in response to SCE's Advice 1286-E. The CPUC ordered that SCE:

- Reclassify four categories of non-tariffed products and services (customer account management services for non-ESPs; use of general facilities; inspection, operation and maintenance, modification, upgrade, removal, and repair of generation, transmission and distribution related facilities and equipment; and miscellaneous services) so that they comply with the definition established in Rule VII.B.1
- Delete categories "sale of tariffed utility property and equipment/furniture requiring Section 851 application" and "sale of utility property and equipment/furniture (not requiring a section 851 application)" and reclassify the specific line items in each category as appropriate
- Delete the category "trading, buying and selling of emission credits pursuant to RECLAIM" from Attachment A to Advice 1286-E

SCE implemented this directive and submitted Advice 1286-E-A on April 5, 2000 notifying the CPUC of its actions. The CPUC has not yet ruled on Advice 1286-E-A. No Advice Letters related to Rule VII were filed in 2002.

In 2002, SCE did not create or request authorization from the Commission for any new categories of non-tariffed products and services. In addition SCE did not offer any new products or services within its existing categories of non-tariffed products and services. (INT 31; DR 75). During the course of our interviews and data analysis, we found no evidence that SCE was not complying with Rule VII.

Rule VII – Utility Products and Services

Exhibit 5 shows the volume of non-tariffed products and services in 2001 and 2002. The following areas of SCE provided these products and services:

- Customer Services Business Unit
- Carrier Solutions
- Transmission and Distribution Business Unit
- Generation Business Unit
- Power Production
- Shared Services – Business Resources
- Shared Services – Corporate Real Estate
- Shared Services – Transportation Services
- Controller's. (DR 164)

CPUC Rule

VII.B. Definitions: The following definitions apply for the purposes of this section (Section VII) of these Rules:

VII.B.1. "Category" refers to a factually similar group of products and services that use the same type of utility assets or capacity. For example, "leases of land under utility transmission lines" or "use of a utility repair shop for third party equipment repair" would each constitute a separate product or service category.

VII.B.2. "Existing" products and services are those which a utility is offering on the effective date of these Rules

VII.B.3. "Products" include use of property, both real and intellectual, other than those uses authorized under General Order 69-C.

VII.B.4. "Tariff" or "tariffed" refers to rates, terms and conditions of services as approved by this Commission or the Federal Energy Regulatory Commission (FERC), whether by traditional tariff, approved contract or other such approval process as the Commission or the FERC may deem appropriate.

Audit Criteria

- SCE's definition of these terms is similar to those of this Rule

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.B
- Review the ATR Manual to determine that SCE has properly interpreted the terms included in this rule

Conclusions

SCE is in compliance with Rule VII.B.

The ATR Manual restates verbatim this Rule's definitions of "category," "existing," "products" and "tariff/non-tariffed" (DR 5). In the course of conducting the audit, we found that SCE had properly interpreted and implemented the requirements of Rule VII concerning non-tariffed products and services.

Exhibit 5

2002 Affiliates Transactions Audit of SCE
2001-2002 Non-Tariffed Products and Services
(\$ thousands)

Product/Service Category	2001		2002	
	Revenues	Incremental Costs	Revenues	Incremental Costs
Secondary Use of Transmission Right of Ways, and Land	\$ 15,538	\$ 139	\$ 15,878	\$ 439
Secondary Use of Distribution Right of Ways, Land, Facilities and Substations	\$ 1,825	\$ 1,235	\$ 1,372	\$ 628
Secondary Use of Utility-Owned Generation Facilities and Land	\$ 322	\$ 3	\$ 218	\$ -
Secondary Use of Utility-Owned Office Buildings and Offices	\$ 409	\$ 142	\$ 604	\$ 157
Use of Transmission Towers, Distribution Poles, Facilities, Conduits, Ducts and Streetlight Poles	\$ 1,475	\$ 946	\$ 1,987	\$ 815
Use of Communications and Computing Systems	\$ 21,423	\$ 16,768	\$ 24,311	\$ 11,137
License of Utility Software	\$ -	\$ -	\$ 26	\$ 16
Licensing of Utility-Held Patents	\$ -	\$ -	\$ -	\$ -
Property Management, Property Maintenance and Real Property Brokerage Services	\$ 157	\$ 1	\$ 168	\$ 18
Recreation, Fish and Wildlife Activities	\$ 943	\$ -	\$ 951	\$ 53
Sales of Timber Stands on Utility-Owned Property	\$ 99	\$ -	\$ 86	\$ -
Use of Customer Technology Application Center (CTAC) and Agricultural Technology Application Center (AgTAC) Facilities	\$ 215	\$ 111	\$ 164	\$ 69
Electric Vehicle (EV), Battery, and Charger-Related Services	\$ 472	\$ 177	\$ 27	\$ 20
Energy Efficiency Engineering, Consulting and Technical Services	\$ -	\$ -	\$ -	\$ -
Billing and Customer Communications Center Services for Non-ESPs	\$ 454	\$ 37	\$ 426	\$ 33
Meter Reading and Field Services for Non-ESPs	\$ 2,665	\$ 1,740	\$ 2,481	\$ 1,560
Bill Payment Options	\$ 1,859	\$ 254	\$ 3,700	\$ 196
Vehicle Maintenance and Repair	\$ 516	\$ 212	\$ 265	\$ 115
Transportation and Disposal of Hazardous Materials	\$ -	\$ -	\$ -	\$ -
Use of Heavy Equipment and Machinery	\$ -	\$ -	\$ -	\$ -
Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities and Equipment	\$ 8,033	\$ 4,330	\$ 6,566	\$ 3,344
Advanced Testing of Hydraulic Pumps	\$ 88	\$ 18	\$ 67	\$ -
Equipment and Machinery Repair, Testing, Maintenance and Calibration	\$ 21,502	\$ 17,228	\$ 14,919	\$ 12,341
Geographic Information Systems (GIS) Services	\$ -	\$ -	\$ -	\$ -
Tariff Sheet Sales	\$ -	\$ -	\$ -	\$ -
Recycling Services	\$ 7	\$ -	\$ 8	\$ -
Training and Technical Certification Services	\$ 10	\$ -	\$ 130	\$ -
Material Procurement and Purchasing Services	\$ -	\$ -	\$ -	\$ -
Fuel Oil Pipeline System and Storage Facilities	\$ 29,592	\$ 9,040	\$ 28,868	\$ 7,160
Total	\$ 107,604	\$ 52,381	\$ 103,222	\$ 38,101

(DR 121)

Rule VII – Utility Products and Services

CPUC Rule

VII.C. Utility Products and Services: Except as provided in these Rules, a utility shall not offer non-tariffed products and services. In no event shall a utility offer natural gas or electricity commodity service on a non-tariffed basis. A utility may only offer for sale the following products and services:

VII.C.1. Existing products and services offered by the utility pursuant to tariff;

VII.C.2. Unbundled versions of existing utility products and services, with the unbundled versions being offered on a tariffed basis;

VII.C.3. New products and services that are offered on a tariffed basis; and

VII.C.4. Products and services which are offered on a nontariffed basis and which meet the following conditions:

VII.C.4.a. The nontariffed product or service utilizes a portion of a utility asset or capacity;

VII.C.4.b. such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility service;

VII.C.4.c. the involved portion of such asset or capacity may be used to offer the product or service on a nontariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;

VII.C.4.d. the products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and

VII.C.4.e. The utility's offering of such nontariffed product or service does not violate any law, regulation, or Commission policy regarding anticompetitive practices.

Audit Criteria

- SCE offers only tariffed products and services except for those non-tariffed products and services that meet the conditions spelled out in the ATR

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.C
- Review the 2001 and 2002 Reports of Utility Non-Tariffed Products and Services
- Verify that non-tariffed products and services offered by SCE meet the requirements of this Rule

Conclusions

SCE is in compliance with Rule VII.C.

SCE does not offer electric commodity service on a non-tariffed basis and only offers non-tariffed products and services that are allowed by Rule VII.C (INT 31).

We reviewed the non-tariffed work that Edison ESI (ESI) performed for affiliates during 2002. This involved nine jobs whose work properly fell into existing non-tariffed product and service categories. (DR 102)

Rule VII – Utility Products and Services

We reviewed the 2001 and 2002 Periodic Reports of Utility Non-Tariffed Products and Services and noted that 3 of the 28 categories involved the use of more than 1% of applicable utility assets. We found this level of use not to adversely affect the cost, quality or reliability of tariffed utility products and services, as described below.

- Secondary Use of Transmission Right of Ways and Land (22% in 2001) – SCE’s non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services
- Secondary Use of Distribution Right of Ways, Land, Facilities and Substations (4% in 2001) – SCE’s non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services
- Fuel Oil Pipeline System and Storage Facilities (43.6% in 2001) – While this is designated a category of non-tariffed products and services category, it has a separate history of regulatory treatment. Essentially, this pipeline is no longer used for utility service since certain SCE generating facilities that this system supported converted from oil to gas in the early 1990’s. Later, the generating facilities were sold, thus removing any possibility SCE could use the pipeline in connection with tariffed electric service. Since conversion, the pipeline’s capacity has been used to provide transportation and storage services to refineries in its vicinity. Thus, there is no impairment to SCE’s tariffed services by the relatively high percent of pipeline assets devoted to non-tariffed products and services.
(INT 31)

SCE created no new categories of non-tariffed products or services in 2002. (DR 75)

CPUC Rule

VII.D. Conditions Precedent to Offering New Products and Services: This Rule does not represent an endorsement by the Commission of any particular nontariffed utility product or service. A utility may offer new nontariffed products and services only if the Commission has adopted and the utility has established:

VII.D.1. A mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a non-tariffed basis;

VII.D.2. A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle.

VII.D.3. Periodic reporting requirements regarding pertinent information related to nontariffed products and services; and

VII.D.4. Periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services.

Rule VII – Utility Products and Services

Audit Criteria

- Any new non-tariffed products and services offered by SCE are not cross-subsidized by tariffed products and services, have received approvals from the CPUC as to the cost allocation method, and SCE complies with the associated reporting requirements

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.D
- Evaluate the accounting process for non-tariffed revenues and expenses
- Review any Internal Audit work pertaining to Rule VII.D

Conclusions

SCE is in compliance with Rule VII.D.

Since the CPUC issued Decision 99-09-070 on September 16, 1999, SCE has followed the guidelines for the Gross Revenue Sharing Mechanism called for in that decision. An automated accounting system was established in 2000 to collect revenue and incremental cost data from the various areas of SCE that provide non-tariffed products and services.

We reviewed the monthly report prepared by the Controller's Department showing a detailed tabulation of non-tariffed revenues and the calculation of gross revenue sharing. We noted that the sharing was properly calculated based on whether the revenue was passive or active. (DR 164)

On January 30, 2002, Audit Services issued a report on its review of SCE's 2000 Periodic Report of Utility Non-Tariffed Products and Services. The audit's objectives were to: (1) ensure non-tariffed products and services revenues and incremental costs were reported correctly in SCE's 2000 Periodic Report of Utility Non-Tariffed Products and Services, (2) review the accounting of non-tariffed products and services revenues to ensure compliance with classifications as active or passive categories for purposes of SCE's Gross Revenue Sharing Mechanism, and (3) evaluate the efficiency and effectiveness of internal controls. The report concluded "procedures and internal controls currently in effect provide reasonable assurance that the objectives outlined above..." (DR 13)

Finally, in its 2002 General Rate Case examination, the Office of Ratepayer Advocate's (ORA) reviewed SCE's accounting process for non-tariffed products and services and concluded:

"Based on review of additional information obtained and workpapers provided in the 2003 GRC, it appears that revenues and incremental expenditures related to ECS [Edison Carrier Solutions] are excluded from the 2003 GRC." (DR 34)

Rule VII – Utility Products and Services

CPUC Rule

VII.E. Requirements to File an Advice Letter: Prior to offering a new category of nontariffed products or services as set forth in Section VII C above, a utility shall file an advice letter in compliance with the following provisions of this paragraph.

VII.E.1. The advice letter shall:

VII.E.1.a. demonstrate compliance with these rules;

VII.E.1.b. address the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or service will no result in a degradation of cost, quality, or reliability of tariffed goods and services;

VII.E.1.c. demonstrate that the utility has not received competition transition charge (CTC) recovery in the Transition Cost Proceeding, A.96-08-001, or other related CTC Commission proceeding, for the portion of the utility asset dedicated to the non-utility venture; and

VII.E.1.d. address the potential impact of the new product or service on competition in the relevant market, including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect the market.

VII.E.1.e. be served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the rules governing the Commission's advice letter process.

VII.E.2. For categories of nontariffed products or services targeted and offered to less than 1% of the number of customers in the utility's customer base, in the absence of a protest alleging non-compliance with these Rules or any law, regulation, decision, or Commission policy, or allegations of harm, the utility may commence offering the product or service 30 days after submission of the advice letter. For categories of nontariffed products or services targeted and offered to 1% or more of the number of customers in the utility's customer base, the utility may commence offering the product or service after the Commission approves the advice letter through the normal advice letter process.

VII.E.3. A protest of an advice letter filed in accordance with this paragraph shall include:

VII.E.3.a. An explanation of the specific Rules, or any law, regulation, decision, or Commission policy the utility will allegedly violate by offering the proposed product or service, with reasonable factual detail; or

VII.E.3.b. An explanation of the specific harm the protestant will allegedly suffer.

VII.E.4. If such a protest is filed, the utility may file a motion to dismiss the protest within 5 working days if it believes the protestant has failed to provide the minimum grounds for protest required above. The protestant has 5 working days to respond to the motion.

VII.E.5. The intention of the Commission is to make its best reasonable efforts to rule on such a motion to dismiss promptly. Absent a ruling granting a motion to dismiss, the utility shall begin offering that category of products and services only after Commission approval through the normal advice letter process.

Audit Criteria

- SCE offers only tariffed products and services except for those non-tariffed products and services that meet the conditions spelled out in the ATR

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.E
- Determine if SCE offered any new categories of non-tariffed products and services through: (1) interviews with SCE staff and (2) by comparing the 2002 and 2001 Utility Non-Tariffed Products and Services Report to the CPUC
- If new categories were offered, determined that an advice letter was filed

Rule VII – Utility Products and Services

Conclusions

SCE is in compliance with Rule VII.E.

During 2002, SCE did not offer any new categories of non-tariffed products and services. (INT 31) Thus, no advice letters were required to be filed with the CPUC. (DR 121)

In 2002, no protest letters were filed regarding SCE's non-tariffed products and services or related advice letters. (DR 122)

CPUC Rule

VII.F. Existing Offerings: Unless and until further Commission order to the contrary as a result of the advice letter filing or otherwise, a utility that is offering tariffed or nontariffed products and services, as of the effective date of this decision, may continue to offer such products and services, provided that the utility complies with the cost of allocation and reporting requirement in this rule. No later than January 30, 1998, each utility shall submit an advice letter describing the existing products and services (both tariffed and nontariffed) currently being offered by the utility and the number of Commission decision or advice letter approving this offering, if any, and requesting authorization or continuing authorization for the utility's continued provision of this product or service in compliance with the criteria set forth in Rule VII. This requirement applies to both existing products and services explicitly approved and not explicitly approved by the Commission.

Audit Criteria

- Interview SCE staff responsible for compliance with Rule VII.F
- SCE has properly responded to any 2002 CPUC orders as they relate to the offering of non-tariffed products and services

Audit Steps

- Review any 2002 CPUC orders pertaining to the offering of tariffed and non-tariffed products and services

Conclusions

SCE is in compliance with Rule VII.F.

As required by this Rule, SCE filed the Advice Letter 1286-E on January 30, 1998, identifying its tariffed and non-tariffed utility products and services. At the CPUC's direction, SCE filed an updated version of this advice letter on April 5, 2000 (Advice 1286-E-A). On February 22, 2000, SCE filed Advice Letter 1436-E requesting the CPUC authorize Newspaper Solicitation Service, a new category of non-tariffed products and services. The CPUC is scheduled to rule on this matter at its April 17, 2003 meeting. The Commission's agenda indicates it is scheduled to issue Resolution E-3793, denying SCE's request.

The CPUC issued no orders in 2002 that required SCE to file any advice letters pertaining to Rule VII.F.

Rule VII – Utility Products and Services

CPUC Rule

VII.G. Section 851 Application: A utility must continue to comply fully with the provisions of Public Utilities Code Section 851 when necessary or useful property is sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered as part of a nontariffed product or service offering by the utility. If an application pursuant to Section 851 is submitted, the utility need not file a separate advice letter, but shall include in the application those items which would otherwise appear in the advice letter as required in this Rule.

Audit Criteria

- When SCE offers non-tariffed products and services that involve property subject this Rule, it submits a Section 851 Application or files a separate advice letter, as necessary

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.G
- Review 2002 instances where SCE sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered necessary or useful property

Conclusions

SCE is in compliance with Rule VII.G.

During 2002, SCE submitted Section 851 Applications for the following arrangements to lease SCE property to unaffiliated parties:

- RHC Communities (A.02-02-014)
- Commerce Club Casino (A.02-02-015)
- BRRVS (A.02-04-046)
- Critchfield (A.02-04-047)
- Park Edison (not an SCE affiliate) (A.02-02-048)
- Sprint PCS (A.02-04-049)
- Nextel of California (A.02-05-023)
- Cingular Wireless (A.02-07-031)
- RHC Communities (A.02-09-007)
- General Mills (A.02-09-008)
- Copart (A.02-09-009)
- KOP II (A.02-09-020)
- Verizon Wireless (A.02-10-029) (DR 76)

In addition, SCE filed a Section 851 Application for approval to sell and transfer the fuel oil pipeline facilities used to conduct another non-tariffed service (A.02-03-035).

All of these arrangements fell into existing non-tariffed product and service categories, thus SCE was not required to fill a Rule VII.G Advice Letter.

Rule VII – Utility Products and Services

CPUC Rule

VII.H. Periodic Reporting of Nontariffed Products and Services: Any utility offering nontariffed products and services shall file periodic reports with the Commission's energy Division twice annually for the first two years following the effective date of these Rules, then annually thereafter unless otherwise directed by the Commission. The utility shall serve periodic reports on the service list of this proceeding. The periodic reports shall contain the following information:

VII.H.1. A description of each existing or new category of nontariffed products and services and the authority under which it is offered;

VII.H.2. A description of the types and quantities of products and services contained within each category (so that, for example, "leases for agricultural nurseries at 15 sites" might be listed under the category "leases of land under utility transmission lines," although the utility would not be required to provide the details regarding each individual lease);

VII.H.3. The cost allocated to and revenues derived from each category; and

VII.H.4. Current information on the proportion of relevant utility assets used to offer each category of product and service.

Audit Criteria

- The report format and content meets CPUC requirements
- The process for assembling the Periodic Report of Utility on Non-Tariffed Products and Services to the CPUC ensures the information is accurate and timely
- The report is filed by the required deadline of March 31

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.H
- Review the 2001 and 2002 Periodic Reports of Utility on Non-Tariffed Products and Services for: format, content and filing date
- Review Internal Audit work pertaining to non-tariffed products and services

Conclusions

SCE is in compliance with Rule VII.H.

Since January 1, 2002, SCE filed the following Periodic Report of Utility Non-Tariffed Products and Services:

- 2001 Report covering January 1, 2001 through December 31, 2001 (filed March 28, 2002) (DR 121)
- 2002 Report covering January 1, 2002 through December 31, 2002 (filed March 25, 2003) (DR 121)

Both reports contained the following information, as called for by Rule VII.H:

- Non-tariffed product/service categories offered during the reporting period

Rule VII – Utility Products and Services

- Description of each category, including a listing of the types and quantities of products/services within each category
- Revenues and incremental costs associated with each product/service category
- Proportional share of relevant utility assets used to offer each product/service category

On January 30, 2002, SCE's Audit Services issued a report on its review of SCE's 2000 Non-Tariffed Products and Services Report. The audit's objectives were to: (1) ensure non-tariffed products and services revenues and incremental costs were reported correctly in SCE's Periodic Report of Utility Non-Tariffed Products and Services and (2) review the accounting of non-tariffed products and services revenues to ensure compliance with classifications as active or passive categories for purposes of SCE's Gross Revenue Sharing Mechanism, and (3) evaluate the efficiency and effectiveness of internal controls. The report concluded "procedures and internal controls currently in effect provide reasonable assurance that the objectives outlined above..." (DR 13)

CPUC Rule

VII.I. Offering of Nontariffed Products and Services to Affiliates: Nontariffed products and services which are allowed by this Rule may be offered to utility affiliates only in compliance with all other provisions of these Affiliate Rules. Similarly, this Rule does not prohibit affiliate transactions which are otherwise allowed by all other provisions of these Affiliate Rules.

Audit Criteria

- SCE only offers allowed non-tariffed products and services to affiliates

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.I
- Assess how non-tariffed product and service offerings are monitored to ensure compliance with Rule VII.I

Conclusions

SCE is in compliance with Rule VII.I.

The following SCE entities provided affiliates with non-tariffed products and services:

- Edison ESI (ESI) – provided to EO&MS Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities Equipment and Equipment and Machinery Repair category services. ESI has service agreements in place with other affiliates, but there was no activity during 2002. (DR 78)
- Carrier Solutions – has a service agreement in place with EO&MS, but did not provide any non-tariffed products and services in 2002. Carrier Solutions provides services in the "Use of Communications and Computing Systems" category of non-tariffed products and services.

Rule VII – Utility Products and Services

- Generation Business Unit – provides Training and Technical Certification category of non-tariffed products and services to EO&MS.

These services were found to be allowed by Rule VII. (INT 31)

Rule VIII – Complaint Procedures and Remedies

CPUC Rule

VIII. Procedure:

VIII.A. The Commission shall strictly enforce these rules. Each act or failure to act by a utility in violation of these rules may be considered a separate occurrence.

VIII.B. Standing:

VIII.B.1. Any person or corporation as defined in Sections 204, 205, and 206 of the California Public Utilities Code may complain to the Commission or to a utility in writing, setting forth any act or thing done or omitted to be done by any utility or affiliate in violation or claimed violation of any rule set forth in this document.

VIII.B.2. “Whistleblower complaints” will be accepted and the confidentiality of complainant will be maintained until conclusion of an investigation or indefinitely, if so requested by the whistleblower. When a whistleblower request anonymity, the Commission will continue to pursue the complaint only where it has elected to convert it into a Commission-initiated investigation. Regardless of the complainant's status, the defendant shall file a timely answer to the complaint.

VIII.C. Procedure:

VIII.C.1. All complaints shall be filed as formal complaints with the Commission and complainants shall provide a copy to the utility's designated officer (as described below) on the same day that the complaint is filed.

VIII.C.2. Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate rules and the utility's compliance plan adopted pursuant to these rules. Such officer shall also be responsible for receiving, investigating, and attempting to resolve complaints. The Affiliate Compliance Officer may, however, delegate responsibilities to other officers and employees.

VIII.C.2.a. The utility shall investigate and attempt to resolve the complaint. The resolution process shall include a meet-and-confer session with the complainant. A Commission staff member may, upon request by the utility or the complainant, participate in such meet-and-confer sessions and shall participate in the case of a whistleblower complaint.

A party filing a complaint may seek a temporary restraining order at the time the formal complaint is filed. The defendant utility and other interested parties may file responses to a request for a temporary restraining order within 10 days of the filing of the request. An assigned commissioner or administrative law judge, or the Commission shall act on the request for a temporary restraining order within 30 days. The request may be granted when: (1) moving party is reasonably likely to prevail on the merits, and (2) a temporary restraining order relief is necessary to avoid irreparable injury, will not substantially harm other parties, and is consistent with the public interest.

A notice of temporary restraining order issued by an assigned commissioner or administrative law judge will only stay in effect until the end of the day of the next regularly-scheduled Commission meeting at which the Commission can issue a temporary restraining order or a preliminary injunction. If the Commission declines to issue a temporary restraining order or a preliminary injunction, the notice of temporary restraining order will be immediately lifted. Whether or not a temporary restraining order or a preliminary injunction is issued, the underlying complaint may still move forward.

VIII.C.2.b. The utility shall prepare and preserve a report on each complaint, all relevant dates, companies, customers and employees involved, and if applicable, the resolution reached, the date of the resolution and any actions taken to prevent further violations from occurring. The report shall be provided to the Commission and all parties within four weeks of the date the complaint was filed. In addition to providing hard copies, the utility shall also provide electronic copies to the Commission and to any party providing an e-mail address.

VIII.C.2.c. Each utility shall file annually with the Commission a report detailing the nature and status of all complaints.

VIII.C.2.d. The Commission may, notwithstanding any resolution reached by the utility and the complainant, convert a complaint to an investigation and determine whether the utility violated these rules, and impose any appropriate penalties under Section VIII.D or any other remedies provided by the Commission's rules or the Public Utilities Code.

VIII.C.3. The utility will inform the Commission's Energy Division and Consumer Services Division of the results of this dispute resolution process. If the dispute is resolved, the utility shall inform the Commission staff of the actions taken to resolve the complaint and the date the complaint was resolved.

Rule VIII – Complaint Procedures and Remedies

VIII.C.4. If the utility and the complainant cannot reach a resolution of the complaint, the utility will so inform the Commission's Energy Division. It will also file an answer to the complaint within 30 days of the issuance by the Commission's Docket Office of instructions to answer the original complaint. Within 10 business days of notice of failure to resolve the complaint, Energy Division staff will meet and confer with the utility and the complainant and propose actions to resolve the complaint. Under the circumstances where the complainant and the utility cannot resolve the complaint, the Commission shall strive to resolve the complaint within 180 days of the date the instructions to answer are served on the utility.

VIII.C.5. The Commission shall maintain on its web page a public log of all new, pending and resolved complaints. The Commission shall update the log at least every week. The log shall specify, at a minimum, the date the complaint was received, the specific allegations contained in the complaint, the date the complaint was resolved and the manner in which it was resolved, and a description of any similar complaints, including the resolution of such similar complaints.

VIII.C.6. Preliminary Discussions

VIII.C.6.a. Prior to filing a formal complaint, a potential complainant may contact the responsible utility officer and/or the Energy Division to inform them of the possible violation of the affiliate rules. If the potential complainant seeks an information meeting with the utility to discuss the complaint, the utility shall make reasonable efforts to arrange such a meeting. Upon mutual agreement, Energy Division staff and interested parties may attend any such meeting.

VIII.C.6.b. If a potential complainant makes an informal contact with a utility regarding an alleged violation of the affiliate transaction rules, the utility office in charge of affiliate compliance shall respond in writing to the potential complainant within 15 business days. The response would state whether or not the issues raised by the potential complainant require further investigation. (The potential complainant does not have to rely on the responses in deciding whether to file a formal complaint.)

VIII.D. Remedies

VIII.D.1. When enforcing these rules or any order of the Commission regarding these rules, the Commission may do any or all of the following:

VIII.D.1.a. Order a utility to stop doing something that violates these rules;

VIII.D.1.b. Prospectively limit or restrict the amount, percentage, or value of transactions entered into between the utility and its affiliate(s);

VIII.D.1.c. Assess fines or other penalties;

VIII.D.1.d. Prohibit the utility from allowing its affiliate(s) to utilize the name and logo of the utility, either on a temporary or a permanent basis;

VIII.D.1.e. Apply any other remedy available to the Commission

VIII.D.2. Any public utility which violates a provision of these rules is subject to a fine of not less than five hundred dollars (\$500), nor more than \$20,000 for each offense. The remainder of this subsection distills the principles that the Commission has historically relied upon in assessing fines and restates them in a manner that will form the analytical foundation for future decisions in which fines are assessed. Before discussing those principles, reparations are distinguished.

VIII.D.2.a. Reparations: Reparations are not fines and conceptually should not be included in setting the amount of a fine. Reparations are refunds of excessive or discriminatory amounts collected by a public utility. PU Code §734. The purpose is to return funds to the victim which were unlawfully collected by the public utility. Accordingly, the statute requires that all reparation amounts are paid to the victims. Unclaimed reparations generally escheat to the state, Code of Civil Procedure §1519.5, unless equitable or other authority directs otherwise, e.g., Public Utilities Code §394.9.

VIII.D.2.b. Fines: The purpose of a fine is to go beyond restitution to the victim and to effectively deter further violations by this perpetrator or others. For this reason, fines are paid to the State of California, rather than to victims.

Effective deterrence creates an incentive for public utilities to avoid violations. Deterrence is particularly important against violations which could result in public harm, and particularly against those where severe consequences could result. To capture these ideas, the two general factors used by the Commission in setting fines are: (1) severity of the offense and (2) conduct of the utility. These help guide the Commission in setting fines which are proportionate to the violation.

Rule VIII – Complaint Procedures and Remedies

VIII.D.2.b.i. Severity of the Offense: The severity of the offense includes several considerations. Economic harm reflects the amount of expense which was imposed upon the victims, as well as any unlawful benefits gained by the public utility. Generally, the greater of these two amounts will be used in establishing the fine. In comparison, violations which caused actual physical harm to people or property are generally considered the most severe, with violations that threatened such harm closely following.

The fact that the economic harm may be difficult to quantify does not itself diminish the severity or the need for sanctions. For example, the Commission has recognized that deprivation of choice of service providers, while not necessarily imposing quantifiable economic harm, diminishes the competitive marketplace such that some form of sanction is warranted.

Many potential penalty cases before the Commission do not involve any harm to consumers but are instead violations of reporting or compliance requirements. In these cases, the harm may not be to consumers but rather to the integrity of the regulatory processes. For example, compliance with Commission directives is required of all California Public Utilities:

“Every public utility shall obey and comply with every order, decision, direction, or rule made or prescribed by the Commission in the matters specified in this part, or any other matter in any way relating to or affecting its business as a public utility, and shall do everything necessary or proper to secure compliance therewith by all of its officers, agents, and employees.” Public Utilities Code §702.

Such compliance is absolutely necessary to the proper functioning of the regulatory process. For this reason, disregarding a statutory or Commission directive, regardless of the effects on the public, will be accorded a high level of severity.

The number of the violations is a factor in determining the severity. A series of temporally distinct violations can suggest an on-going compliance deficiency which the public utility should have addressed after the first instance. Similarly, a widespread violation which affects a large number of consumers is a more severe offense than one which is limited in scope. For a “continuing offense,” PU Code §2108 counts each day as a separate offense.

VIII.D.2.b.ii. Conduct of the Utility: This factor recognizes the important role of the public utility’s conduct in (1) preventing the violation, (2) detecting the violation, and (3) disclosing and rectifying the violation. The public utility is responsible for the acts of all its officers, agents, and employees:

“In construing and enforcing the provisions of this part relating to penalties, the act, omission, or failure of any officer, agent or employee of any public utility, acting within the scope of his [or her] official duties or employment, shall in every case be the act, omission, or failure of such public utility.” Public Utilities Code §2109.

VIII.D.2.b.ii.(1) The Utility’s Actions to Prevent a Violation: Prior to a violation occurring, prudent practice requires that all public utilities take reasonable steps to ensure compliance with Commission directives. This includes becoming familiar with applicable laws and regulations, and most critically, the utility regularly reviewing its own operations to ensure full compliance. In evaluating the utility’s advance efforts to ensure compliance, the Commission will consider the utility’s past record of compliance with Commission directives.

VIII.D.2.b.ii.(2) The Utility’s Actions to Detect a Violation: The Commission expects public utilities to monitor diligently their activities. Where utilities have for whatever reason failed to meet this standard, the Commission will continue to hold the utility responsible for its actions. Deliberate as opposed to inadvertent wrong-doing will be considered an aggravating factor. The Commission will also look at the management’s conduct during the period in which the violation occurred to ascertain particularly the level and extent of involvement in or tolerance of the offense by management personnel. The Commission will closely scrutinize any attempts by management to attribute wrong-doing to rogue employees. Managers will be considered, absent clear evidence to the contrary, to have condoned day-to-day actions by employees and agents under their supervision.

VIII.D.2.b.ii.(3) The Utility’s Actions to Disclose and Rectify a Violation: When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes “prompt” will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.

Rule VIII – Complaint Procedures and Remedies

Prompt reporting of violations furthers the public interest by allowing for expeditious correction. For this reason, steps taken by a public utility to promptly and cooperatively report and correct violations may be considered in assessing any penalty.

VIII.D.2.b.iii. Financial Resources of the Utility: Effective deterrence also requires that the Commission recognize the financial resources of the public utility in setting a fine which balances the need for deterrence with the constitutional limitations on excessive fines. Some California utilities are among the largest corporations in the United States and others are extremely modest, one-person operations. What is accounting rounding error to one company is annual revenue to another. The Commission intends to adjust fine levels to achieve the objective of deterrence, without becoming excessive, based on each utility's financial resources.

VIII.D.2.b.iv. Totality of the Circumstances in Furtherance of the Public Interest: Setting a fine at a level which effectively deters further unlawful conduct by the subject utility and others requires that the Commission specifically tailor the package of sanctions, including any fine, to the unique facts of the case. The Commission will review facts which tend to mitigate the degree of wrongdoing as well as any facts which exacerbate the wrongdoing. In all cases, the harm will be evaluated from the perspective of the public interest.

VIII.D.2.b.v. The Role of Precedent: The Commission adjudicates a wide range of cases which involve sanctions, many of which are cases of first impression. As such, the outcomes of cases are not usually directly comparable. In future decisions which impose sanctions the parties and, in turn, the Commission will be expected to explicitly address those previously issued decisions which involve the most reasonably comparable factual circumstances and explain any substantial differences in outcome.

Audit Criteria

- SCE has a process for handling ATR-related complaints that meets the requirements of Rule VIII.C and it is well documented
- Complaints filed in 2002 were properly managed
- Violations of ATR are promptly investigated and reported to the CPUC

Audit Steps

- Review SCE's complaint resolution process
- Evaluate how SCE resolved 2002 ATR-related complaints
- Evaluate how SCE responded to 2002 ATR-related violations

Conclusions

SCE is in compliance with Rule VIII.

There were no ATR-related complaints filed against SCE in 2002. (DR 79) In 2002, a 1998 ATR-related complaint (D02-10-033) filed by ORA and TURN regarding an Edison Source mailer and use of disclaimer from 1998 was dismissed without prejudice by the CPUC. (DR 17)

SCE's Affiliates Officer is responsible for compliance with the ATR, including the preparation of SCE's compliance plans. The Affiliates Officer is also responsible for receiving, investigating and attempting to resolve ATR-related complaints.

The ATR Manual describes the process by which complaints will be received, investigated and reported upon. In accordance with Rule VIII.C.4, SCE gives itself four weeks from the time a complaint is received to meet with the complainant, investigate the complaint and present a report to the CPUC on its findings.

Rule VIII – Complaint Procedures and Remedies

In the course of gathering one of our audit data requests, SCE discovered two violations of Rule V.F relating to the use of disclaimers by EO&MS (see Chapter V.F. for a detailed description of the issues). (DR 161) As expected by Rule VIII.D.2.b.ii(3), SCE promptly brought these matters, once identified, to the Commission’s attention via letters to the Commission’s Executive Director.

Appendices

**2002 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
1	10/28/02	Gianpiero (Bill) Doebler Manager, Reg. Policy & Affairs Debra Kuroda Proj. Manager, Reg. Policy & Affairs Joseph Llorens Proj. Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Overview of affiliate transactions and SCE's compliance program/process ▪ All ATR
2	10/29/02	Michael Pinter Director of IT Infrastructure Services Elizabeth Vargas Manager, IT Department Support Don Piwnica Manager, IT/Computing Services Michele Long Analyst-Business, IT Department	<ul style="list-style-type: none"> ▪ Overview of SCE's IT infrastructure, IT security and access control ▪ V.C.
3	10/29/02	Madelene Crozier Manager, Financial Information Services Lyle Geiger Affiliate Controller, Controllers Mary Eckman Financial Compliance Accountant, Controllers	<ul style="list-style-type: none"> ▪ Overview of SCE's accounting and financial reporting system/process ▪ V.B.
4	10/30/02	Cheryl Thielman Operations Mgr., Customer Comm. Linda Sagen QA Mgr., Customer Comm. Gary Marsh Comm Splst., Customer Comm. Edwin Lanfranco QA Monitoring Team, Customer Comm.	<ul style="list-style-type: none"> ▪ Overview of SCE's Customer Call Centers ▪ I.A., III.A., III.B., IV.C., IV.E.
5	10/30/02	Linda Sagen QA Mgr., Customer Comm. Susan Mesa QA Monitoring Team, Customer Comm.	<ul style="list-style-type: none"> ▪ Evaluation of Customer Call Centers, training concerning affiliate transactions, availability of customer recordings ▪ III.A., III.B., IV.C., IV.E.
6	10/30/02	Valerie Burke Cust Splst., Customer Comm.	<ul style="list-style-type: none"> ▪ Review FETCH System, monitoring of customer calls ▪ III.A., III.B., IV.C., IV.E.
7	10/30/02	Fred Nandy Audit Manager Warren Doty Audit Manager	<ul style="list-style-type: none"> ▪ Audit planning, results of affiliate transaction-related audits completed in 2002 ▪ Various ATR
8	11/12/02	Louise Watkins Program Manager, Procurement & Materials Management John Minnicucci, Project Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Joint purchase process; supplier information handling; competitive bidding requirements; record-keeping; joint procurement notification forms usage. ▪ III.B., IV.D., IV.G., V.D
9	11/12/02	Desiree Villalobos Corporate Financial Accountant, Controllers Mary Eckman Financial Compliance Accountant, Controllers	<ul style="list-style-type: none"> ▪ Intercompany billing process, allocation factors ▪ V.B.

**2002 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
10	11/13/02	Kenneth Devore Mgr., External Communications Roxanne Patmor Manager, Strategic Comm. Dept.	<ul style="list-style-type: none"> ▪ Preferential treatment; tying of services; disclaimers/logos; advertising space usage; joint advertising/marketing/etc. ▪ III.A., III.C., V.F.1., V.F.3., V.F.4.
11	11/13/02	Heidi Freeman Financial Information Services Manager, Controllers Joyce Kwong Financial Information Services Manager, Controllers Mary Eckman Financial Compliance Accountant, Controllers	<ul style="list-style-type: none"> ▪ IMM products/services and billing process, ▪ V.E.
12	11/14/02	Susanne Wagner Dir of Procurement & Materials Management & VP, Edison Material Supply LLC	<ul style="list-style-type: none"> ▪ Joint purchase process; supplier information handling; competitive bidding requirements; record-keeping; joint procurement notification forms usage. ▪ III.B., IV.D., IV.G., V.D
13	11/14/02	Harry Hutchison VP, Customer Services Operations	<ul style="list-style-type: none"> ▪ Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance. ▪ III.A., III.C., III.D., III.E., IV.C., IV.E.
14	11/14/02	Susan Johnson Mgr., Staffing Division, HR Edith Baltierrez Consultant, Workforce Mobility, HR	<ul style="list-style-type: none"> ▪ Movement of SCE employees to affiliates and affiliate employees to SCE ▪ V.G.2
15	11/14/02	Lyle Geiger Affiliate Controller, Controllers Mary Eckman Financial Compliance Accountant, Controllers Desiree Villalobos Corporate Financial Accounting Accountant, Controllers	<ul style="list-style-type: none"> ▪ Allocation of corporate support services, controls/monitoring of affiliate transactions ▪ V.B., V.E., V.H.
16	12/3/02	John Minnicucci Acting Mgr. Research, Development & Demonstration	<ul style="list-style-type: none"> ▪ R&D and advanced technology research projects; R&D funding, possible cost sharing; acquisition of R&D info; and use by/availability to affiliates ▪ III.E.3, V.F.5
17	12/4/02	Steve Brown Mgr, Security Ops., Corporate Security David Lover Tech Spl., Security Ops., Corp. Security	<ul style="list-style-type: none"> ▪ Access to SCE's General Office ▪ V.C.
18	12/4/02	Joseph Llorens Project Mgr., Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Internal Service Request (ISR) process ▪ V.G.
19	12/4/02	Doug Parker Mgr. of Energy Operations, Energy Supply & Management Tom Watson Mgr. of Day-Ahead Operations, Energy Supply & Management	<ul style="list-style-type: none"> ▪ Wholesale tariffs; unused capacity/supply offered to affiliates & reporting to market (3B reports); discounts offered to affiliates & reporting (3F reports); non-customer specific non-public information provided to affiliates & reporting to market (4B reports); sharing of non-affiliate information; joint purchasing with affiliates of electric energy, transmission, etc. ▪ III.B, III.B.1, III.F, IV.B, IV.D, V.D

**2002 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
20	12/5/02	Rey De Leon Mgr., IT Security Jeanette Yamamoto Supr., IT Security Administration	<ul style="list-style-type: none"> Access to SCE's IT infrastructure, IMMS process V.C.
21	12/5/02	William Fisher Supr., SSID/ESI Administration	<ul style="list-style-type: none"> ESI proposal development and billing process III.A, VII.C
22	12/5/02	Mark Reardon Mgr. of Settlements, Energy Supply & Management Phil Schofield Analyst-Financial, Energy Supply & Management	<ul style="list-style-type: none"> Annual wholesale energy purchases and sales; sampling of daily transactions III.B, III.B.1, III.F, V.D
23	1/14/03	Robert Schuur Mgr., Corporate Real Estate	<ul style="list-style-type: none"> Separation of SCE offices from affiliates in the General Office, allocation of General Office space costs V.C., V.E.
24	1/14/03	Mike Anthony, Account Manager, Major Customer Div.	<ul style="list-style-type: none"> Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance. III.A., III.C., III.D., III.E., IV.C., IV.E.
25	1/16/03	Yvonne Chacon Proj. Mgr., Corporate Real Estate	<ul style="list-style-type: none"> Separation of the SCE and EME offices in Washington DC facility V.C.
26	1/16/03	Bill Bryan VP, Major Customer Division	<ul style="list-style-type: none"> Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance; trade shows, joint sales calls, joint communications III.A., III.C., III.D., III.E., IV.C., IV.E., V.F.4
27		Gianpiero (Bill) Doebler Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> EO&MS history VII.I
28	1/27-28	Steve Galanter Mgr, Regulatory Planning, CSBU Afarah Board MDC Communication & Info. Mgr, CSBU John Solomon MDC Information Management Systems Analyst, CSBU	<ul style="list-style-type: none"> Presentations to major customers Diary notes of Account Managers/Execs AcctTrak and AMIS III.A, III.C, III.E, IV.C, IV.E, V.F.4
29	2/24-26	Mary Eckman Financial Compliance Accountant, Controllers Desiree Villalobos Corporate Financial Accounting Accountant, Controllers	<ul style="list-style-type: none"> Perform accounting transaction review and test the methodology for allocating corporate support costs V.A, V.B, V.C, V.E
30	2/26/02	Lyle Geiger Affiliate Controller, Controllers Mary Eckman Financial Compliance Accountant, Controllers	<ul style="list-style-type: none"> Monitoring of affiliate transactions V.B, V.E, V.H
31	2/27/03	Randy Lisbin Manager of Regulatory Compliance	<ul style="list-style-type: none"> Non-tariffed products and services VII (all subrules)
32	4/10/03	Al Fohrer Chairman & CEO, SCE Robert Foster President & COO, SCE	<ul style="list-style-type: none"> Briefing on audit results All Rules

2002 Affiliate Transaction Audit Data Requests

Number	Item						
1	All compliance plans filed with the CPUC beginning with the original dated December 31, 1997						
2	Annual Reports of affiliated Company Transactions (CPUC D.93-02-019) for 1999, 2000 and-2001						
3	CPUC decisions/rulings/orders related to affiliate transactions that are currently in effect						
4	List/description of SCE's 2002 CPUC proceedings relating to affiliate transactions						
5	SCE's Affiliate Transaction Rule Manual						
6	List of affiliate entities with a description of their business activities, year established, and their Class A or B designation. The list should show parent/subsidiary relationships among the entities [PB note: see also UA3A filing on SCE website which shows all subs with indication of parent/sub relationship]						
7 A	2001 revenues for each affiliate entities (Class A and B)						
7 B	2001 number of employees for each affiliate entities (Class A and B)						
8	2002 business locations for Edison, SCE and affiliates (Class A and B)						
9	Organization charts for Edison, SCE and affiliates (Class A and B)						
10	Service agreements or contracts between SCE and affiliates that were in force at any time during 2002						
11	SCE's disposition of recommendations from Northstar's 2001 Affiliate Transactions Audit Report						
12	SCE and Edison annual reports and 10Ks (2000, 2001 and 2002)						
13	List of internal audits conducted (i.e., started or completed) in 2001 and 2002. Reports for audits completed in 2001 and 2002. 2003 internal audit plan.						
14	Public Utilities Code Section 851						
15	Analysis of directors and officers of Edison, SCE and affiliates (for positions held during 2002) e.g., <table style="margin-left: 40px; border: none;"> <tr> <td style="text-align: center; width: 100px;"><u>Entity</u></td> <td style="text-align: center; width: 100px;"><u>Name</u></td> <td style="text-align: center; width: 100px;"><u>Position</u></td> <td style="text-align: center; width: 100px;">Edison</td> <td style="text-align: center; width: 100px;">John Bryson</td> <td style="text-align: center; width: 100px;">CEO</td> </tr> </table>	<u>Entity</u>	<u>Name</u>	<u>Position</u>	Edison	John Bryson	CEO
<u>Entity</u>	<u>Name</u>	<u>Position</u>	Edison	John Bryson	CEO		
16	Listing of SCE's tariffed and non-tariffed products and services offered during 2002						
17	Handout from 10/28/02 presentation by Doeblor, et al						
18	Handout from 10/29/02 presentation by Pinter, et al						
19	Handout from 10/29/02 presentation by Crozier, et al						
20	Information on "minor rule changes" forthcoming in CP-02 and ATR						
21	Advice letters 1342-E; 1342-E-A; 1342-E-B; 1450-E; 1491-E; 1491-E-A; 1491-E-B; 1491-E-C; and 1491-E-D; and a list of other affiliate-related advice letters						
22	All "Focused Lists of Non-Affiliated Service Providers" provided to, or available for, customers during 2002; including "SCE List of Approved Contractors" and "List of Backup Generation Suppliers" (re: ATR pg. 9-12)						
23	Copy of web-page www.sce.com/affiliatebb/index.html and other web-pages linked from it that materially relate to the "Internet-Based Service Provider List" (re: ATR pg. 9-11)						
24	All "government-sponsored" or "government-approved" lists of service providers that SCE provided to, or made available for, customers during 2002; including web-pages for those provided as an internet reference (re: ATR pg. 9-13)						
25	Handout from 10/30/02 presentation by Thielman, et al						
26	Lanfranco e-mail, dated 11/05/01, regarding new policy on providing the 800 number for Edison On Call						
27	Customer Call Center "training matrix" discussed in 10/30/02 presentation by Thielman, et al.						
28	Blank evaluation form used for Customer Specialist "Quality Evaluations"						
29	Call Quality Evaluation Tool/rating criteria by category; used by Customer Call Center QA personnel						
30	Copies of selected FETCH system web-pages from interview with V. Burke, 10/30/02						
31	"Introduction to Residential Service Plans/Rates", chapter from SCE CCC New Hire Training manual						
32	SCE CCC New Hire Training manual Tiers I, II, III, IV and V (made available for inspection at Rancho Cucamonga Customer Call Center 10/30/02)						
33	ATR-related portion of the CPUC order from the SCE's general rate case						
34	CPUC/ORR audit report—portion pertaining to ATR						
35	2001 and 2002 ATR-related articles in the EIX News and any other company publications						
36	2001 and 2002 ATR-related presentations to employees						
37	Access to MyEdison.net to view ATR-related materials						
38	List of people moving from SCE to EIX/affiliates and EIX/affiliates to SCE						
39	SCE and affiliate radio and TV ads, and print (newspaper, magazine, billboard) ads						
40	SCE presentation materials to large industrial customers						
41	2002 SCE billing inserts						
42	Access to affiliate websites						
43	Information regarding prohibition of preferential treatment to affiliates in Direct Access transactions by CPUC decisions in the electric restructuring proceeding (pertinent portions of D.97-05-040 and related info)						
44	CPUC ruling eliminating new direct access after 9/1/02						
45	List of instances during where SCE tied its products/services of customer's use of affiliate products/services						
46	List of SCE customers assigned to affiliates during 2002						

2002 Affiliate Transaction Audit Data Requests

Number	Item																																		
47	List of instances where SCE provided affiliates with assistance on business development, market assessments or marketing services or information																																		
48	List of pricing concessions offered by SCE to affiliates during 2002																																		
49	Policies covering the release of customer information (including the CISR process)																																		
50	2002 CISR summary report																																		
51	Printout of the CISR website																																		
52	List of all non-customer, non-public information that has been made available to affiliates (4B reports)																																		
53	Copy of web pages www.sce.com/affiliatebb/index.html																																		
54	Policies and procedures relating to: (a) non-public information SCE receives from unaffiliated suppliers (Rule IV.D) and (b) joint purchases of goods and services (Rule V.D) (per Nov 12 interview with Watkins and Minnicucci)																																		
55	List all instances in 2002 where non-public information and data from unaffiliated suppliers was provided by SCE to affiliates or non-affiliates. For all cases, provide copies of all written affirmative authorizations of such suppliers.																																		
56	Analysis of Call Center calls: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th></th> <th style="text-align: center;">2001</th> <th style="text-align: center;">2002</th> </tr> </thead> <tbody> <tr> <td>Direct Access Call</td> <td style="text-align: center;">97,000</td> <td></td> </tr> <tr> <td>Total Calls</td> <td style="text-align: center;">11,600,000</td> <td></td> </tr> </tbody> </table>		2001	2002	Direct Access Call	97,000		Total Calls	11,600,000																										
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57	Analysis of number of customers: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th rowspan="2" style="text-align: left;">Service Class</th> <th colspan="2" style="text-align: center;">2001</th> <th colspan="2" style="text-align: center;">2002</th> </tr> <tr> <th style="text-align: center;">Direct Access</th> <th style="text-align: center;">Total</th> <th style="text-align: center;">Direct Access</th> <th style="text-align: center;">Total</th> </tr> </thead> <tbody> <tr> <td>Residential</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Commercial</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Industrial</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Other</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Service Class	2001		2002		Direct Access	Total	Direct Access	Total	Residential					Commercial					Industrial					Other					Total				
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58	List of instances where SCE has been requested to provide affiliate transaction information within 72 hours																																		
59	List of 2002 bids and access to bid documents for work between SCE and affiliates.																																		
60	FERC affiliate transaction rules																																		
61	Notices to the CPUC of new affiliates																																		
62	Incorporation papers for active first, second and third tier corporate entities																																		
63	2002 and 2003 internal audit plans																																		
64	List all non-corporate support related instances in 2002 where SCE shares its office space, equipment, services or systems with affiliates																																		
65	List all instances in 2002 where affiliate employees accessed SCE information systems except where it relates to corporate support activities																																		
66	2002 ISRs—list and actual forms themselves																																		
67	List of employees who have transferred companies to/from SCE in 2002, as shown below: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th rowspan="2" style="text-align: center;">Employee</th> <th colspan="2" style="text-align: center;">From</th> <th colspan="2" style="text-align: center;">To</th> </tr> <tr> <th style="text-align: center;">Company</th> <th style="text-align: center;">Area</th> <th style="text-align: center;">Company</th> <th style="text-align: center;">Area</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">--list--</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Employee	From		To		Company	Area	Company	Area	--list--																								
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68	List all instances in 2002 where officers or directors of SCE were also officers or directors of affiliates																																		
69	List of 2002 asset transfers between SCE and affiliates																																		
70	List of new affiliates created in 2002																																		
71	Printout of website reporting the creation of new affiliates in 2002																																		
72	2001 Northstar audit data requests and responses																																		
73	KPMG Audit Report																																		
74	List all instances in 2002 where affiliate officers and employees were not available to testify before the CPUC without subpoena																																		
75	Listing of new products and service SCE offered in 2002																																		
76	Section 851 Applications filed during 2002																																		
77	Last two annual reports to the CPUC for Non-tariffed Products and Services																																		
78	Identify instances where non-tariffed products and services were offered to affiliates during 2002.																																		
79	Listing of all ATR-related complaints filed, under investigation, or resolved in 2002																																		
80	Month of Sept 2002 schedules relating to SCE's intercompany billings to affiliates as discussed in the Nov 12 interview with Villalobos and Eckman. Includes: (a) SCE invoice to EME with supporting detail, (b) DPB2075 Subsidiary Ledger, and (c) JE#009 to reverse affiliate A/R and set up EIX A/R.																																		
81	2002 Affiliate Audit Report (per Nov 12 interview with Villalobos and Eckman)																																		

2002 Affiliate Transaction Audit Data Requests

Number	Item																											
82	2002 Multifactor Summary (one page for each month) (per Nov 12 interview with Villalobos and Eckman)																											
83	Copies of all Joint Procurement Notification Forms approved by, or pending before, RP&A in 2001 and 2002 (Re: ATR pg. 4-16) (per Nov 12 interview with Watkins and Minnicucci)																											
84	Summary of all joint purchasing arrangements, including a listing of all joint purchases during 2002, between SCE and its affiliates (per Nov 12 interview with Watkins and Minnicucci)																											
85	List all instances during 2002 in which an affiliate of SCE submitted a bid to SCE but was not awarded a contract, including requisition, or other identifying numbers (per Nov 12 interview with Watkins and Minnicucci)																											
86	September 2000 memos (1) from James Kelly, and (2) from David Ned Smith, concerning "working with O&M Services..."																											
87	Procurement and Materials Management department training materials: portions of new employee training materials and annual training materials pertaining to affiliate transactions (per Nov 14 interview with Wagner)																											
88	Examples of 2002 quarterly managers' meeting agendas/handouts from Customer Services Operations that reference affiliate transaction rules. (per Nov 14 interview with Hutchison)																											
89	IMM unit rates for products/services provided to affiliates during 2000-2001-2002 (Freeman/Kwong interview)																											
90	Employee termination package checklist (Johnson/Baltierrez interview)																											
91	Research Balancing Account, Budget, & Co-Funding Summary for 2002 (per Dec 3 interview with Minnicucci)																											
92	Summary of SCE's 2002 "Target" Purchases from EPRI, including purchase amounts (\$) and a list of all available EPRI "targets" (per Dec 3 interview with Minnicucci)																											
93	List of available EPRI "Nuclear Target" deliverables, noting which were utilized by, or in the possession of, SCE during 2002. Of those utilized by, or in the possession of, SCE please indicate (1) those deliverables that are research-related and those that are related to Operations & Maintenance and (2) those deliverables that were shared with, or available to, EOMS personnel, or personnel from any other Class A affiliate (per Dec 3 interview with Minnicucci)																											
94	List of all merchant entities with which SCE conducted wholesale transactions for the sale or purchase of electric energy, capacity, or ancillary services during 2002, indicating: (1) the type of services purchased/sold (e.g., "E" or "C/A"); (2) those, if any, that were Class A affiliates; and (3) the cumulative megawatt-hours of 2002 purchases, and of 2002 sales, for each entity. (Per Dec 4 interview with Parker/Watson and Dec 5 interview with Reardon and Phil)																											
95	For two sample days (9/12/2002 and 10/14/2002), please provide table showing, for the aggregate 24-hour period, the following : (1) total MWH scheduled or provided by SCE, broken down as to source, e.g., SCE plant name, DWR, merchant suppliers, QF suppliers (in aggregate), etc.; and (2) total MWH sold to others by SCE, broken down as to purchaser/recipient. (Per Dec 4 interview with Parker/Watson and Dec 5 interview with Reardon and Phil)																											
96	List of all QF entities with which SCE sold or purchased electric energy, capacity, or ancillary services during 2002, indicating: (1) the type of services purchased/sold (e.g., "E" or "C/A"); (2) those, if any, that were Class A affiliates; and (3) the cumulative megawatt-hours of 2002 purchases, and of 2002 sales, for each entity. (Per Dec 4 interview with Parker/Watson and Dec 5 interview with Reardon and Phil)																											
97	List of affiliate (other than EIX) personnel (employees, contractors or consultants) that visited the Rosemead GO Buildings #1-2-3-4 during the month of October 2002. <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Affiliate</th> <th style="width: 15%;">Visitor</th> <th style="width: 10%;">Date</th> <th style="width: 15%;">SCE Escort</th> <th style="width: 45%;">Reason for Visit</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Affiliate	Visitor	Date	SCE Escort	Reason for Visit																						
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98	ISSM form and description																											
99	Summary of Total Affiliate Personnel with Access To SCE IT Infrastructure and Business Applications (as of December 31, 2002) (note: include a description of system acronyms): <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="width: 30%;">AOR/ Affiliate Name</th> <th colspan="5" style="text-align: center;">Type of Access ("x" where applicable)</th> </tr> <tr> <th style="width: 10%;">Time Rptg</th> <th style="width: 10%;">PR</th> <th style="width: 10%;">PS HR</th> <th style="width: 10%;">Acctg</th> <th style="width: 10%;">Etc...</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	AOR/ Affiliate Name	Type of Access ("x" where applicable)					Time Rptg	PR	PS HR	Acctg	Etc...																
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100	Analysis of 2002 Affiliate Personnel Help Desk Activity (total number of calls handled by type) (note: include a description of system acronyms) <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="5" style="text-align: center;">Tier 1</th> <th colspan="2" style="text-align: center;">Tier 2</th> <th colspan="2" style="text-align: center;">Tier 3</th> </tr> <tr> <th style="width: 10%;">Time Rptg</th> <th style="width: 10%;">PR</th> <th style="width: 10%;">PS HR</th> <th style="width: 10%;">Acctg</th> <th style="width: 10%;">Etc...</th> <th style="width: 10%;">Etc..</th> <th style="width: 10%;"> </th> <th style="width: 10%;">Etc..</th> <th style="width: 10%;"> </th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Tier 1					Tier 2		Tier 3		Time Rptg	PR	PS HR	Acctg	Etc...	Etc..		Etc..										
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101	Description of the ESI facilities and products/services																											

2002 Affiliate Transaction Audit Data Requests

Number	Item
102	Analysis of 2002 ESI billings to affiliates including the following information and supporting backup for each charge: <ul style="list-style-type: none"> - The 2002 published rate sheet - Service agreement with each affiliate - The type of work performed for each job (so I can associate the types of overheads that apply) - Cost estimate for each job – show each cost element; for labor, show the direct labor rate and labor overheads; also show the other applicable overheads and profit - Invoice for each job (indicate the date the funds were received from the affiliate) - Sales Journal (or equivalent) that shows the recording of revenues from each job - ESI's income statements that shows monthly revenues from the sales journal (or equivalent)
103	Access to minutes of meetings held in 2002 by SCE Board of Directors, EIX Board of Directors and EIX Audit Committee (NS 11)
104	List and access to all corporate policy manuals. Identify policies that pertain to affiliate transactions (NS28)
105	Flowchart/documentation showing how affiliate charges are identified, accumulated, assigned and allocated. System flowcharts for all application systems, including time reporting, transaction flow analysis and related documentation. Description of the approach taken to maintain contemporaneous records documenting affiliate transactions. (NS 16, 16.1, 16.2)
106	SCE/EIX chart of accounts (NS 17)—(note: this is the SCE trial balance as of 12/31/02)
107	Names and job titles of personnel who are jointly employed by SCE and an affiliate (NS 31)
108	Analysis of 2002 payments to SCE for employees transferred to affiliates, including the following information: <ol style="list-style-type: none"> 1. Employee Name 2. Job Title 3. SCE AOR 4. Transfer Date 5. Hiring Affiliate 6. Affiliate Class 7. Compensation 8. Benefits 9. Transfer Fee Include in this DR, a description of how the fee is calculated and accounted for (see NS 33.2)
109	Description of SCE's IT infrastructure (NS48)
110	List of 2002 Internal Audit reports covering IT security (NS 49)
111	Description of SCE's IT security roles and responsibilities, policies and procedures (NS 93 and 130)
112	Copy of 2002 professional ethics letters, memorandums or affidavits to management employees (NS 57). Include the number of employees that received the annual ethics letter and related website link (NS 57.1) and the number of management and professional employees required to complete a Management Certificate in 2002 (NS 57.2)
113	Loaned Labor Report for December 2002 (NS97)
114	List and description of all Expense Project Numbers (NS 139)
115	List of affiliate employees with offices during 2002 in SCE facilities, including the following information: (NS 104) <ol style="list-style-type: none"> 1. Affiliate Employee Name 2. Job Title 3. AOR 4. SCE Work Location (e.g., General Office)
116	List of SCE employees with offices during 2002 in affiliate facilities, including the following information: (NS106): <ol style="list-style-type: none"> 1. Affiliate Employee Name 2. Job Title 3. AOR 4. Affiliate Work Location (e.g., Washington DC)
117	Copy of all 2002 notifications to the CPUC of changes in shared directors and officers among utility and affiliates, as required by Rule V.G.1. (NS 111)
118	Description of how the cost of the Affiliate Transaction Audit for 2001 and 2002 were recorded by EIX. Indicate which function and income statement account is charged. (NS 115)
119	Criteria and evaluative process used to determine who is an "employee involved in marketing" that are prohibited from temporary assignments with affiliates (NS134)
120	Listing, showing hierarchy, of all EIX entities defined as energy marketing affiliates (NS 135)
121	Copy of all NTP&S filings and advice letters submitted to the CPUC during 2002. Include a copy of the annual report on NTP&S filed in March 2003. (NS136)
122	Copy of all feedback from the CPUC regarding NTP&S reports and any protests filed during 2002 (NS 138)
123	Copy of 2002 Authorization Forms, including any guidelines for its preparation. (NS 143)

**2002 Affiliate Transaction Audit
Data Requests**

Number	Item																		
124	Floor plan for the Washington DC office showing facilities occupied by SCE and affiliates during 2002; include analysis of square feet occupied (NS 113)																		
125	Basis for allocating Washington DC office expenses, in the following format: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th rowspan="2">Office Cost</th> <th colspan="3">Percent Allocation</th> <th rowspan="2">Total</th> </tr> <tr> <th>SCE</th> <th>EME</th> <th>RWE</th> </tr> </thead> <tbody> <tr> <td>Lease, insurance, maintenance, etc.</td> <td></td> <td></td> <td></td> <td>100%</td> </tr> <tr> <td>Common expenses (e.g., receptionist)</td> <td></td> <td></td> <td></td> <td>100%</td> </tr> </tbody> </table>	Office Cost	Percent Allocation			Total	SCE	EME	RWE	Lease, insurance, maintenance, etc.				100%	Common expenses (e.g., receptionist)				100%
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Lease, insurance, maintenance, etc.				100%															
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126	ESRs created in 2002																		
127	Please identify any discounts or waivers offered to affiliates by SCE during 2002. (NS # 23)																		
128	Please provide details of instances in 2002 in which SCE provided public information or notices on its electronic bulletin board related to discounts, rebates, or other waivers of any charges or fees associated with services provided to SCE to its affiliates. [i.e., 3F Reports] (NS # 25)																		
129	Please describe the information maintained by SCE if it provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee associated with services provided by SCE. (NS # 26)																		
130	Please identify any known occurrence in 2002 in which SCE participated in joint advertising or joint marketing with its affiliates. (NS #35.1)																		
131	Please describe how SCE in 2002 offered or provided customer advice or assistance with regard to its affiliates or other service providers. (NS # 40)																		
132	Please list all trade shows, conferences, other information or marketing events held in California that in 2002 were attended by representatives of SCE and one or more of SCE's Class A affiliates. In each of these cases, please describe how SCE participation was separated from affiliate participation. (NS # 110)																		
133	Please provide brief descriptions of the Research projects provided in response to ATA-Y2002 Q # 91 (NS # 42)																		
134	Please identify any R&D projects active in 2002 that were jointly funded by SCE and one or more of its Class A affiliates. (NS #42.1)																		
135	Please identify any R&D projects active in 2002 for which end products and results are recognized as beneficial to one or more of SCE's affiliates. (NS # 42.2)																		
136	Please identify any R&D projects active in 2002 that, regardless of initial funding, have demonstrated commercial viability to SCE's affiliates. (NS # 42.3)																		
137	Please identify any instances during 2002 in which SCE and one or more of its affiliates shared or subsidized costs, fees, or payments for research and development activities, or investment in advanced technology research. (NS # 43)																		
138	Please provide samples of year 2002 Customer Information Service Request Forms (NS # 54) and access to all 2002 forms. (Re: ATA-Y2002 Q # 50 -- CISR Processing Time Summaries).																		
139	Please provide the document entitled "Procurement and Materials Management -- Joint Procurement Acquisition Process", dated November 2001 (Identified in SCE's responses to ATA-Y2002 Q # 87 and ATA-Y2002 Q # 54)																		
140	Please make available for inspection the document entitled "Procurement and Materials Management Department --Affiliate Transactions Resource Manual", dated December 1999 (Identified in SCE's response to ATA-Y2002 Q # 87)																		
141	Please make available for review the presentations and documents stored in the Account Manager Information System (AMIS). (Per Jan 16 interview with Bill Bryan.)																		
142	Please make available for inspection the 2002 calendar and journal information contained in the Major Customers Division contact management system, "AccountTrak". (Per Jan 16 interview with Bill Bryan.)																		
143	Please identify RFPs/RFQs that were issued by major SCE customers for energy services and products in 2002 and please identify those for which SCE issued a proposal in 2002. Please provide an executive summary of each of these proposals and indicate if any Class A affiliates were parties in those proposals. (Per Jan 16 interview with Bill Bryan.)																		
144	Please refer to SCE's response to ATA-Y2002 Q # 84. For each of the joint purchase contracts listed under the categories "Joint Contracts" and "Single Party Contracts – Joint Use", please provide a table showing the cumulative dollar amount of 2002 payments made by SCE and each of the Class A affiliates that were parties to the contract. And, for each contract, please describe the method(s) by which these payment amounts were allocated between SCE and affiliates. Also please provide an example invoice from each of the following contracts: (1) Microsoft; (2) AT&T Wireless Services.																		

**2002 Affiliate Transaction Audit
Data Requests**

Number	Item
145	Please refer to SCE's response to ATA-Y2002 Q # 84 and the contracts listed under the category "Joint Negotiations – Separate Contracts". For the following contracts and in the specified timeframe, please provide comparable invoices, with supporting detail (e.g., unit prices), comparing amounts billed to (1) SCE and (2) EME. <ul style="list-style-type: none"> • Microsoft – Microsoft Office (calendar year 2002) • IBM/Lotus – Lotus Notes (calendar year 2002) • AT&T Global Network (July 2002 or other timeframe that allows representative comparison between SCE and EME) • CISCO Systems (July 2002 or other timeframe that allows representative comparison between SCE and EME) • DSS (July 2002 or other timeframe that allows representative comparison between SCE and EME) • Dell (July 2002 or other timeframe that allows representative comparison between SCE and EME) • Volt Services Group (July 2002 or other timeframe that allows representative comparison between SCE and EME) • Corporate Express (pick suitable timeframe that allows representative comparison between SCE and EME, i.e., day, week, month)
146	Please provide details of instances in 2002 in which SCE provided utility information, services, or unused supply/capacity to one or more of its affiliates and placed associated notices on its electronic bulletin board. [i.e., 3B Reports]
147	List of affiliate employees with access to SCE's IT infrastructure/business applications (note: provide list developed by Internal Audit in the course of its audit of this subject)
148	Access to documentation supporting the calculation of charges (compensation, benefits and fees) to affiliates for directly requested services (ISR)
149	EO&MS price lists in effect during 2002 for SCE and third party customers (re: ESRs)
150	All 2002 invoices from EO&MS for ESRs # 02-003, 02-007, 02-010, 02-015
151	Three EO&MS third party customer invoices from each of the months of January, February, March, April, May and June 2002. This sample should include invoices with as many line items as possible. (re: ESRs)
152	Please provide a list of instances in 2002 in which (a) SCE gave any appearance that it speaks on behalf of one or more of its affiliates (re: Rule III.E.6), or (b) SCE gave any appearance that one or more of its affiliates speaks on behalf of SCE (re: Rule III.E.7)
153	Please provide access to monitor call center calls both at the residential and the commercial gates
154	Please provide a list of all contracts for the purchase or sale of natural gas or gas transportation that include an SCE affiliate as a joint purchaser in 2002. Please indicate the name of the vendor(s) and approximate cumulative volume of gas, or gas transported, in terms of MCF (decatherms). Please indicate which, if any, of these contracts were joint purchases with a Class A affiliate or were to/from a Class A affiliate. And please make these contracts available for inspection.
155	Please provide a list of all contracts for the purchase or sale of coal or coal transportation that include an SCE affiliate as a joint purchaser in 2002. Please indicate the name of the vendor(s) and approximate cumulative volume of coal, or coal transported, in terms of tons. Please indicate which, if any, of these contracts were joint purchases with a Class A affiliate or were to/from a Class A affiliate. And please make these contracts available for inspection.
156	Please provide a list of all contracts for the purchase or sale of transmission rights or capacity that include an SCE affiliate as a joint purchaser in 2002. Please indicate the name of the entity. Please indicate which, if any, of these contracts were joint purchases with a Class A affiliate or were to/from a Class A affiliate. And please make these contracts available for inspection.
157	Analysis of affiliate charges (2001 and 2002)—see Affiliate Charges.xls
158	SCE rehire dates for affiliate employees transferring to SCE during 2002—see Employee Moves.xls
159	Analysis of Corporate Real Estate's charges to affiliates (2001 and 2002) (note: put in the same format as DR 157)
160	Samples of all available promotional materials provided by Class A affiliates to their California customers during 2002.
161	Self-reporting letters to CPUC concerning: (a) use of disclaimer in advertising and (b) promotional items
162	Documentation from the intercompany billing/accounting review (2/24-25 interview with Desiree Villalobos and Mary Eckman)
163	Analysis of Generation Business Unit's Non-tariffed products and services charges to affiliates.
164	NTP&S report (produced by Accounting) for 2002 (Zack emailed this already)
165	Analysis of Carrier Solutions Business Unit's Non-tariffed products and services charges to affiliates
166	List instances in 2002 where SCE (1) provided leads to or solicited business on behalf of its affiliates, (2) acquired information on behalf of or to provide to its affiliates, (3) shared proprietary or non-publicly available reports with its affiliates, or (4) requested authorization from its customers to pass information exclusively to its affiliates, as described in Rules III.E.1 through III.E.5. (Note that information regarding Rules III.E.6 and III.E.7 was previously provided in DR 152.)

**2002 Affiliate Transaction Audit
Data Requests**

Number	Item
167	List any EPRI "Power Delivery and Utilization Target" deliverables which were shared with, or available to, personnel from Class A affiliates in 2002 (Re: DR 92 and DR 93)
168	List any instances in 2002 where SCE (1) applied discretionary tariffs differently for affiliates than for other market participants, and/or (2) did not strictly enforce non-discretionary tariffs, as described in Rules III.B.3 and III.B.4.
169	Affiliate rules training provided to employees of SCE and its affiliates
170	Message sent to affiliate executives and managers regarding the need to inform SCE's Affiliates Officer each time a new affiliate is created (per Northstar's 2001 recommendation #18)
171	All Entity Lists prepared in 2002

**AUDIT OF 2003 AFFILIATE TRANSACTIONS BETWEEN
SOUTHERN CALIFORNIA EDISON COMPANY AND
CERTAIN OF ITS AFFILIATES**

April 2004

**AUDIT OF 2003 AFFILIATE TRANSACTIONS BETWEEN
SOUTHERN CALIFORNIA EDISON COMPANY AND
CERTAIN OF ITS AFFILIATES**

TABLE OF CONTENTS

Executive Summary	1
Background	5
Rule I – Definitions	10
Rule II – Applicability	13
Rule III – Non-Discrimination	17
Rule IV – Disclosure and Information	41
Rule V – Separation	55
Rule VI – Regulatory Oversight	95
Rule VII – Utility Products and Services	103
Rule VIII – Complaint Procedures and Remedies	116
Appendices	
A – Interview Log	121
B – Data Request List	124

Executive Summary

Audit Results

In our opinion, SCE's 2003 affiliate transactions were in compliance with the CPUC's rules and SCE's own compliance plans. Exhibit 1 summarizes our conclusions by rule. In 39 of 41 rule/sub-rules audited, we noted full compliance. The remaining 2 sub-rules were found to be in partial compliance. In the case of Rule V.E – Separation - Corporate Support, we noted one instance where support services were provided by two SCE employees to an affiliate and the affiliate was not charged for the employees' time (about 80 hours). The other incident was minor and pertained to Rule IV.G – Disclosure and Information Maintenance of Affiliate Contracts and Related Bids, where SCE could only produce an unsigned version of a contract in effect since 1988 between itself and an affiliate. Neither of these incidents resulted in any disadvantage to utility ratepayers or unfair benefit to the affiliates in question.

Baryenbruch & Company conducted the 2002 audit of SCE's affiliate transactions. During the 2003 audit, we continued to be impressed with SCE's overall compliance program. SCE remains serious about adhering to the affiliate rules.

Notable was the level of understanding of the affiliate transaction rules among the managers and staff we interviewed. Clearly, a considerable effort has gone into educating SCE and affiliate personnel and sustaining their commitment to compliance with the affiliate rules. We also found SCE's compliance organization consists of experienced and conscientious professionals committed to ensuring compliance.

Compliance policies and procedures are well-documented and readily available to utility and affiliate personnel. Employees are encouraged to contact SCE's compliance organization with questions or for advice on implementing the rules.

Finally, we found internal controls to be effective at ensuring compliance. Among these are various monitoring activities by the compliance organization and the significant role played by SCE's Audit Services Department.

As shown in Exhibit 1, we had 9 recommendations directed at further improving SCE's compliance process.

Exhibit 1

Southern California Edison Company
2003 Affiliate Transactions Audit
Summary of SCE's Compliance With CPUC Affiliate Transactions Rules

Rule	Sub-Rule	SCE In Compliance?	Recommendations
I. Definitions	A through G – Definitions	Yes	
II. Applicability	A through I – Applicability	Yes	
III. Non-Discrimination	A – Preferential treatment	Yes	
	B – Affiliate transactions	Yes	
	C – Tying of services	Yes	
	D – Assignment of customers	Yes	
	E – Bus development & customer relations	Yes	
	F – Affiliate discount report	Yes	
IV. Disclosure and Information	A – Customer information	Yes	
	B – Non-customer, non-public information	Yes	
	C – Service provider information	Yes	1 (pg. 47)
	D – Supplier information	Yes	2 (pg. 49), 3 (pg. 50)
	E – Affiliate-related advice or assistance	Yes	
	F – Recordkeeping	Yes	
	G – Maintenance of Affiliate Contracts and Related Bids	Partial	4, 5 (pg. 54)
	H – FERC reporting requirements	Yes	
V. Separation	A – Corporate entities	Yes	
	B – Books and records	Yes	
	C – Sharing of plant, facilities, equipment or costs	Yes	
	D – Joint purchases	Yes	
	E – Corporate support	Partial	6 (pg. 71)
	F – Corporate identification and advertising	Yes	7, 8 (pg. 78)
	G – Employees	Yes	9 (pg. 88)
	H – Transfer of goods and services	Yes	
VI. Regulatory Oversight	A – Compliance plans	Yes	
	B – New affiliate compliance plans	Yes	
	C – Affiliate audit	Yes	
	D – Witness availability	Yes	
VII. Utility Products and Services	A – General rule	Yes	
	B – Definitions	Yes	
	C – Utility products and services that may be offered	Yes	
	D – Conditions precedent to offering utility products and services	Yes	
	E – Requirements to file an advice letter	Yes	
	F – Existing offerings	Yes	
	G – Section 851 application	Yes	
	H – Periodic reporting of non-tariffed products and services	Yes	
	I – Offering of non-tariffed products and services to affiliates	Yes	
VIII. Complaint Procedures and Remedies	A – Enforcement of CPUC rules	Yes	
	B – Standing	Yes	
	C – Procedures	Yes	
	D – Remedies	Yes	

Executive Summary

Audit Objective

The objective of Baryenbruch & Company's evaluation was to express an opinion on the extent to which Southern California Edison (SCE) was in compliance during 2003 with the California Public Utilities Commission's (CPUC or Commission) affiliate transaction rules and its own compliance plans. Rule VI.C requires that affiliate transactions be subjected to an annual audit by an independent firm.

This is the sixth annual Affiliate Transactions Audit since the CPUC established its latest affiliate transaction rules in 1997. These rules were created contemplating the competitive world of Assembly Bill (AB) 1890, not today's market structure. (DR 3, D02-10-062, p. 49) In spite of the changed market situation, SCE continues to be subject to the affiliate transaction rules, most of which are still relevant to ensuring that utility ratepayers remain indifferent to the existence of non-utility affiliates and that the utility is not used for the unfair benefit of such affiliates.

Audit Approach

Baryenbruch & Company conducted its work in accordance with the auditing standards published in the Generally Accepted Government Auditing Standards ("Yellow Book"). These standards provide comprehensive guidance in compliance auditing and cover such issues as audit planning, evidence and report contents.

One of our first steps was to develop evaluative criteria against which we would judge SCE's performance. These criteria represent conditions we would expect to exist if SCE were in compliance with the affiliate transaction rules. Our criteria can be found in the body of this report preceding our conclusions.

We gathered the evidence from the following sources:

- Interviews with over 30 SCE officers, managers and staff members involved in compliance with the affiliate transaction rules
- Analysis of data from over 180 information requests pertaining to 2003 affiliate transactions
- Tests of various affiliate-related transactions (see Exhibit 2 for an analysis of the transactions we tested)

We developed our conclusions by comparing SCE's evidence of compliance against the evaluative criteria. Where SCE was not in full compliance or where the compliance process could be enhanced, we offered recommendations for improvement.

Transactions Reviewed	Sample Size	Data Request Numbers	Applicable Subrule
Account manager's journal notes	10 - 15 %	114	III.E.7, IV.C.1, IV.E.V.F.1, V.F.2, V.F.4
ATR-related complaints	None in 2003	60	VIII.C
Bill Inserts	All	30	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, V.F.1, V.F.2, V.F.3, V.F.4
Board of Directors minutes	All	80	V.G
Carrier Solutions billings to affiliates	None in 2003	135	VII.I
Corporate Support Requests (CSRs)	All	99	III.B
Customer Calls (residential & commercial/industrial gates)	95 Calls	124	III.A, III.B.2, III.B.3, III.B.4, III.C, III.E.2, III.E.6, III.E.7, IV.C, IV.E
Customer Information Service Requests (CISRs) processing times and samples of CISR forms	All (List) and 3-5 % of Forms	38, 112	III.A, III.B.1, III.B.5, IV.A
Direct Access Service Requests (DASRs)	All, if any	32, 33	III.A, III.B.5
Edison News company newsletters	All	26	III.E.3, III.E.4
SCE employee transfers to affiliates (fee calculation, non-marketing personnel, property transfers, fees)	All	52	V.G
Affiliate employee transfers to SCE (residency rqmts, SCE affiliates officer approval)	69% (59 of 86)	52	V.G.2.b
Employees of SCE in affiliate offices	All	92	V.C
Employees of affiliates in SCE offices	All	91	V.C
ESI billings to affiliates	All	79	V.H, VII.C, VII.H, VII.I
External Service Requests (ESRs)	All	102	V.H
Facilities tour (for separation)	Tour GO, Gateway; Review DC office floor plan	100, 101 (DC office)	V.C
File retention review for service agreements and contracts; joint purchases; bulk power purchases & sales; transmission rights & capacity; fuel & fuel transportation	27 agreements/contracts from last three year's DRs	10, 44, 45, 65, 66, 71, 72, 73, 125, 126, 127	IV.F, IV.G
General Office Access	All visiting affiliate employees during September 2003	74	V.C
Generation Business Unit billings to affiliates	None in 2003	134	VII.I
Incorporation papers	All major entities	47	V.A
Intercompany/affiliate billings	Sept 2003 billings to EME entities	132	Sb 133 III.B, IV.F, V.B, V.E, V.H
Internal Audit reports and workpapers	All pertaining to affiliate-related audits	13, 48	V.B, VII.D
Internal Service Requests (ISRs)	All forms; checked charges for around 10%	51, 119	V.G
IT Security Access	12%	118	Sb 173 V.C, V.E
Joint purchases	All	41, 64, 65, 66, 116, 170, 172, 181	IV.D, V.D
Marketing/advertising/promotional/website materials	All	28, 31, 131, 182	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, V.F.1, V.F.2, V.F.4
New affiliate advice letters to the CPUC	None in 2003	46	VI.B
Nontariffed products and services	All ESI billings to affiliates; one billing to a third party	16	V.H, VII.A, VII.C, VII.D
Officer/Directors (no inappropriate sharing)	All	15	V.G
Presentations to large customers	15% of presentations stored in AMIS	29, 113, 171, 179	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, IV.C.2, IV.E, V.F.1,
Property transfers to/from SCE	All	54	V.H
Proposals responding to major customer RFPs	All	115	III.A, III.C, III.E.2, III.E.6, V.F.4
R&D projects and EPRI targets	All	69-70, 108-111	III.E.3, III.E.4, V.F.5
Power purchases and sales between SCE and Affiliates (incl	All entities and 2 sample days	71, 72, 73	III.B, III.B.1, V.D
Power and gas "Okay to Trade" counterparty lists	All entities and 2 sample days	72, 160	III.B, III.B.1, V.D
Power procurement plan quarterly compliance reports	All (roll-up analysis)	162	III.B, III.B.1, V.D
Fuel & fuel transportation purchases/sales with Affiliates	All	125, 126	III.B, V.D
Transmission purchases/sales with Affiliates	All	127	III.B, V.D
Regulatory Info Center / Affiliate Notice Website Postings: "CISRs", "3B" Reports, "3F" Reports, & "4B" Reports	All	39, 40, 103, 104, 117	III.A, III.B.1, III.B.2, III.B.5, III.E.4, III.F, IV.A, IV.B, IV.F
Section 851 applications	80%	58	VII.G
Service agreements and contracts between SCE and affiliates	All	10, 45, 66, 71-73, 125-	III.A, III.B, V.D
Trade shows, conferences & marketing events	All	107	V.F.4

Transactions Reviewed	Sample Size	Data Request Numbers	Applicable Subrule
Account manager's journal notes	10 - 15 %	114	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, IV.E.V.F.1, V.F.2, V.F.4
ATR-related complaints	None in 2003	60	VIII.C
Bill Inserts	All	30	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, V.F.1, V.F.2, V.F.3, V.F.4
Board of Directors minutes	All	80	V.G
Carrier Solutions billings to affiliates	None in 2003	135	VII.I
Corporate Support Requests (CSRs)	All	99	III.B
Customer Calls (residential & commercial/industrial gates)	95 Calls	124	III.A, III.B.2, III.B.3, III.B.4, III.C, III.E.2, III.E.6, III.E.7, IV.C, IV.E
Customer Information Service Requests (CISRs) processing times and samples of CISR forms	All (List) and 3-5 % of Forms	38, 112	III.A, III.B.1, III.B.5, IV.A
Direct Access Service Requests (DASRs)	All, if any	32, 33	III.A, III.B.5
Edison News company newsletters	All	26	III.E.3, III.E.4
SCE employee transfers to affiliates (fee calculation, non-marketing personnel, property transfers, fees)	All	52	V.G
Affiliate employee transfers to SCE (residency rqmts, SCE affiliates officer approval)	69% (59 of 86)	52	V.G.2.b
Employees of SCE in affiliate offices	All	92	V.C
Employees of affiliates in SCE offices	All	91	V.C
ESI billings to affiliates	All	79	V.H, VII.C, VII.H, VII.I

Background

California Affiliate Transaction Regulation

On December 16, 1997, the CPUC issued Decision No. 97-12-088 establishing a new set of rules governing how transactions may be conducted between California's gas and electric utilities and their affiliates. This decision was the culmination of the CPUC's Affiliate Transaction Rulemaking and Investigation, thus the rules are referred to as the "ATR." (DR 2)

The ATR were adopted primarily to prevent California's regulated utilities from using their resources to provide an unfair competitive advantage to their unregulated affiliates, with principal emphasis on the then-anticipated competitive market for the electric commodity and related products and services. Essentially, they cover dealings between a utility and its unregulated affiliates with respect to:

- Transactions
- Sharing of information and assets (tangible and intangible)
- Employee moves and temporary use of utility employees by affiliates

SCE must file a compliance plan with the CPUC demonstrating how it ensures adherence to the ATR. SCE's latest annual update is called the Compliance Plan Update for 2003 (CP03) and is dated December 22, 2003. (DR 1) The CP03, taken together with the Compliance Plan Update for 2002 (CP02) and the Modified Compliance Plan (MCP) filed in December 2001, constitute SCE's compliance plan for all of the ATR established by D.97-12-088.

SCE's Compliance Program

The major elements of SCE's ATR compliance program are described below.

- **Affiliate Compliance Management Oversight** – SCE's Affiliates Oversight Team is responsible for ensuring that SCE and its affiliates comply with affiliate transaction rules adopted by the CPUC and other agencies. The team includes the Affiliates Officer, Designated Affiliates Counsel, and Designated Affiliates Controller. They are supported by professional-level employees reporting to the Affiliates Officer. In addition, personnel in every department and business unit of SCE and its affiliates have been deemed responsible for facilitating compliance with affiliate transaction rules related to their business and business practices. (DR 1)
- **Affiliate Transaction Rule (ATR) Manual** – This manual is SCE's definitive compliance reference tool for employees. The ATR Manual covers the body of rules pertaining to affiliate transactions and provides examples of how CPUC and FERC rules should be implemented. It is available to all utility and affiliate employees on-line via EIX's corporate intranet. (DR 5)
- **Employee Education and Training** – SCE employs regular training and communications programs to educate utility and affiliate employees about the affiliate transaction rules. Notable aspects include:

Background

- Articles in corporate-wide publications
- Electronic and hard-copy letters to all employees on affiliate-related issues
- Presentations customized for specific employee groups
- SCE and EIX publications describing standards of conduct and business policies
- Responses to individual employees’ questions by SCE’s Affiliates Oversight Team and Affiliate Compliance Organization (e.g., affiliate information hotline, e-mail address) (DR 1, DR 26)
- **Compliance Reporting Process** – SCE maintains a system of internal accounting controls to ensure that affiliate transactions are recorded and reported in compliance with applicable guidelines. In addition, SCE is required by the Rules previously adopted by the CPUC to provide the Commission with an Annual Report of Affiliate Company Transactions by May 1 each year. (DR 1)
- **Periodic Compliance Reviews** – Annual audits are conducted by an independent consulting firm. In addition, periodic internal reviews of selected affiliate transactions are conducted by SCE staff and the Audit Services Department. A list of these reviews is submitted as part of the Annual Report of Affiliate Company Transactions to the CPUC. (DR 1, DR 13)

Overview of SCE’s Affiliate Transactions

While the ATR themselves do not define the term “transaction,” the interim reporting requirements adopted by the CPUC in 1992 define an affiliate transaction as: the provision of any good, property, service, privilege or act between any two parties for which compensation normally would be provided if each party was independent of the other and acting in its best financial interest. (D.93-02-019, Rule I.G.m, DR 5) According to ATR III.B, transactions between a utility and its affiliates are limited to:

- Tariffed products and services
- The sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process
- Joint purchases, as provided for in ATR V.D
- Corporate oversight, governance and support services, as provided for in ATR V.E
- Non-tariffed products and services, as provided for in ATR VII (DR 5)

A summary of affiliate transactions during the past several years is shown below.

(\$ in thousands)	1999	2000	2001	2002	2003
SCE’s Provision of Goods and Services to Affiliates (A)	\$ 25,455	\$ 35,395	\$ 30,441	\$ 16,565	\$ 18,260
Affiliates Provision of Goods and Services to SCE (B)	\$ 202	\$ 9,281	\$ 3,619	\$ 14,215	\$ 32,430
SCE Transfers of Tangible Assets to(from) affiliates	\$ -	\$ 1,830	\$ 3,916	\$ -	\$ (1,120)
SCE Transfers of Intangible and Intellectual Property (SCE to<from> affiliates)	\$ -	\$ -	\$ 205	\$ -	\$ -

Note A: Excludes charges to accounts (146, 236 and 438) not directly related to the provision of goods and services

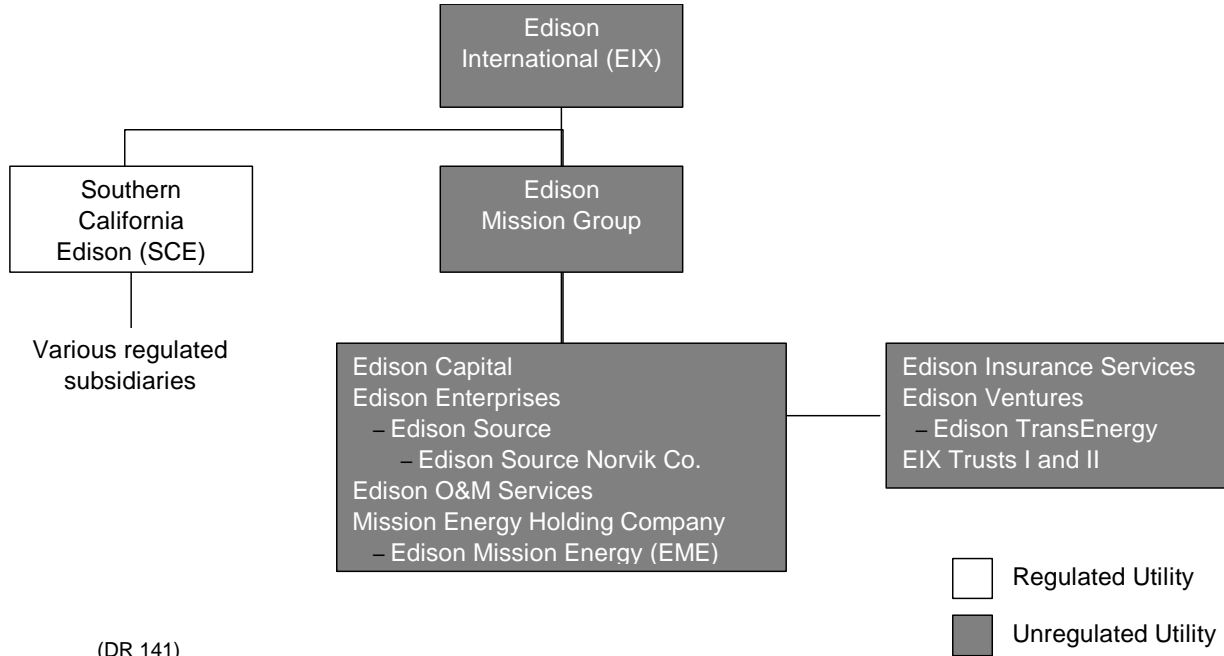
Note B: Excludes dividends paid in 2003

(DR 142)

Background

Structure of Edison International

The principal unregulated affiliates of SCE are shown below. The holding company arrangement was first established in 1988 (pursuant to CPUC decision D.88-01-063) to protect utility ratepayers from the corporation's venture into unregulated business activities.



Applying the requirements set forth in D.97-12-088, SCE has categorized its affiliates as either covered (“Class A”) or not covered (“Class B”) by the ATR¹. The Class A affiliates, which provide products that use electricity or services that relate to the use of electricity, are:

Edison Mission Energy (EME) and subsidiaries:	
Edison Mission Energy Services B.V. Edison Mission Operation and Maintenance Services B.V. Edison Mission Marketing & Trading, Inc. EME Homer City Generation L.P. Mission Energy Westside, Inc. Chestnut Ridge Energy Company Edison Mission Energy Services, Inc. Contact Energy Limited EcoElectrica LP Edison First Power Limited Midwest Generation, LLC	Italian Vento Power Corporation 4S.r.l. ISAB Energy s.r.l. Tri-Energy Company Limited Edison Mission Energy Fuel Services LLC CL Power Sales 1,2,6,7,8,9,10, and CP Power Sales 12 and 17, LLCs Perth Power Partnership CBK Power Company Limited Kalayaan Power Management Corporation Sunrise Power Company LLC Coaltrade Services International Pte Ltd. EMOM Services, Inc.

Edison Capital subsidiaries: Storm Lake Power Partners I LLC Lakota Ridge LLC Shaokatan Hills LLC Woodstock Hills LLC Cade, Edeser, Electropaz, and Empresa de Luz y Fuerza Electrica de Oruro S.A.
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Edison Enterprises and its subsidiary Edison Source and Its subsidiary Norvik Company

Edison O&M Services

(DR 143)

¹Note that Class B affiliates remain subject to the transaction rules set forth in D.88-01-063.

Background

The Class B affiliates, not subject to the ATR, are:

Edison International (EIX)

Edison Mission Group and subsidiaries:
Edison Capital and all subsidiaries except for
those listed as Class A above
Edison Enterprises
Mission Energy Holding Company and
Subsidiaries not considered to be Class A
Mission Land Company and its subsidiaries
(DR 144)

Edison Insurance Services

Edison Ventures and subsidiary Edison
TransEnergy

EIX Trusts I, II and III

ATR-Related Events During 2003

During 2003, there were no changes in California's affiliate transaction rules or the CPUC's interpretation of those rules with respect to SCE. The few affiliate transaction-related 2003 events are described below. (DR 17)

Annual Compliance Plan

On December 22, 2003, SCE filed its annual compliance plan update (Compliance Plan Update for 2003, or CP03). It made minor changes in SCE's compliance statements.

EO&MS Shutdown

Edison O&M Services (EO&MS) continued winding down its business activities. It was established in 2000 as a non-regulated affiliate to provide power plant operations and maintenance services. EO&MS was granted certain exemptions from the ATR by the CPUC in order to help retain the jobs of employees who otherwise would have been laid off. It was not able to develop into a going concern and the decision was made in 2002 to shut it down. At the conclusion of this audit, it had no employees or assets. (DR 17)

Mountainview Proceeding

On July 21, 2003, SCE filed an application requesting the CPUC to authorize it to enter into a purchased power agreement (PPA) with Mountainview Power Company, LLC (MVL), a company it wished to acquire. MVL owns the rights, permits and contracts to build a new state-of-the-art 1,054 megawatt combined-cycle gas turbine generating station. (INT1, DR 164)

MVL is to be maintained as a separate, wholly-owned subsidiary of SCE. This structure is desirable to SCE because MVL can secure debt financing at a lower cost than SCE, whose credit rating is below investment grade. The PPA provides financiers with greater security than SCE debt, thus they will charge a lower rate of interest. (INT1, DR 164)

Affiliate transaction rules were debated at length in this proceeding because MVL is to be maintained as a separate corporate entity with SCE taking all of its output under the PPA for the life of the plant. While the CPUC eventually ruled that the ATRs do apply to

Background

MVL's transactions with SCE, it granted a one-time exemption to SCE from the following rules:

- Rule III.B Affiliate Transactions
- Rule III.E Business Development and Customer Relations
- Rule IV.B Non-Customer Specific Non-Public Information
- Rule V.C Separation of Facilities and System
- Rule V.D Joint Purchases
- Rule V.E. Corporate Support
- Rule V.F Corporate Identification and Advertising
- Rule V.G.1 Sharing of Employees
- Rule V.G.2 Movement of Employees
- Rule V.H.5 Transfer of Goods and Services (DR 164)

The acquisition has been approved by the CPUC and Federal Energy Regulatory Commission, which has regulatory jurisdiction over this purchased power transaction. SCE has exercised its option to purchase MVL and the plant is expected to be completed and brought on line in 2006. (DR 164)

In 2003, SCE entered into the option agreement with Mountainview's previous owners. However, there were no affiliate transactions in 2003 related to Mountainview. Thus, it was not subject to our 2003 affiliate transactions audit. (INT1)

Moratorium on Affiliate Procurement Transactions

In docket D.02-10-062, the CPUC established a moratorium on electric procurement transactions with affiliates until the earlier of January 1, 2005 or closure of Reopener docket. During 2003, SCE did not trade energy with any affiliates. (DR 17)

Rule I – Definitions

CPUC Rule

Unless the context otherwise requires, the following definitions govern the construction of these Rules:

I.A. “Affiliate” means any person, corporation, utility, partnership, or other entity 5 per cent or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly either by a utility or any of its subsidiaries, or by that utility’s controlling corporation and/or any of its subsidiaries as well as any company in which the utility, its controlling corporation, or any of the utility’s affiliates exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership. For purposes of these Rules, “substantial control” includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of 5% or more by the utility in an entity’s company creates a rebuttable presumption of control.

For purposes of this Rule, “affiliate” shall include the utility’s parent or holding company, or any company which directly or indirectly owns, controls, or holds that power to vote 10% or more of the outstanding voting securities of a utility (holding company) to the extent the holding company is engaged in the provision of products or services as set out in Rule II.B. However, in its compliance plan filed pursuant to Rule VI, the utility shall demonstrate both the specific mechanism and procedures that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding company or another utility affiliate not covered by these Rules as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules, (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as conduit to circumvent any of these Rules.

Regulated subsidiaries of a utility, defined as subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate. However, these Rules apply to all interactions any regulated subsidiary has with other affiliated entities covered by these rules.

I.B. “Commission” means the California Public Utilities Commission or its succeeding state regulatory body.

I.C. “Customer” means any person or corporation, as defined in Sections 204, 205 and 206 of the California Public Utilities Code, that is the ultimate consumer of goods and services.

I.D. “Customer Information” means non-public information and data specific to a utility customer which the utility acquired or develop in the course of its provision of utility services.

I.E. “FERC” means the Federal Energy Regulatory Commission.

I.F. “Fully Loaded Cost” means the direct cost of good or service plus all applicable indirect charges and overheads.

I.G. “Utility” means any public utility named as a respondent to Rulemaking 97-04-011/Investigation 97-04-012, and any other public utility subject to the jurisdiction of the Commission as an Electric Corporation or Gas Corporation, as defined in California Public Utilities Code Sections 218 and 222, which the Commission by subsequent decision or order requires to comply with these Rules.

Audit Criteria

- SCE properly interprets ATR definitions
- Information on affiliate transaction rules is widely distributed, easily accessible and continuously communicated throughout SCE and its affiliates

Rule I – Definitions

Audit Steps

- Verify that SCE has properly interpreted Rule I definitions
- Determine that these definitions have been adequately publicized among those involved in affiliate transactions

Conclusions

SCE is in compliance with Rule I.

The terms defined in Rule I are restated verbatim in SCE’s Modified Compliance Plan (MCP) and Affiliate Transaction Rule (ATR) Manual. In addition, SCE defines the key terms, listed in the table below, in Chapter 2 of the ATR.

Affiliate	Controlling Corporation	Intangible Asset	Sale of Property
Affiliate QF Contract	Corporate Governance	Labor	Securities
Affiliated Investees	Corporate Support	Leads	Service Providers
Affiliates Compliance Manager	Corporation	Merchant Function	Significant Unaffiliated Third Party
Affiliates Officer	Cost of Sales	Net Book Value	SCE
Affiliate Third Party	Cross Subsidy	Parent Company	Subsidiaries
Affiliate Transaction	Customer	Parent Holding Company	Tariffed Service
Rulemaking/ Investigation (ATRI)	Designated Controller	Permissible Shared Support	Transaction
Allocated Cost	Designated Counsel	Person	Transfer Price
ATRs	Directly Requested Services	PGACT	Transfer of Goods and Services
ATR Manual	Energy Marketing Affiliate	PGACT 88	Type 1-2-3 Rules
Commission	Fair Market Value	Policy	Utility
Company	FERC	PROACT	Utility Investee
Contracts	Fully Loaded Cost	Property	Utility Third Parties

DR 5

We found the ATR Manual’s definitions of these terms to be consistent with the CPUC’s ATR. Our audit work also showed that in the course of implementing the ATR, SCE has been careful to consider the broad intent of the rules.

SCE maintains an appropriate level of awareness of Affiliate Transaction Rules through a variety of reference and training materials, including:

- ATR Manual, in which SCE documents its policies and procedures developed to implement the ATR
- Training presentations developed by RP&A and delivered to business units and work groups
- Intranet availability of the ATR Manual and training materials, accessed through MyEdison.net by SCE and affiliate employees
- Periodic communications with employees. In June 2003, SCE’s Affiliates Officer sent an e-mail to affiliate executives and managers reminding them of their obligation to notify RP&A when a Class A affiliate is formed
- “Employee Self Test,” available on MyEdison.net
- Members of the Regulatory Compliance staff act as ATR Subject Matter Experts, available to SCE and affiliate personnel to answer questions and provide advice

Rule I – Definitions

- Telephone and email information hotlines available for affiliate compliance questions
- Articles and information developed by individual business units for inclusion in their hard-copy and electronic communications (DR 139)

As specified by Rule I.A, the MCP contains a letter from SCE’s Affiliates Officer and the EIX Vice President and Controller verifying that “the specific mechanisms and procedures described in SCE’s Modified Compliance Plan are believed to be sufficient to ensure that Southern California Edison is not using its holding company or any of its affiliates not covered by the Rules as a conduit to circumvent any of the Rules.” (DR 5 Appendix B)

Under the “5 percent” threshold established by Rule I.A, there are several hundred entities worldwide that must be considered affiliates of SCE. It became evident in the course of our review, however, that SCE conducts transactions with only a handful of those entities. Most affiliates are subsidiaries of Edison Mission Energy and Edison Capital, and many affiliates have a very specific, limited purpose.

Rule II – Applicability

CPUC Rule

- II.A.** These Rules shall apply to California public utility gas corporations and California public utility electrical corporations identified in Rule I.G.
- II.B.** For purposes of a combined gas and electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted below. For purposes of an electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity.
- For purpose of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or the provision of services that relate to the use of gas.
- II.C.** These Rules apply to transactions between a Commission-regulated utility and another affiliated utility, unless specifically modified by the Commission in addressing a separate application to merge or otherwise conduct joint ventures related to regulated services.
- II.D.** These Rules do not apply to the exchange of operating information, including the disclosure of customer information to its FERC-regulated affiliate to the extent such information is required by the affiliate to schedule and confirm nominations for the interstate transportation of natural gas, between a utility and its FERC-regulated affiliate, to the extent that the affiliate operates an interstate natural gas pipeline.
- II.E. Existing Rules:** Existing Commission rules for each utility and its parent holding company shall continue to apply except to the extent they conflict with these Rules. In such cases, these Rules shall supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent holding company from adopting other utility-specific guidelines, with advance Commission approval.
- II.F. Civil Relief:** These Rules shall not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.
- II.G. Exemption (Advice Letter):** A Commission-jurisdictional utility may be exempted from these Rules if it files an advice letter with the Commission requesting exemption. The utility shall file the advice letter within 30 days after the effective date of this decision adopting these Rules and shall serve it on all parties to this proceeding. In the advice letter filing, the utility shall:
- II.G.1.** Attest that no affiliate of the utility provides services as defined by Rule II B above, and
- II.G.2.** Attest that if an affiliate is subsequently created which provides services as defined by Rule II B above, then the utility shall:
- II.G.2.a.** Notify the Commission, at least 30 days before the affiliate begins to provide services as defined by Rule II B above, that such an affiliate has been created; notification shall be accomplished by means of a letter to the Executive Director, served on all parties to this proceeding; and
- II.G.2.b.** Agree in this notice to comply with the Rules in their entirety.
- II.H. Limited Exemptions (Application):** A California utility which is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application, served on all parties to this proceeding, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates. The applicant has the burden of proof.
- II.I.** These Rules should be interpreted broadly, to effectuate our stated objectives of fostering competition and protecting consumer interests. If any provision of these Rules, or the application thereof to any person, company, or circumstance, is held invalid, the remainder of the Rules, or the application of such provision to other persons, companies, or circumstances, shall not be affected thereby.

Rule II – Applicability

Audit Criteria

- A proper determination has been made as to whether affiliates are involved in “the provision of a product that uses electricity or provision of services that relate to the use of electricity” (this designation determines the applicability of ATR)

Audit Steps

- Determine if SCE’s designation of affiliates as either Class A or B comports with Rule II
- Assess how broadly SCE has interpreted the ATR in term of fostering competition and protecting customer interests

Conclusions

SCE is in compliance with Rule II.

SCE has established a classification process to determine which affiliates are subject to ATR. The ATR Manual describes the two classes as follows:

- Class A – Those affiliates of SCE subject to the ATR. They engage in the provision of a product that uses electricity or the provision of services that relate to the use of electricity.
- Class B – Those affiliates of SCE not subject to the ATR (DR 5)

The MCP, Compliance Plan Update for 2002 (CP02) and Compliance Plan Update for 2003 (CP03) summarize the Class A and B affiliates. (DR 1) A complete list of all Edison International entities is provided in the Annual Report of Affiliated Company Transactions. (DR 2)

Rule II – Applicability

SCE’s principle active affiliates and their class status are shown in the table below.

		Affiliate Class
Edison International (EIX) (parent holding company)		B
Southern California Edison (SCE)		na
Subsidiaries of SCE (e.g., ESI)		na
Edison Insurance Services		B
Edison Ventures		B
Edison TransEnergy		B
EIX Trusts I and II		B
Edison Mission Group		B
Edison Capital		B
Entities (4) generating power from wind		A
Elfeo, a Bolivian electric distribution company		A
All other subsidiaries of Edison Capital		B
Edison Enterprises		B
Edison Source		A
Edison Source Norvik		A
Edison O&M Services		A
Mission Energy Holding Company		B
Edison Mission Energy (EME)		A
Midwest Generation		A
Edison Mission Marketing & Trading		A
Other Subsidiaries of EME		A&B
Mission Land Company		B
Subsidiaries of Mission Land Company		B

(DR 145)

While Edison O&M Services (EO&MS) is categorized as a Class A affiliate, SCE was given certain exemptions in its dealings with EO&MS in order to save the jobs of employees who performed services for SCE generating facilities sold off as part of the 1998 deregulation divestiture process. In Decision 00-07-047, the CPUC permitted SCE access to EO&MS personnel on a non-competitive basis for specialized support to any of SCE’s retained generating facilities. In accordance and in compliance with the Decision, SCE has contracted directly with EO&MS to provide such support. When SCE procures products or services associated with facilities other than its retained generation, EO&MS is not given any special consideration and must compete in the same way as other non-affiliate third party service providers. In 2002, the decision was made to shut down EO&MS because it was not able to develop into a going concern. (DR 17)

As part of the audit, we reviewed the business activities of affiliates and found no instances where a Class B affiliate provides a product that uses electricity or services that relate to the use of electricity. (DR 2)

In the 2002 Affiliate Transaction Audit, it was recommended that Mission Power Engineering Company be reclassified from Class A to Class B because it had been

Rule II – Applicability

inactive for many years. SCE did this and notified the CPUC of its action in a letter dated May 30, 2003.

No new Class A affiliates were created in 2003. (DR 46) The following Class B affiliates were established in 2003:

- Edison Mission Group Inc. (formed April 1, 2003)
- EME Australia Capital Pty Ltd (formed August 28, 2003)
- Island Capital s.a.r.l. (formed November 21, 2003)
- FHH No. 1 Limited (formed December 3, 2003)
- FHH No. 2 Limited (formed December 3, 2003) (DR 46)

We concur with the Class B designations given to these new affiliates.

Rule III – Nondiscrimination

CPUC Rule

III.A. No Preferential Treatment Regarding Services Provided by the Utility: Unless otherwise authorized by the Commission or the FERC, or permitted by these Rules, a utility shall not:

III.A.1. represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers; or

III.A.2. provide its affiliates, or customers of its affiliates, any preference (including but not limited to terms and conditions, pricing, or timing) over non-affiliated suppliers or their customers in the provision of services provided by the utility.

Audit Criteria

- SCE does not represent that it will provide preferential treatment to affiliates or affiliates' customers compared to treatment provided to non-affiliates or their customers
- Terms, conditions, and pricing offered by SCE to affiliates or affiliate customers are comparable (non-preferential) to those available to non-affiliates or their customers

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Monitor actual customer conversations with SCE Customer Call Center representatives, both residential and commercial & industrial, to determine if affiliates or customers of affiliates are being provided preference over other customers. Also monitor calls to determine that the representatives are not promoting affiliates' business relationships with SCE.
- Review billing inserts to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Review marketing/advertising materials targeted or sent to SCE customers to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Sample SCE presentations to large commercial and industrial customers to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Sample account manager/account executive journal entries to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Review SCE proposals responding to requests for proposal (RFPs) from major customers to assure there is no preferential treatment being offered for any such customer who also purchases services from an affiliate of SCE

Rule III – Nondiscrimination

- Review Customer Information Service Requests (CISR) processing times to assure no preferential treatment was given to affiliates or affiliates' customers and sample actual CISRs to assure processing times have been accurately reflected
- Review SCE's process for handling Direct Access Service Requests (DASR) to affirm that no DASRs were processed in 2003. If there are DASRs, assure no preferential treatment was given to affiliates or affiliates' customers.
- Where applicable, compare terms, conditions, pricing, and timing for services provided to a sample of affiliate customers to ensure they are the same as those offered to non-affiliates' customers
- Review all non-tariffed service agreements and contracts between SCE and affiliates and compare terms, conditions, pricing and timing for services provided to ensure they are the same as those offered to non-affiliates
- Review Edison ESI's (ESI) billing practices to assure that neither affiliates nor their customers are provided preferential treatment. ESI is a regulated subsidiary of SCE

Conclusions

SCE is in compliance with Rule III.A.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with this Rule confirmed SCE's compliance.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the requirements of Rule III.A. (DR 1, DR 5).

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Corporate Communications (INT 15), Customer Services Operations (INT 21) and the Major Customer Division (INT 20, INT 27) affirmed for us that their organizations were in compliance with Rule III.A throughout 2003.

In evaluating SCE's compliance with Rule III.A, we reviewed the key informational channels by which SCE communicates with its customers. The results of this assessment are described below:

Customer Call Centers. We listened in on a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any preferential treatment being discussed or provided. (DR 124)

Billing Inserts, Advertisements & Websites. We reviewed all 33 billing inserts mailed to both commercial and residential customers during 2003. (DR 30). We examined all mass market advertisements sponsored by SCE during 2003. (DR 28, DR 182). The

Rule III – Nondiscrimination

SCE advertisements included 19 print ads, 16 radio spots, 15 TV ads, and 4 outdoor ads. In none of the inserts or advertisements did we see any evidence of preferential treatment being offered, or given, to any of SCE's affiliates or their customers.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2003. (DR 29, DR 113)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 114). These notes document meetings held with large customers in 2003. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2003.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2003, and to indicate which, if any, resulted in an SCE proposal. SCE received five such RFPs in 2003 and responded to four. Any response to the fifth RFP would have been made in 2004. We reviewed the four 2003 proposals, all of which related to possible privatization of government electric systems. (DR 115)

Nothing in the presentations to large customers, the sample of diary notes or the SCE proposals for privatization indicated SCE would provide preferential treatment to affiliates or affiliates' customers. And there was no evidence that terms, conditions and pricing offered affiliates or their customers were better or different than those offered to others.

DASRs and CISRs. A second area of inquiry for preferential treatment was the processing of requests for information and services. Specifically, we determined if there were any preferences given affiliates in SCE's handling of Direct Access Service Requests (DASRs) and Customer Information Service Requests (CISRs).

DASRs are the communication tool used by an Electric Service Provider (ESP) to notify SCE of a customer's request to initiate, cancel, or modify their Direct Access account. Essentially, Rule III.A says that SCE may not provide preferential treatment to any customer that is obtaining direct access from an SCE affiliate. Such preferential treatment, if it existed, might show up in quicker turnaround times for DASRs sent to SCE by its affiliates compared to other ESPs.

SCE measures the number of days to process the DASR and compares turnaround times for affiliate customers and other customers. While this procedure is still in place at SCE, it has not been used since 2001, when the Direct Access program in California was suspended by the Commission. (DR 32, DR 33)

Rule III – Nondiscrimination

CISRs are the communication tool used to obtain/approve release of customer information to a third party. For example, if a customer retains an energy management firm to help identify opportunities for energy cost reduction, the customer might use a CISR to ask SCE to release data about their energy usage amounts and patterns to the third party energy management firm.

Under Rule III.A, SCE cannot process such requests more quickly for affiliates or affiliates’ customers than for others. SCE’s procedure for handling CISRs includes the measurement of the number of days to process them. Comparisons of turnaround times would possibly show whether any preference was being given to affiliates/affiliates’ customers. The table below shows the results of our analysis of 2003 CISR processing times. SCE processed 656 CISRs during 2003 affecting over 12,000 customer accounts. The average processing time for these CISRs was 3.34 days. (DR 38, DR 112)

CISR Statistics and Processing Times Table

Quarter	Total CISR Request	Total CISR Accounts	Average Processing (Days)	CISR Requests Involving Affiliates	Average Processing Affiliate Requests (Days)
1 st	138	1,949	3.73	0	NA
2 nd	181	3,518	3.45	0	NA
3 rd	205	5,335	3.23	0	NA
4 th	132	2,063	2.94	0	NA
All Year	656	12,865	3.34	0	NA

There were no CISR forms relating to affiliates processed in 2003. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 39). Based on this analysis, we conclude that no preferential treatment was given to affiliates through the expedited processing of CISRs during 2003.

Service Agreements and Contracts, Including Edison ESI (ESI) We also reviewed all of the service agreements and contracts in effect during 2003 between SCE and its affiliates. (DR 10). A summary list of these is provided in Rule III.B below. In none of the non-tariffed service agreements or contracts did we identify preferential treatment extended to affiliate entities.

No affiliates submitted any bids to SCE during 2003. (DR 66) And SCE entered into no contracts for power, capacity, transmission capacity, ancillary services, or generation fuels with affiliates during 2003. (DR 71, DR 72, DR 73, DR 125, DR 126, DR 127)

We reviewed all 2003 affiliate work performed by ESI, a regulated subsidiary of SCE that performs various services for affiliates and non-affiliate third parties. The work

Rule III – Nondiscrimination

performed by ESI for affiliates was priced out using rates from ESI's standard price list, which is also used to price out non-affiliate third party customers. Thus, we can conclude there was no discrimination in favor of affiliates. (INT 24, DR 79)

We also reviewed all 2003 work performed by EO&MS, a Class A affiliate, for SCE. We compared the rates charged SCE to those charged a sample of non-affiliate third party customers of EO&MS. We found SCE's rates to be comparable to those of the sample third party customers. (DR 120, DR 121, DR 122)

CPUC Rule

III.B. Affiliate Transactions: Transactions between a utility and its affiliates shall be limited to tariffed products and services, the sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, or as provided for in Sections V.D and V.E (joint purchases and corporate support) and Section VII (new products and services) below, provided the transactions provided for in Section VII comply with all of the other adopted rules.

Audit Criteria

- Affiliate transactions are limited to: (1) tariffed products and services, (2) the sale or purchase of goods, property, products, or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, (3) joint purchases or corporate support as defined by Sections V.D. and V.E. of the Rules or (4) new products and services as defined by Section VII of the Rules.

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Evaluate SCE's procurement practices to determine that competitive bidding is used where goods, services, property or products are procured from affiliates. Assess the monitoring and control processes of SCE's Procurement and Materials Management Department that ensure compliance with this provision.
- Review all service agreements and contracts between SCE and affiliates to determine if the competitive bidding requirements of this Rule have been followed and that the tariff limitations have been followed
- Review list of parties to wholesale power agreements and sample wholesale power transactions to assure requirements of this rule have been followed
- Review any gas and coal contracts between SCE and affiliates to assure requirements of this rule have been followed
- Review any transmission contracts between SCE and affiliates to assure requirements of this rule have been followed
- Review joint purchases to assure that no transactions were made other than those allowed under Rule V.D
- Review a sample of SCE transactions (including intercompany billings) with affiliates and affiliate customers to determine they were limited to the type allowed in this ATR

Rule III – Nondiscrimination

- Review property sales between SCE and affiliates to assure the sales were the result of a competitive bidding process

Conclusions

SCE is in compliance with Rule III.B.

Nature of SCE's Affiliate Transactions

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transaction Compliance Plan – 2002 Update (CP02) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the competitive bidding requirements imposed by this rule. (DR 1, DR 5) SCE purchases from affiliates (except those made under Rules V.D, V.E and VII, as permitted) are required to be made through an open, competitive bidding process.

CP02 discusses a limited exemption to Rule III.B. This exemption, approved by the Commission in Decision 00-07-047, Ordering Paragraph 9, relates to SCE's access/use, on a non-competitive, sole source basis, of employees that moved from the utility to EO&MS to perform specialized support to any of SCE's retained generating facilities. (DR 3) The Commission further specified that SCE should pay no more than the lower of fair market value or EO&MS fully-loaded costs for any such services. (DR 1). This exemption is also discussed in the ATR Manual. (DR 5)

The Procurement and Materials Management Department (PAMM) is given responsibility for ensuring compliance as described in CP02. And PAMM documents the procedural requirements that emerge from this responsibility through a number of training materials and procedural manuals. (DR 153). Also, SCE's Affiliates Officer must approve purchases of any products or services where the utility or affiliate is the sole available source. (DR 1, DR 5).

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Energy Supply and Management (INT 6, INT 7, INT 22), Risk Control (INT 13, INT 18) and Procurement and Materials Management (INT 12, INT 19) affirmed for us that their organizations were in compliance with Rule III.A throughout 2003.

In evaluating SCE's compliance with the broad requirements of Rule III.B, we first defined and then reviewed the full range of SCE's transactions with affiliates in 2003. The Commission's definition of an affiliate transaction is "the provision of any good, property, service, privilege, or act between any two parties for which compensation normally would be provided if each party was independent of the other and acting in its best financial interests" (DR 17). Using this definition, the Rules, and various Commission decisions, rulings and orders, we developed the following table of allowable categories of affiliate transactions.

Rule III – Nondiscrimination

A. SCE Tariffed Products and Services to Affiliates

(e.g., distribution services to affiliate end-users; energy and capacity to affiliate end-users without Direct Access; wholesale power to/from an affiliate, including QFs; QF related services to an affiliate subject to transmission owner tariffs; transmission and/or ancillary services to/from an affiliate, etc.)

B. SCE Non-tariffed Products and Services to Affiliates

(1) Rule VII.F allows SCE to continue offering those non-tariffed products and services in effect prior to 12/16/97, the date the new affiliate rules were established, to affiliates so long as the terms, conditions, prices, etc. do not favor the affiliate over others and the conditions in Rule VII.C and VII.D are met. Such products and services might include: use of communications and computing systems; secondary use of office space; operation and maintenance of generation, transmission, and distribution related facilities and equipment, etc. See ATR Manual, pp.17-12 to 17-20 (DR 5) and Advice Letters 1286-E and 1286-E-A (DR 16)

(2) Any new non-tariffed products and services offered by SCE must meet the conditions of Rules VII.C and VII.D and be approved by the Commission

C. Affiliate Products and Services to SCE

Products & services by affiliates to SCE only through an open, competitive bidding process. However, a waiver to the competitive bidding part of Rule III.B was given by the Commission in D.00-07-047 for services provided by EO&MS to SCE for retained generation facilities only. See CP02 (DR 1) and Decision 00-07-047. (DR 3).

D. Joint Purchases by SCE and Affiliates

Covered also by Rule V.D (e.g., Joint Contracts such as database software; Single Party – Joint Use Contracts, such as national energy data; Joint Negotiation – Separate Contracts, such as office supplies; etc.)

E. Shared Corporate Support

Shared corporate oversight, governance, support systems and personnel. Covered also by rule V.E .

F. Sales of Assets

The transfer of tangible and intangible assets between SCE and affiliates.

Using this basic framework, we reviewed or sampled all affiliate transactions from calendar year 2003, and the agreements/contracts/tariffs under which they were authorized or prescribed.

We reviewed service agreements and contracts with affiliates. (DR 10, DR 45, DR 59). As a result of that review, we verified that during 2003, all of SCE's agreements and contracts with Class A affiliates fell under one of the allowable transaction categories shown in the table above. Making up this list are:

- Four SCE power supply contracts with affiliated Qualifying Facilities (QFs) which pre-date the Rules (Category A)
- Two SCE contracts with affiliated QFs for services other than power supply, all pursuant to transmission owner tariffs (Category A)
- Thirteen non-tariffed contracts, all general service agreements for Edison ESI to provide services such as inspection and testing to affiliates (Category B)
- Two contracts for EO&MS to provide services related to retained generation to SCE (Category C)
- Two competitively bid contracts for EO&MS to provide services to SCE (Category C)

Rule III – Nondiscrimination

- One tax-sharing agreement between Edison International, SCE and the Mission Group (Category E)
- One office-space lease between SCE and Mission Energy (Category E).
- One Quantity Contract between SCE's regulated subsidiary Edison Material Supply LLC and EO&MS. This contract terminated on 6/30/03 as the business activity of EO&MS was discontinued. (Category E)

SCE provides tariffed products and services to affiliates on the same terms it offers to outside customers. Two tariffs, available to all customers regardless of affiliation, provide Category A services: Schedule GS-1 (General Service – Non-Demand) and Schedule GS-2 (General Service – Demand). (DR 16)

As to other Category A tariffed services, during 2003 there were no wholesale power contracts in existence between SCE and an affiliate, except for four allowable QF contracts (DR 71, DR 72, DR 73 DR 160, DR 162). Additionally, there were no transmission contracts between SCE and an affiliate nor were there any joint purchases or sales of transmission services. (DR 10, DR 127)

Of the thirteen contracts for Category B non-tariffed products & services in effect during the year (DR 10), eight were new in 2003. (DR 45, DR 59) The eight new contracts applied to SCE affiliates EO&MS, Watson Cogeneration Company, and Kern River Cogeneration. The remaining five contracts were with affiliates Watson Cogeneration Company, Kern River Cogeneration, Sycamore Cogeneration, Edison Mission Energy, and California Energy Company. (DR 10, DR 59) All of these contracts are allowable under the ATRI Rules.

During 2003, no fuel (e.g., natural gas, coal or nuclear) or fuel transportation or storage contracts were in existence between SCE and an affiliate (DR 10), nor were there any joint fuel purchases or sales. (DR 125, DR 126)

Category C included two contracts both of which had been competitively bid, as required. (DR 10, DR 45) These contracts are for EO&MS to provide services to SCE. EO&MS was awarded the contract in each case because it was either the low bidder, or because of its specific technical ability and availability. In every case, the contract was an allowable arrangement under the Rules.

In 2003, there are several Category D contracts in place pertaining to joint purchasing arrangements between SCE and affiliates. All were allowable under Rule V.D. See the discussion in Section V.D, below. (DR 65)

There were several contracts for allowable Category E, Corporate Support, services in 2003. The first is a tax-sharing agreement between EIX, SCE and the Mission Group. (DR 10) Another is a "quantity contract" between SCE's regulated subsidiary Edison Material Supply LLC (EMS) and EO&MS. Under this contract, supplies needed by EO&MS to perform work for SCE's retained generation facilities were purchased by

Rule III – Nondiscrimination

EMS, received by EMS and issued to EO&MS from EMS warehouses at cost plus standard warehousing overheads. (DR 153)

SCE also has the following office lease arrangements with its Class B affiliates that are appropriate as Category E Shared Corporate Support.

1. SCE with EIX: EIX leases around 21,000sf of office space in the GO 1 building. (DR 49)
2. EIX with SCE: SCE subleases office space from EIX in its Washington DC office where SCE has 9 employees. (DR 49, DR 92, DR 100)
3. EME with SCE: Members of SCE’s audit staff occupy space in EME’s office in Irvine. (DR 92)

Four Category F asset transfers from EO&MS to SCE were recorded in 2003. They arose from EO&MS’ dissolution and the need for additional facilities and equipment for some 250 new SCE TDBU employees. SCE took over EO&MS’ Fullerton office/service center and purchased EO&MS’ leasehold improvements, office equipment, vehicles and shop equipment. Based on our review, described later in Rule V.H, we concluded these transactions were allowable. (INT 28, DR 54, DR 176)

Billing and Reporting Affiliate Transactions

The table below shows who in SCE is responsible for billing affiliates for these transactions.

Allowed Affiliate Transactions	Who Bills Affiliates
Tariffed products and services	SCE Customer Services Business Unit
Goods/services available to open market/third parties	SCE department performing the work
Joint purchases	Controller’s Department
Shared corporate support (A)	Controller’s Department
Non-tariffed products and services	SCE business unit performing the work

Note A: these make up the majority of SCE’s affiliate charges
DR 166

For joint purchases and shared corporate support, the Controller’s Department submits a bill to the affiliates shown in the table below.

Edison Mission Group	Edison Ventures
Edison Mission Energy	Edison Enterprises
Edison Capital	Edison Insurance Services
Mission Land	Edison Technology Solutions
EIX	EO&MS
Edison Source	Mission Energy Holding Company

DR 146

The Controller’s Department maintains the “Intercompany Transactions with Nonutility Affiliates” report which shows charge detail by month for shared corporate support and joint purchases for each of these affiliates. In response to a 2002 Affiliate Transaction

Rule III – Nondiscrimination

Audit recommendation, SCE began preparing a preliminary summary of affiliate transactions as of mid-year. This report includes year-to-date total transactions by principal affiliates and by type of transaction and is distributed to the SCE Affiliates Officer and the SCE Affiliates Controller. SCE expects that the categories of transactions will be subject to change from year to year as the nature of affiliate transactions change. In 2004, when it has two year's of data, SCE intends to analyze and explain variances in the numbers. (INT 11, DR 11)

SCE is obligated by D.93-02-019 to provide the CPUC with an Annual Report of Affiliate Company Transactions. SCE charges to affiliates and affiliate charges to SCE are summarized and shown by affiliate and FERC account in Volume III of the Annual Report of Affiliate Company Transactions. (DR 2)

CPUC Rule

III.B.1. Provision of Supply, Capacity, Services or Information: Except as provided for in Sections V.D, V.E, and VII, provided the transactions provided for in Section VII comply with all of the other adopted Rules, a utility shall provide access to utility information, services and unused capacity or supply on the same terms for all similarly situated market participants. If a utility provides supply, capacity, services, or information to its affiliate(s), it shall contemporaneously make the offering available to all similarly situated market participants, which include all competitors serving the same market as the utility's affiliates.

Audit Criteria

- SCE provides access to information, services and unused capacity or supply on the same terms for all similarly situated market participants
- If SCE provides supply, capacity, services, or information to its affiliate(s), it contemporaneously makes the offering available to all similarly situated market participants

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review instances where unused SCE supply or capacity, information, or services were made available to affiliate(s)
- Determine, in such instances, if offerings were on the same terms for all market participants and if it made the offerings available to all market participants

Conclusions

SCE is in compliance with Rule III.B.1

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Furthermore, during our transaction reviews, we determined there were no instances in which SCE provided affiliates discriminatory access to information, services, or unused capacity or supply.

Rule III – Nondiscrimination

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all employees, describe the requirements of Rule III.B.1. (DR 1, DR 5) Both documents clearly lay out the requirement that any goods or services subject to this rule and offered to affiliates would be priced at fair market value and would be offered to non-affiliates on the same terms. Notice of any such offerings would be given to the market in which the affiliate operates by posting an "Affiliate Transaction Compliance Notice for Provision of Supply, Capacity, Services or Information (3B Report)" on SCE's Affiliate Notices website entitled Supply/Capacity/Service/Info Offered to Affiliates (www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f2_supply_cap.htm) (DR 117) and by providing notice in at least one trade magazine serving that market. This approach is supported by Commission Resolution E-3539, Finding 27. (DR 3)

The ATR Manual and CPUC Resolution E-3539, Finding 31, confirm that Rule III.B does not apply to tariffed services. (DR 5, DR 3)

The non-discriminatory release of customer data is a requirement of this Rule. One way SCE ensures compliance is through its policy and procedure for handling requests for information by outside parties, including affiliates. The policy/procedure was developed by the Pricing and Load Management Department and is entitled "3rd Party Authorizations Policy and Release of Customer Information Procedures" (October 23, 2003)". (DR 37)

Under this procedure, the turnaround times for handling Customer Information Service Requests (CISRs) are tracked in order to assure that no preference is inappropriately given to affiliates. (DR 38, DR 112) CISRs requested by affiliates are posted to SCE's Affiliate Notices website entitled List of Customer Information Service Requests (CISRs) (http://www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f1_notice_of_rel/005f1a_list_of_cust_info.htm). (DR 39)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2) and Energy Supply and Management (INT 6, INT 7) affirmed for us that their organizations were in compliance with Rule III.B.1 throughout 2003.

We performed a number of transaction reviews to determine that SCE was in compliance with Rule III.B.1. The outcome of these reviews is summarized below.

- Unused capacity/supply. We found no instances in 2003 where SCE made unused capacity or supply available to affiliates. (DR 117). And we verified that SCE sold no wholesale energy or capacity to affiliates during 2003. (DR 71, DR 72, DR 73 DR 160, DR 162) Any retail energy or capacity sold to affiliates during 2003 was made available under approved tariffs and is not subject to this rule.
- Services. Similarly, none of the services provided to affiliates by SCE in 2003 are applicable because of exclusions written into this Rule. Non-tariffed services fall under the Rule VII exclusion. Joint purchases fall under the Rule V.D exclusion. And shared corporate governance and support services fall under the Rule V.E exclusion.

Rule III – Nondiscrimination

- Information. We verified that no CISRs and no 3B Reports were posted to the SCE Affiliate Notices website in 2003. (DR 39, DR 112, DR 117) The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001.

CPUC Rule

III.B.2. Offering of Discounts: Except when made generally available by the utility through an open, competitive bidding process, if a utility offers a discount or waives all or any part of any other charge or fee to its affiliates, or offers a discount or waiver for a transaction in which its affiliates are involved, the utility shall contemporaneously make such discount or waiver available to all similarly situated market participants. The utilities should not use the “similarly situated” qualification to create such a unique discount arrangement with their affiliates such that no competitor could be considered similarly situated. All competitors serving the same market as the utility’s affiliates should be offered the same discount as the discount received by the affiliates. A utility shall document the cost differential underlying the discount to its affiliates in the affiliate discount report described in Rule III.F.7 below.

Audit Criteria

- If it offered a discount or waiver to its affiliates, SCE made the discounts or waivers available to all similarly situated market participants

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Review instances where discounts or waivers were offered to affiliates
- Determine, in such instances, if similar offerings were made available to non-affiliate customers
- Monitor a sample of Customer Call Center customer calls, both residential and commercial, to determine that the tariffs, discounts, or waivers offered to affiliates or affiliates’ customers are the same as those offered to non-affiliate customers

Conclusions

SCE is in compliance with Rule III.B.2.

SCE’s process to comply with the requirements of this Rule is well documented and widely communicated. During our transaction reviews, we determined there were no instances during 2003 in which SCE provided affiliates with waivers or discounts.

SCE’s Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all employees, describe the requirements of Rule III.B.2 and assign responsibilities for its application. The Finance Division of the SCE Customer Services Business Unit is responsible for reviewing any proposed pricing for offerings, including any proposed discounts and fee waivers. Any pricing plans that might include a discount or waiver to tariffed products and services are reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs (RP&A) and are subject to approval by the Commission. Any discounted pricing proposed for non-tariffed products and services would be subject to Rule III.B criteria discussed above.

Rule III – Nondiscrimination

Management personnel representing RP&A (INT 1, INT 2), Energy Supply and Management (INT 6, INT 7) and Customer Services Business Unit (INT 14, INT 21) affirmed for us that their organizations were in compliance with Rule III.B.2 throughout 2003.

We determined that during 2003, no discounts or waivers were offered to affiliates. (DR 103)

In addition, we listened to a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any discounts or waivers being discussed or offered. (DR 124)

If any discounts or waivers had been offered, they would have been documented by the posting of "Affiliate Discount Reports (3F Reports)" on SCE's Affiliate Notices website entitled SCE Discounts Offered to Affiliates (http://www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f3_discounts.htm). No such reports were posted. (DR 104). See Section III.F below for more information on "3F" Reports.

CPUC Rule

III.B.3. Tariff Discretion: If a tariff provision allows for discretion in its application, a utility shall apply that tariff provision in the same manner to its affiliates and other market participants and their respective customers.

III.B.4. No Tariff Discretion: If a utility has no discretion in the application of a tariff provision, the utility shall strictly enforce that tariff provision.

Audit Criteria

- SCE applies and enforces all tariffs fairly and provides no preferential treatment to its affiliates or its affiliates' customers

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Monitor a sample of Customer Call Center calls, both residential and commercial & industrial, to determine that the tariffs offered to affiliates and affiliates' customers are applied in the same way as those offered to non-affiliate customers

Conclusions

SCE is in compliance with Rule III.B.3 and Rule III.B.4.

Rule III – Nondiscrimination

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. And during our transaction reviews, we sampled Customer Call Center calls to conclude that SCE is complying with the Rule.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all employees, describe the requirements of Rules III.B.3 and III.B.4. Both documents note that the requirements of these two rules were in effect, and were being carried out, for some time prior to the Commission's issuance of the Rules in D.97-12-088.

Also the documents note that these rules are closely related to other Rules, notably Rule III.A.2, Rule III.B.2 and Rule III.F. CPUC Resolution E-3539, Finding 36 agrees. (DR 3). But Finding 31 also noted that "Rule III.B, which is designed to help prevent discrimination in favor of the affiliates, is inapplicable to tariffed services."

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Customer Services Operations (INT 21) and Major Customer Division (INT 27) affirmed for us that their organizations were in compliance with Rules III.B.3 and III.B.4 throughout 2003.

SCE confirmed for us that in no instances during 2003 did the company fail to meet the requirements of these Rules. (DR 138)

We listened to a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any preferential treatment in application of tariffs being discussed or provided. (DR 124)

CPUC Rule

III.B.5. Processing Requests for Services Provided by the Utility: A utility shall process requests for similar services provided by the utility in the same manner and within the same time for its affiliates and for all other market participants and their respective customers.

Audit Criteria

- SCE processes service requests from all market participants in the same manner and within the same time frame as it does for its affiliates

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Review Customer Information Service Requests (CISR) processing times to assure no preferential treatment was given to affiliates or affiliates' customers and sample actual CISRs to assure processing times have been accurately reflected

Rule III – Nondiscrimination

- Review SCE’s process for handling Direct Access Service Requests (DASR) and determine whether any DASRs were processed. If DASRs were processed, assure no preferential treatment was given to affiliates or affiliates’ customers.

Conclusions

SCE is in compliance with Rule III.B.5.

SCE’s process to comply with the requirements of this Rule is well documented and widely communicated. We agree with SCE’s assessment that this Rule essentially duplicates the requirements of Rule III.A above. Our review and sampling of certain affiliate transactions under Rule III.A, particularly those having to do with service requests, led us to conclude that SCE is complying with the rule.

SCE’s Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the requirements of Rule III.B.5. (DR 1, DR 5). Both documents instruct employees that “SCE will neither claim, nor provide preferential treatment to, its affiliates or its affiliates’ customers” and “employees may not give preference to its affiliates or its affiliates’ customers when providing utility services”.

Another means SCE has established to assure compliance is described in a policy and procedure for handling requests for information by outside parties, including affiliates. The policy/procedure was developed by the Pricing and Load Management Department and is entitled “3rd Party Authorizations Policy and Release of Customer Information Procedures” (October 23, 2003). (DR 37) Under this procedure, the turnaround times for handling Customer Information Service Requests (CISRs) are tracked in order to assure that no preference is inappropriately given to affiliates. (DR 38, DR 112) CISRs requested by affiliates are posted to SCE’s Affiliate Notices website entitled List of Customer Information Service Requests (CISRs) (http://www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f1_notice_of_rel/005f1a_list_of_cust_info.htm). (DR 39)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Customer Services Operations (INT 21) and the Major Customer Division (INT 27) affirmed for us that their organizations were in compliance with Rule III.B.5 throughout 2003.

In evaluating SCE’s compliance with Rule III.B.5 (and Rule III.A), we evaluated SCE’s processing of two kinds service/information requests: Direct Access Service Requests (DASRs) and Customer Information Service Requests (CISRs).

DASRs are the communication tool used by an Electric Service Provider (ESP) to notify SCE of a customer’s request to initiate, cancel, or modify their Direct Access account. Essentially, Rule III.B.5 (and Rule III.A) says that SCE may not provide preferential treatment to any customer that is obtaining direct access from an SCE affiliate. Such

Rule III – Nondiscrimination

preferential treatment, if it existed, might show up in quicker turnaround times for DASRs sent to SCE by its affiliates compared to other ESPs.

SCE measures the number of days to process the DASR and compares turnaround times for affiliate customers and other customers. While this procedure is still in place at SCE, it has not been used since 2001, when the Direct Access program in California was suspended by the Commission. (DR 32, DR 33)

CISRs are the communication tool used to obtain/approve release of customer information to a third party. For example, if a customer retains an energy management firm to help identify opportunities for energy cost reduction, the customer might use a CISR to ask SCE to release data about their energy usage amounts and patterns to the third party energy management firm.

Under Rule III.B.5 (and Rule III.A and Rule III.B.1), SCE cannot process such requests more quickly for affiliates or affiliates' customers than for others. SCE's procedure for CISR handling also includes the measurement of the number of days to process the CISR. (DR 38, DR 112)

As discussed under Rule III.A above, there were no CISRs involving affiliates in 2003, thus there was no discrimination in favor of affiliates. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 39)

Based on this analysis, we have concluded that no preferential treatment was given to affiliates through the expedited processing of CISRs or DASRs.

CPUC Rule

III.C. Tying of Services Provided by a Utility Prohibited: A utility shall not condition or otherwise tie the provision of any services provided by the utility, nor the availability of discounts of rates or other charges or fees, rebates, or waivers of terms and conditions of any services provided by the utility, to the taking of any goods or services from its affiliates.

Audit Criteria

- The terms, conditions and pricing of SCE services are not conditioned on the use of an affiliate's services

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Monitor actual customer conversations with SCE Customer Call Center representatives, both residential and commercial & industrial, to determine SCE does not condition its service on taking goods or services from affiliates
- Review billing inserts to determine SCE does not condition its service on taking goods or services from affiliates

Rule III – Nondiscrimination

- Review a sample of marketing/advertising materials targeted or sent to SCE customers to determine SCE does not condition its service on taking goods or services from affiliates
- Sample SCE presentations to large customers to determine SCE does not condition its service on taking goods or services from affiliates
- Sample account manager/account executive journal entries to determine SCE does not condition its service on taking goods or services from affiliates
- Review SCE proposals responding to RFPs from major customers to assure the terms, conditions, and pricing of SCE services are not conditioned on the use of an affiliate's services

Conclusions

SCE is in compliance with Rule III.C.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Through our transaction reviews, we examined and sampled a sufficient number of affiliate transactions to conclude that SCE is complying with the rule.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the requirements of Rule III.C. (DR 1, DR 5)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Corporate Communications (INT 15), Customer Services Operations (INT 21) and the Major Customer Division (INT 20, INT 27) affirmed for us that their organizations were in compliance with Rule III.C throughout 2003.

In evaluating SCE's compliance with Rule III.C, we conducted a variety of reviews to affirm that SCE does not condition or tie provision of its services to the taking of goods or services from an affiliate. Included in the review were: Call Center calls, bill inserts, mass market advertisements, presentations to large customers, account manager/executive contacts, and SCE proposals responding to Requests for Proposals (RFP) from major customers.

Customer Call Centers. We listened in on a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we see any evidence of SCE tying terms, conditions, or pricing to the taking of services from an affiliate. (DR 124)

Billing Inserts & Advertisements. We reviewed all 33 billing inserts mailed to both commercial and residential customers during 2003. (DR 30). We examined all mass market advertisements sponsored by SCE during 2003. (DR 28, DR 182) The SCE advertisements included 19 print ads, 16 radio spots, 15 TV ads, and 4 outdoor ads. In

Rule III – Nondiscrimination

none of the inserts or advertisements did we see any evidence of SCE tying terms, conditions, or pricing to the taking of services from an affiliate.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2003. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2003. (DR 29, DR 113)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 114). These notes document meetings held with large customers in 2003. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2003.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2003, and to indicate which, if any, resulted in an SCE proposal. SCE received five such RFPs in 2003 and responded to four. Any response to the fifth RFP would have been made in 2004. We reviewed the four proposals, all of which related to possible privatization of government electric systems. (DR 115)

Neither the presentations to large customers nor the sample of diary notes or the SCE proposals for privatization provided any evidence of SCE tying terms, conditions or pricing to the taking of services from an affiliate.

Furthermore, in evaluating SCE's compliance with Rule III.C, we specifically asked SCE to identify for us any instances where SCE tied its products/services to a customer's use of an affiliate's products/services. There were none identified for 2003. (DR 34)

CPUC Rule

III.D. No Assignment of Customers: A utility shall not assign customers to which it currently provides services to any of its affiliates, whether by default, direct assignment, options or by any other means, unless that means is equally available to all competitors.

Audit Criteria

- SCE customers are not directed to be served by an affiliate

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Determine that SCE has not assigned its customers to affiliates

Conclusions

Rule III – Nondiscrimination

SCE is in compliance with Rule III.D.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. We concluded that SCE has not assigned customers to any provider in 2003.

SCE's Modified Compliance Plan (MCP) and its ATR Manual, both of which are available to employees, describe Rule III.D's prohibition of "assigning" customers of SCE to those of an affiliate. (DR 1, DR 5)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Customer Services Operations (INT 21) and the Major Customer Division (INT 27) affirmed for us that their organizations were in compliance with Rule III.D throughout 2003.

In evaluating SCE's compliance with Rule III.D, we could identify no instances in 2003 where SCE assigned its customers to affiliates. (DR 35)

CPUC Rule

III.E. Business Development and Customer Relations: Except as otherwise provided by these Rules, a utility shall not:

- III.E.1. provide leads to its affiliates;
- III.E.2. solicit business on behalf of its affiliates;
- III.E.3. acquire information on behalf of or to provide to its affiliates;
- III.E.4. share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates'
- III.E.5. request authorization from its customers to pass on customer information exclusively to its affiliates;
- III.E.6. give the appearance that the utility speaks on behalf of its affiliates or that the customer will receive preferential treatment as a consequence of conducting business with the affiliate; or
- III.E.7. give any appearance that the affiliate speaks on behalf of the utility.

Audit Criteria

- SCE does not provide leads to its affiliates or solicit business on behalf of its affiliates (III.E.1, E.2)
- SCE does not acquire information for affiliates, share proprietary or non-public information with affiliates, or request its customers to authorize release of customer information exclusively to affiliates (III.E.3, E.4, E.5)
- SCE does not give any appearance that the utility speaks on behalf of affiliates or give any appearance that the affiliate speaks on behalf of SCE (III.E.6, III.E.7)

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule

Rule III – Nondiscrimination

- Sample/monitor Customer Call Center calls from both residential and commercial customers to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review billing inserts to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review marketing/advertising materials of both SCE and affiliates to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Sample SCE presentations to large commercial and industrial customers to determine (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Sample account manager/account executive journal entries contained in Major Customer Division's contact management system to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review SCE proposals responding to RFPs from major customers to assure business is not being solicited on behalf of affiliates, or that SCE speaks on behalf of affiliates
- Review R&D Projects and EPRI target purchases and usage to assure that proprietary information was not shared with affiliates

Conclusions

SCE is in compliance with Rule III.E.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. We reviewed and sampled a wide range of affiliate transactions to conclude that SCE is complying with these Rules.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the requirements of Rule III.E. (DR 1, DR 5) The ATR is particularly relevant.

For Rules III.E.1 and III.E.2, SCE reiterates its strict policy prohibiting employees from giving leads to affiliates, providing affiliates' phone numbers/addresses (even when specifically requested by a customer), or encouraging/suggesting that customers consider purchasing goods and services from affiliates. We believe SCE properly

Rule III – Nondiscrimination

interprets Rule III.E.1 in that it does not apply to third parties who are not customers requesting information and (e.g., regulatory or governmental agencies).

Similarly, for Rule III.E.3, SCE expresses the appropriate prohibition to employees and notes that this Rule should not apply to the acquisition and exchange of information necessary to perform corporate support functions authorized by Rule V.E.

Rule III.E.4 and Rule IV.B are closely related. SCE implements these rules by generally prohibiting the sharing of market analysis or other types of proprietary or non-publicly available reports. Where the sharing of such information is allowed, the requirements of Rule IV.B prevail. That is, notice must be given to the market that the sharing has occurred. Any such shared information would be posted on SCE's Affiliate Notices website entitled Non-Customer Specific, Non-Public Information Offered to Affiliates (www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f4_noncust_spec.htm). (DR 40)

Rule III.E.5 is related to Rules V.F.1 and V.F.4, which prohibit SCE from trading upon, promoting, or advertising its affiliates' relationship with SCE, and which prohibit joint advertising or marketing. The Rule III.E.5 prohibition against asking a customer for permission to pass customer information to affiliates is simply an extension of the other two rules.

For Rules III.E.6 and III.E.7, SCE clearly prohibits all conflicts of interest and the appearance of conflict of interest. SCE employees are specifically instructed to not serve in a representative capacity on behalf of affiliates.

Managers representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 14), Energy Supply and Management (INT 6, INT 7), Research, Development and Demonstration (INT 10), Customer Services Operations (INT 21) and Major Customer Division (INT 27) all affirmed for us that their organizations were in compliance with Rule III.E throughout 2003.

In evaluating SCE's compliance with Rule III.E and its sub-parts, we conducted a variety of data reviews to affirm that SCE does not develop business for affiliates, acquire/provide information from its customers or from proprietary sources for its affiliates, or give the appearance that SCE speaks on behalf of affiliates, or vice-versa. Included in the year 2003 data samples were customer calls, bill inserts, mass market advertisements, presentations to large customers, account manager/account executive contacts, SCE proposals responding to Requests for Proposals (RFP) from major customers, and EPRI research products. The results of our review are described below.

Customer Call Centers. We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any business being solicited on behalf of an affiliate, any appearance that SCE was speaking on behalf of affiliates, or any appearance that the an affiliate speaks on behalf of SCE. (DR 124)

Rule III – Nondiscrimination

Billing Inserts, Advertisements, Promotions & Giveaways. We reviewed all 33 billing inserts mailed to both commercial and residential customers during 2003. (DR 30) We examined all mass market advertisements, promotions, and giveaways sponsored by SCE or affiliates during 2003. (DR 28, DR 131, DR 182). The SCE advertisements included 19 print ads, 16 radio spots, 15 TV ads, and 4 outdoor ads. Edison Source – Norvik sponsored 10 print ads. There were no giveaways to customers in California. In none of the inserts or advertisements did we see any evidence that business was being solicited on behalf of affiliates, any appearance that SCE was speaking on behalf of affiliates or any appearance that the an affiliate speaks on behalf of SCE.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we also reviewed materials relating to SCE’s channels to the large commercial and industrial customer markets. SCE’s Major Customer Division provided us access to all presentations available for use with customers during 2003. (DR 29, DR 113)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 114) These notes document meetings held with large customers in 2003. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2003.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2003, and to indicate which, if any, resulted in an SCE proposal. SCE received five such RFPs in 2003 and responded to four. Any response to the fifth RFP would have been made in 2004. We reviewed the four proposals, all of which related to possible privatization of government electric systems. (DR 115)

We found no evidence in the presentations to large customers, the sample of diary notes, or the SCE proposals for privatization that SCE solicited business on behalf of an affiliate, spoke on behalf of an affiliate or made it appear that an affiliate spoke on behalf of SCE.

Edison News. We reviewed all 2003 issues of Edison News, the newsletter of Edison International, which is distributed to employees of both SCE and affiliates. (DR 26) We found no instance where the newsletter communicated information, market analysis, strategic reports or other prohibited data that would have been in conflict with the Rules.

EPRI and R&D. SCE is a member of the Electric Power Research Institute (EPRI). Through its paid membership, SCE is able to choose access a large amount of EPRI research material. We evaluated the availability of these research information ‘deliverables’ to affiliates in 2003. Some of the EPRI deliverables describe state-of-the-art approaches to utility operations and maintenance and might contain information valuable for affiliate business development. We confirmed that none of the EPRI research products had been made available for use by affiliates, or acquired on behalf of affiliates. (DR 137, DR 69, DR 70, INT 10). We also concluded there were no R&D

Rule III – Nondiscrimination

projects underway during 2003 which have demonstrated commercial viability to affiliates, or whose end products were recognized as beneficial to affiliates. (DR 109, DR 110)

In our review of 2003 Intercompany Service Requests (ISRs), we noted no instances where SCE employees performed business development-related work for Class A affiliates. (DR 51)

Finally, we determined there were no instances where SCE provided leads to affiliates, solicited business for affiliates, acquired information for affiliates, shared proprietary or non-publicly available information with affiliates or requested authorization from its customers to pass information exclusively to affiliates. (DR 136, DR 36). And we verified there were no instances in 2003 where SCE had given any appearance that it spoke for an affiliate, or that one of the affiliates spoke for SCE. (DR 123).

CPUC Rule

III.F. Affiliate Discount Reports: If a utility provides its affiliates a discount, rebate, or other waiver of any charge or fee associated with services provided by the utility, the utility shall, within 24 hours of the time at which the service provided by the utility is so provided, post a notice on its electronic bulletin board providing the following information:

1. the name of the affiliate involved in the transaction;
2. the rate charged;
3. the maximum rate;
4. the time period for which the discount or waiver applies;
5. the quantities involved in the transaction;
6. the delivery points involved in the transaction;
7. any conditions or requirements applicable to the discount or waiver, and a documentation of the cost differential underlying the discount as required in Rule III B 2 above; and
8. procedures by which a nonaffiliated entity may request a comparable offer.

A utility that provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee associated with services provided by the utility shall maintain, for each billing period, the following information:

9. the name of the entity being provided services provided by the utility in the transaction;
10. the affiliate's role in the transaction (i.e., shipper, marketer, supplier, seller);
11. the duration of the discount or waiver;
12. the maximum rate;
13. the rate or fee actually charged during the billing period; and
14. the quantity of products or services scheduled at the discounted rate during the billing period for each delivery point.

All records maintained pursuant to this provision shall also conform to FERC rules where applicable.

Audit Criteria

- If it offered a discount, waiver, or rebate to any of its affiliates, SCE posted notice such within 24 hours and maintained the prescribed billing information for each billing period

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule

Rule III – Nondiscrimination

- Review instances where affiliates were offered discounts, waivers, or rebates
- Determine, in such instances, if notices were posted to SCE’s electronic bulletin board

Conclusions

SCE is in compliance with Rule III.F

SCE’s process to comply with the requirements of this Rule is well documented and widely communicated. During our transaction reviews, we determined there were no instances during 2003 in which SCE provided affiliates any discounts, waivers, or rebates.

SCE’s Modified Compliance Plan (MCP) and its ATR Manual, both of which are available to all employees, clearly describe the requirements of Rule III.F. (DR 1, DR 5) As noted in Rule III.B.2 above, the Finance Division of the SCE Customer Services Business Unit is responsible for reviewing any proposed pricing for offerings, including any proposed discounts and fee waivers. Any pricing plans that might include a discount or waiver to tariffed products and services must be reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs (RP&A) and are subject to approval by the Commission. Any proposals for discounted non-tariffed products and services would be subject first to Rule III.B.2 criteria, and then Rule III.F.

Management personnel representing RP&A (INT 1, INT 2), Energy Supply and Management (INT 6, INT 7) and Customer Services Business Unit (INT 14, INT 21) affirmed for us that their organizations were in compliance with Rule III.F throughout 2003.

We determined that, during 2003, SCE offered no discounts, waivers or rebates to affiliates. (DR 103).

If any discounts or waivers had been offered, they would have been documented by the posting of “Affiliate Discount Reports (3F Reports)” on SCE’s Affiliate Notices website entitled [SCE Discounts Offered to Affiliates \(www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f3_discounts.htm\)](http://www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f3_discounts.htm). No such reports were posted. (DR 104).

Rule IV – Disclosure and Information

CPUC Rule

IV.A. Customer Information – A utility shall provide customer information to its affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior affirmative customer written consent.

Audit Criteria

- SCE does not discriminate in providing customer information to affiliates and non-affiliates. Such information is only provided with the customer's written consent

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review SCE's process for authorizing and supplying customer information to affiliates and non-affiliates to determine that affiliates are not given preferences. Determine that: (1) the customer has given written, affirmative consent to the release of information and (2) the information is made available, subject to the customer's authorization, to both affiliates and their competitors.
- Review a sample of Customer Information Service Request (CISR) forms associated with affiliate and non-affiliate customer information requests
- Review CISR postings to determine that notices have been posted to the SCE Affiliate Notices website whenever SCE receives CISR forms authorizing release of customer information to a Class A affiliate

Conclusions

SCE is in compliance with Rule IV.A.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with the Rule confirmed SCE's compliance with this Rule.

"3rd Party Authorizations Policy and Release of Customer Information Procedures" (October 23, 2003) is SCE's most detailed procedure covering Rule IV.A. It provides detailed instructions covering the Customer Information Standardized Request (CISR-S) form – the mechanism by which third parties obtain SCE customer information. Customers are required to give written, affirmative consent on a CISR-S form before their information is released. SCE's Customer Services Business Unit – Pricing and Load Management Group – is responsible for administering this process. (DR 37)

The Affiliate Transactions Compliance Plan – 2003 Update (CP03) and Affiliate Transaction Rule (ATR) Manual also describe procedural requirements related to Rule IV.A. (DR 1, DR 5). Both describe the role of the Affiliate Compliance Organization relating to the release of customer information to a Class A affiliate. In such an event, after the receipt of a customer's written authorization, the Affiliate Compliance Organization arranges for the posting of a notice on SCE's Affiliate Notices website, entitled List of Customer Information Service Requests (CISRs)

Rule IV – Disclosure and Information

(http://www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f1_notice_of_rel/005f1a_list_of_cust_info.htm). (DR 39)

As discussed earlier in Sections III.A, III.B.1 and III.B.5, another way SCE ensures there is no preference given to affiliates with regard to customer information is through the tracking of turnaround times for handling CISRs. (DR 38)

There were no CISR forms relating to affiliates processed in 2003. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 39)

Management personnel representing Customer Communications (INT 14), Customer Services Operations (INT 21) and the Major Customer Division (INT 27) affirmed for us that their organizations were in compliance with Rule IV.A throughout 2003.

Our 2002 Affiliate Transactions Audit recommendation that SCE should update the text of Rule IV.A material in the Affiliate Transactions Compliance Plan and ATR Manual was accepted by SCE and has been implemented. See 2002 Recommendation Three. (DR 11) The update added references to a newer type of CISR form, the CISR-S.

CPUC Rule

IV.B. Non-Customer Specific Non-Public Information – A utility shall make non-customer specific non-public information, including but not limited to information about a utility’s natural gas or electricity purchases, sales, or operations or about the utility’s gas-related goods or services, electricity-related goods or services, available to the utility’s affiliates only if the utility makes that information contemporaneously available to all other service providers on the same terms and conditions, and keeps the information open to public inspection. Unless otherwise provided by these Rules, a utility continues to be bound by all Commission-adopted pricing and reporting guidelines for such transactions. Utilities are also permitted to exchange proprietary information on an exclusive basis with their affiliates, provided the utility follows all Commission-adopted pricing and reporting guidelines for such transactions, and it is necessary to exchange this information in the provision of the corporate support services permitted by Rule V E below. The affiliate’s use of such proprietary information is limited to use in conjunction with the permitted corporate support services, and is not permitted for any other use. Nothing in this Rule precludes the exchange of information pursuant to D.97-10-031.

Audit Criteria

- Non-customer, non-public information is made available to affiliates and non-affiliates on the same terms and conditions. Any such information made available must be open for public inspection.

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Review instances where requests for non-customer, non-public information were made available to affiliates, and then determine if equal access was given to non-affiliates
- Determine that notices of the transfer to affiliates of non-customer, non-public information have been posted to SCE’s Affiliate Notices website

Rule IV – Disclosure and Information

Conclusions

SCE is in compliance with Rule IV.B.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review determined there were no instances during 2003 in which SCE provided affiliates with non-customer, non-public information.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the procedural requirements of Rule IV.B. (DR 1, DR 5). Both documents clearly note the restrictions on sharing of non-customer specific, non-public information. Notice of any such offerings is required to be given to the market in which the affiliate operates by posting a "Provision of Non-Customer Specific, Non-Public Information (4B Report)" on SCE's Affiliate Notices website (www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f4_noncust_spec.htm). (DR 40).

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2) and Energy Supply and Management (INT 6, INT 7) affirmed for us that their organizations were in compliance with Rule IV.B throughout 2003.

We found no instances in 2003 where SCE made non-customer specific, non-public information available to affiliates and verified that no "4B Reports" were posted to the SCE Affiliate Notices website. (DR 40)

CPUC Rule

IV.C. Service Provider Information:

IV.C.1 Except upon request by a customer or as otherwise authorized by the Commission, or approved by another governmental body, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities. A utility shall submit lists approved by other governmental bodies in the first semi-annual advice letter filing referenced in Rule IV.C.2 following such approval, but may provide customers with such lists pending action on the advice letter.

IV.C.2 If a customer requests information about any affiliated service provider, the utility shall provide a list of all providers of gas-related, electricity-related, or other utility-related goods and services operating in its service territory, including its affiliates. The Commission shall authorize, by semi-annual utility advice letter filing, and either the utility, the Commission, or a Commission-authorized third party provider shall maintain on file with the Commission a copy of the most updated lists of service providers which have been created to disseminate to a customer upon a customer's request. Any service provider may request that it be included on such list, and, barring Commission direction, the utility shall honor such request. Where maintenance of such list would be unduly burdensome due to the number of service providers, subject to Commission approval by advice letter filing, the utility shall direct the customer to a generally available listing of service providers (e.g., Yellow Pages). In such cases, no list shall be provided. If there is no Commission-authorized list available, utilities may refer customers to a generally available listing of service providers (e.g., the Yellow Pages). The list of service providers should make clear that the Commission does not guarantee the financial stability or service quality of the service providers listed by the act of approving this list.

Audit Criteria

- SCE maintains a process by which vendors may request to be added to an SCE-maintained list of service providers

Rule IV – Disclosure and Information

- SCE files a semi-annual advice letter with the Commission which includes the SCE-maintained list of service providers
- When a customer requests information about affiliated service providers, SCE either (1) provides the SCE-maintained list as approved by the Commission or (2) directs the customer to “generally available” lists or to the Internet
- When a customer requests information about non-affiliated service providers, SCE provides only lists that have been approved by the Commission or other government bodies

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Review SCE’s process for handling service provider self-nominations for lists to assure that the requirements of Rule IV.C.2 are met
- Note that SCE files semi-annual advice letters related to these Rules
- Review all service provider lists to assure appropriate disclaimers are included
- Determine how SCE resolves customer questions and requests for recommendations for providers of electricity-related or other utility related goods and services, including SCE affiliates
- Monitor actual customer conversations with SCE Customer Call Center representatives to determine that requests for service provider lists are handled appropriately
- Review billing inserts and marketing/advertising materials to determine that requests for service provider lists are handled appropriately
- Review a sample of SCE presentations to major customers and account manager/account executive journal entries documenting meetings with major customers to determine that requests for service provider lists are handled appropriately

Conclusions

SCE is in compliance with Rule IV.C.

The company maintains and communicates appropriate processes for complying with the Rule. Also, our evaluation of specific elements of the Rule and testing of a series of transactions led us to conclude that SCE met the requirement of the Rule in 2003.

SCE maintains a formal process to manage service provider lists. The Affiliate Transactions Compliance Plan – 2003 Update (CP03) and the Affiliate Transaction Rule (ATR) Manual describe the policies, procedures and types of service provider lists SCE uses to meet the requirements of Rule IV.C. (DR 1, DR 5) Also, the requirements of this rule are available online to all employees via the corporate intranet (DR 139) and to Customer Service Business Unit employees via their department’s intranet (DR 152, DR 174).

Rule IV – Disclosure and Information

Part 2 of the Rule requires SCE to maintain a record of service providers who have requested to be included on a list through a process called self-nomination. Such requests are mailed or transmitted via e-mail to SCE, as described in the Affiliate Notices website “Service Provider Lists” (http://www.sce.com/sc3/005_regul_info/005f_affiliatebb/005f5_serv_prov/default.htm). (DR 20). The process for self nomination is well documented on the website and in SCE’s semi-annual advice letter filings.

SCE must follow strict guidelines covering information it gives out to customers who request the name of qualified vendors and service providers. There are several types of lists, including:

For customers requesting information about affiliated service providers:

- Self-nominated service provider list (Internet-Based Service Provider List)
- Generally available service provider list

For customers requesting information about non-affiliated vendors or service providers:

- Focused lists of vendors not related to energy efficiency
- Focused lists of vendors of energy efficiency and self-generation products
- Government approved lists of service providers

Self-Nominated Service Provider List (Internet-Based Service Provider List). Before 2002, no contractors had requested to be included on SCE’s list of service providers. Customers asking for a list were referred to the Generally Available Service Provider Lists discussed below.

In December 2002, SCE’s Semi-Annual Filing Regarding Service Provider Lists (Advice 1491-E-E), notified the CPUC of SCE’s first instance of a self-nomination. Since then the number of providers requesting to be included on the list has expanded to six. Because providing this short a list of contractors might create a false impression that the Company or the CPUC endorses those providers, SCE asked the CPUC in the most current advice letter (Advice 1491-E-G, December 16, 2003) to be allowed to continue the practice of referring customers to Generally Available Service Provider Lists should a customer ask for such a list. (DR 19) We concur with this request.

Generally Available Service Provider Lists. With so few self-nominated service providers, SCE has opted to follow the part of Rule IV.C that allows it to alternately furnish customers with referrals to “generally-available” lists of providers, like the Yellow Pages, Internet keyword search engines. This practice was authorized by the CPUC in its approval of Advice 1342-E-B in February 2000. (DR 19)

Focused Lists of Non-Affiliated Service Providers (not related to energy efficiency). By approving Advice Letters 1342-E-B and 1450-E, the CPUC authorized SCE to resume distribution of “focused lists” of non-affiliated service providers and “government-approved lists” to customers requesting them. Focused lists cover providers of specific goods (e.g., food service equipment vendors, uninterruptible power suppliers, etc.) and of services (e.g., contractors that perform underground construction and sub-station

Rule IV – Disclosure and Information

work). Additional and updated focused lists have been submitted to the Commission for approval in Advice Letters 1491-E, 1491-E-A, 1491-E-B, 1491-E-C, 1491-E-D, 1491-E-E, 1491-E-F and 1491-E-G, none of which have been approved for distribution. (DR 19) Only lists related to energy-efficiency or self-generation products and services have been approved for distribution by the CPUC.

Focused Lists of Energy Efficiency and Self-Generation Products. In general, it is SCE's policy only to distribute focused lists to customers when the Commission given its approval. During the energy crisis, an exception was made when focused lists of vendors providing equipment for load reduction and backup generation were given to customers. In every such case going back to Advice 1491-E-A in March 2001, SCE has informed the Commission of its intent to make these distributions. The Commission has yet to comment on this practice.

Government-Approved Lists of Service Providers. The three government-approved lists permitted by the CPUC are: (1) Electric Service Providers (ESPs) registered with the CPUC and listed on their website (www.cpuc.ca.gov/published/ESP_Lists/esp_udc.htm), (2) Suppliers of Water-Based Cleaning Materials and/or Equipment as approved by the South Coast Air Quality Management District (no web link provided) and (3) List of Firms Qualified by CEC Staff for the Demand Response Transitional Incentives Programs (http://www.energy.ca.gov/demandresponse/documents/2003-10-24_qualifying_firms.pdf). (DR 20, DR 21)

We examined all focused lists of non-affiliated suppliers and we reviewed the “list of six” self-nominees from the Internet-Based Process provided in the most recent Advice Letter to determine if appropriate disclaimers had been used. In every case, all lists contained appropriate disclaimers. (DR 19) We also followed the web links for Government-Approved Lists of Service Providers to assure their validity. We found the direct link to “List of Firms Qualified by CEC Staff for the Demand Response Transitional Incentives Programs” is no longer valid. The web addresses for this list provided at SCE's Affiliate Notices – Service Provider Lists website and provided by SCE in Advice 1491-E-G are identical. However, they no longer point to the page illustrated in our Data Request on the subject. (DR 20) Further investigation determined that the CEC redesigned its website on December 24, 2003, and SCE's link then became out-of-date. The “List of Firms Qualified by CEC Staff for the Demand Response Transitional Incentives Programs” can still be accessed from the redesigned CEC website but only through a different address.

As required by Rule IV.C.2, SCE submitted the following two Advice Letters regarding lists to the Commission during 2003:

- Advice 1491-E-F, “Semi-Annual Filing Regarding Service Provider Lists Pursuant to Affiliate Transaction Rule IV.C.2”, dated June 16, 2003. (DR 19)
- Advice 1491-E-G, “Semi-Annual Filing Regarding Service Provider Lists Pursuant to Affiliate Transaction Rule IV.C.2”, dated December 16, 2003. (DR 19)

Rule IV – Disclosure and Information

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Customer Service Operations (INT 21) and Major Customer Division (INT 25, INT 27) affirmed for us that their organizations were in compliance with Rule IV.C throughout 2003.

We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls did we note any lists being requested or provided to customers. (DR 124).

We reviewed all billing inserts mailed to both commercial and residential customers during 2003. (DR 30). We also examined all mass market advertisements and websites sponsored by either SCE or its affiliates during 2003. (DR 28, DR 31, DR 182) In no instance did we see any evidence of lists being provided.

We also reviewed materials relating to major customers. SCE's Major Customer Division provided us access to all presentations used for customer updates during 2003. (DR 29, DR 113). We sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 114). These notes document meetings held with large customers in 2003. Nothing in the presentations or the sample of diary notes indicated that lists of service providers had been provided to major customers.

Recommendation

1. Update Web Link to "List of Firms Qualified by CEC Staff for the Demand Response Transitional Incentives Programs" – The web links provided for this list both at the SCE Affiliate Notices – Service Provider Lists web page and in Advice 1491-E-G are no longer valid and should be examined and updated. The Customer Service Business Unit (CSBU) should also monitor CEC's website and notify RP&A when any changes occur so that SCE's Affiliate Notices websites can be promptly updated.

CPUC Rule

IV.D. Supplier Information: A utility may provide non-public information and data which has been received from unaffiliated suppliers to its affiliates or non-affiliated entities only if the utility first obtains written affirmative authorization to do so from the supplier. A utility shall not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.

Audit Criteria

- Non-public information SCE receives from unaffiliated suppliers is only provided to affiliates after receiving written authorization from the supplier

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Identify instances where non-public information and data from unaffiliated suppliers was provided by SCE to affiliates or non-affiliates

Rule IV – Disclosure and Information

- In any such instances determine that the supplier provided written authorization for the release of this information

Conclusions

SCE is in compliance with Rule IV.D.

SCE's process to comply with the requirements of this Rule is well documented, widely communicated, and consistently followed. In all instances, we determined that the appropriate authorizations had been received.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, are available to all employees and describe the requirements of Rule IV.D. (DR 1, DR 5). Both documents clearly note the need to obtain a supplier's authorization before releasing that supplier's information to SCE affiliates. The SCE Procurement and Materials Management Department (PAMM) is designated to obtain such authorizations and keep them on file.

PAMM documents this requirement in its Joint Procurement Acquisition Process Guideline, a detailed internal compliance procedure. (DR 153). The requirement is also described in PAMM's draft manual "Doing Business in Compliance with the Affiliate Transaction Rules," the update/issuance of which was recommended in our 2002 Affiliate Transactions Audit, Recommendation Five. See Rule V.D, below for more information on this Recommendation. (DR 11, DR 153)

One key control of PAMM's process involves the completion and approval of a Joint Procurement Notification (JPN) Form prior to release of a Request for Proposal (RFP). Another key control is a "Consent Form" included in RFP documentation asking potential bidders on joint arrangements to approve in advance SCE's release of bid information to its affiliates.

Management personnel representing Procurement and Materials Management (INT 12, INT 19) and Regulatory Policy and Affairs (RP&A) (INT 1, INT 2) affirmed for us their belief that their organizations had followed these processes and were in compliance with Rule IV.D throughout 2003.

Five new joint purchasing arrangements were identified by SCE in 2003. Three of these took the form of Joint Negotiations with Separate [Affiliate] Contracts and two were Single Party Contracts – Joint Use (see Rule V.D). (DR 65) We located all JPN Forms associated with the five arrangements. (DR 64) We found written supplier authorization (Consent Forms) for the sharing of bid information with affiliates from only four of the five vendors. (DR 41) However, extensive further investigation and discussion with SCE determined that no information for the fifth vendor was ultimately shared with affiliates and no Consent Form was therefore required.

SCE's joint procurement process does not differentiate between joint negotiations which result in separate contracts between vendors and affiliates and those joint negotiations

Rule IV – Disclosure and Information

which either never occur or do not result in contracts between vendors and affiliates. In those cases where it is not clear at first whether or not an affiliate contract will result, the process does not create a flag for someone to contemporaneously follow-up to see and document just what did happen. A better checklist and logging system would have enabled SCE to more efficiently address our questions regarding the fifth arrangement described above.

Another necessary process refinement was identified during the course of our transaction review. We experienced considerable difficulty in matching up Joint Procurement Notification (JPN) Forms, Consent Forms, Proposal Request numbers and Purchase Order numbers, both from SCE and affiliates. (DR 41, DR-170)

The JPN Forms do not include a signature date and do not always include the Proposal Request number. This makes it difficult to assure that the JPN Form was approved prior to issuance of the RFP. This also impedes SCE's ability to cross reference the JPN Form with other pertinent document and limits SCE's controls over the process. While this practice does not specifically violate Rule IV.D, it is inefficient and makes it more difficult to ensure compliance with the ATRI Rules.

Recommendations

2. PAMM should maintain a Joint Procurements Summary Log – This summary log would, in one spreadsheet or table, summarize the key affiliate-rules-related steps for each joint procurement and provide a cross-index that would cover both SCE and affiliate information. It should include, but not be limited to, the following informational elements: (a) brief description of goods or services being procured, (b) JPN Form submittal and approval date, (c) Proposal Request number and date, (d) names of vendors who were sent Proposal Requests, (e) Consent Form receipt dates for each vendor, (f) digital file location of JPN Forms and Consent Form (e.g., PDF file names), (g) date of joint negotiation session (if any), (h) list of each SCE affiliate involved in joint negotiation, (i) SCE Purchase Order number and opening date, (j) each affiliate's Purchase Order number and opening date, (k) SCE contract closing date and (l) each affiliate's contract closing date.

The log should be designed so that missing information could easily be noted and pursued while memories were fresh. All relevant contract categories (i.e., Joint Contracts, Single Party Contracts – Joint Use, Joint Negotiations Resulting in Separate Contracts, and Joint Negotiations Not Resulting in Separate Contracts) would be listed. Arrangements would stay in the log so long as they were open, and even for a period of at least three years after it was closed. The log would be maintained by PAMM and submitted once a quarter to RP&A for cross referencing against the RP&A Affiliate Officer Signature Log.

Rule IV – Disclosure and Information

3. Add a signature date, Proposal Request Number and better description of the item(s)/service(s) being proposed – This would enhance PAMM's process for obtaining RP&A's approval prior to an RFP's release. Even if it is appropriate for negotiations to begin before a Proposal Request Number has been assigned, a means of adding the Proposal Request Number at a later date to a "revised" JPN form should be implemented.

CPUC Rule

IV.E. Affiliate-Related Advice or Assistance: Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers.

Audit Criteria

- SCE does not offer or provide advice or assistance to its customers regarding its affiliates or other service providers

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Monitor actual customer conversations with SCE Customer Call Center representatives to determine that SCE does not offer or provide advice or assistance to its customers regarding affiliates or other service providers
- Sample SCE presentations to major customers to assure no advice or assistance was offered or given regarding affiliates or other service providers
- Sample account manager/account executive journal entries to determine that no advice or assistance was offered or given regarding affiliates or other service providers

Conclusions

SCE is in compliance with Rule IV.E.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review concluded there were no instances during 2003 in which SCE offered or provided advice or assistance to its customers regarding its affiliates or other service providers.

The Modified Compliance Plan (MCP) and the Affiliate Transaction Rule (ATR) Manual describe SCE's prohibition against providing advice and assistance regarding affiliates or other service providers. (DR 1, DR 5). Also, the requirements of this rule are available online to all employees via the corporate intranet (DR 139) and to Customer Service Business Unit employees via their department's intranet (DR 152, DR 174)

SCE confirmed its policy against providing advice or assistance regarding specific energy service providers. (DR 106)

Rule IV – Disclosure and Information

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Customer Services Operations (INT 21) and Major Customer Division (INT 25, INT 27) affirmed for us that their organizations were in compliance with Rule IV.E throughout 2003.

We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls did we note advice or assistance given regarding affiliates or other service providers. (DR 124)

We also reviewed materials relating to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to presentations used in customer updates during 2003. (DR 29, DR 113). We sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 114) These notes document meetings held with large customers in 2003. Nothing in these presentations or the sample of diary notes indicated that any advice or assistance was given to major customers regarding affiliates or other service providers.

CPUC Rules

IV.F. Record-Keeping: A utility shall maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates, including but not limited to, all waivers of tariff or contract provisions and all discounts. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. The utility shall make such records available for third party review upon 72 hours' notice, or at a time mutually agreeable to the utility and third party.

If D.97-06-110 is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 request for confidentiality within 24 hours of service.

IV.G. Maintenance of Affiliate Contracts and Related Bids: A utility shall maintain a record of all contracts and related bids for the provision of work, products or services to and from the utility to its affiliates for no less than a period of three years, and longer if this Commission or another government agency so requires.

Audit Criteria

- SCE maintains a record of all contracts and bids for work, products and services to/from the utility to affiliates for no less than three years
- SCE maintains contemporaneous records of all tariffed and non-tariffed transactions with affiliates. This information is maintained for at least three years and is kept in such a manner as to be produced quickly

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Sample service agreements, contracts, and bid documents between SCE and affiliates to determine that records are maintained for at least three years

Rule IV – Disclosure and Information

- Review requests for affiliate transaction information to ensure they were fulfilled within the 72-hour deadline
- Sample affiliate transactions to determine that they have been properly recorded in SCE’s accounting records

Conclusions

SCE is in compliance with Rule IV.F and partial compliance with Rule IV.G

SCE’s process to comply with the requirements of these Rules is well documented and widely communicated. However, during transaction reviews related to these Rules, there was one instance in which SCE could not produce complete records of an SCE contract with an affiliate. In all other instances, we determined the appropriate records were on file in accordance with these Rules. Additionally, a recommendation related to these Rules and offered in the 2002 Affiliate Transaction Audit was accepted and implemented by SCE.

SCE’s Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all employees, describe the requirements of Rules IV.F and IV.G. (DR 1, DR 5). Both documents clearly note the document handling and document retention requirements of the Rules.

Business units of SCE that conduct transactions with affiliates must maintain the associated records for three years. They are required to forward such documentation (or summaries of it) to the Affiliate Compliance Organization annually. Requests by third parties for affiliate transaction information which invoke the 72-hour requirements of Rule IV.F are coordinated by the Affiliate Compliance Organization.

Additional procedural guidance for record keeping is provided in manuals of the Procurement and Materials Management department (PAMM). (DR 153) And the requirement is described in PAMM’s draft manual “Doing Business in Compliance with the Affiliate Transaction Rules”, the update/issuance of which was recommended in our 2002 Affiliate Transactions Audit, Recommendation Five. See Rule V.D, below for more information on this Recommendation. (DR 11, DR 153)

In this Rule IV.F / IV.G chapter of the 2002 Audit, we also recommended that PAMM’s procedural manuals should be updated to reflect elements of the latest versions of the ATR Manual and Compliance Plan. The resulting Recommendation Four was accepted by SCE and implemented via the new manual, “Doing Business in Compliance with the Affiliate Transaction Rules” still in draft form. (DR 11)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Procurement and Materials Management Department (INT 12, INT 19), Controller’s (INT 4, INT 11) and Human Resources (INT 9) affirmed for us that their organizations were in compliance with Rules IV.F and IV.G throughout 2003.

Rule IV – Disclosure and Information

The transaction reviews associated with these Rules included sampling for the existence and completeness of various service agreements, contracts, bids, joint purchases and transaction records. Reviews also considered whether SCE had complied with the 72-hour turnaround requirement of Rule IV.F.

To verify that SCE maintains records of contracts and related bids for work between SCE and affiliates, we randomly selected for review 10 to 20 percent of the joint purchases, service agreements/contracts and bids listed in responses to document requests from the 2003, 2002 and 2001 Affiliate Transaction Audits. The following sample items were selected and reviewed:

- Nine joint purchasing arrangements (DR 65, 2002 DR 84, 2001 NSDR 30)
- Purchase order and competing bids for one SCE purchase order which was ultimately awarded to EO&MS (2002 DR 10, 2002 DR 59, 2002 DR 85)
- Two QF and QF-related service agreements/contracts (DR 10, 2002 DR 10, 2001 NSDR 9)
- Nine agreements between ESI and affiliates (DR 10, DR 45, 2002 DR 10, 2002 DR 59, 2001 NSDR 9)
- One contract for EO&MS services to SCE related to retained generation (2001 NSDR 9)
- One office lease (2001 NSDR 9)

For each of the selected items, we physically inspected the available records. Except in one instance, we found documentation to be complete and we were therefore able to conclude that the 3-year records maintenance requirement of Rule IV.G was met. The exception was one of the nine agreements between ESI and affiliates, specifically, an amended and restated master agreement established in May 1988 for ESI to provide switchgear maintenance and testing services to an affiliated QF generating facility. SCE was able to produce the multipage contract document but it was an unsigned file copy. SCE was unable to produce a copy of the executed signature page. SCE did, however, produce a signed copy of the previous version of the agreement with the affiliated QF for such services, dated January 1988. At this point, ESI must determine which contract is in effect and update its records accordingly.

No affiliates submitted any bids to SCE during 2003. (DR 66) And SCE entered into no contracts for power, capacity, transmission capacity, ancillary services, or generation fuels with affiliates during 2003. (DR 71, DR 72, DR 73, DR 125, DR 126, DR 127)

SCE verified for us that during 2003 there were no requests to provide affiliate transaction information that would be covered under the 72-hour requirements of Rule IV.F. (DR 44).

With regard to record keeping requirements for waivers, discounts, or price concessions offered or given to affiliates, we determined that no such waivers, discounts, or price concessions were offered or given in 2003. Thus, there was no documentation to review. (DR 103, DR 104).

Rule IV – Disclosure and Information

We reviewed a sample of intercompany billings and noted that SCE charges to affiliates for corporate support were ultimately recorded to intercompany receivable and payable accounts, as shown in the general ledger summary trial balance. (INT 11, DR 133) This is an indication of the contemporaneous maintenance of affiliate transaction records.

Recommendations

4. Finalize “Doing Business in Compliance with the Affiliate Transaction Rules” Manual. Procurement and Materials Management Department should update their procedures so they conform with the current Compliance Plans and the ATR Manual. This effort was started in early 2003 and, while significant progress has been made, it is still not finished. PAMM’s draft report entitled “Doing Business in Compliance with the Affiliate Transaction Rules” should be issued in final form with a mechanism for periodic updates to keep it current with changes in the ATR Manual and compliance plans.
5. Conduct a review of ESI contract files. Determine whether the original or the amended and restated agreement is the authorized contract.

CPUC Rule

IV.H. FERC Reporting Requirements: To the extent that reporting rules imposed by the FERC require more detailed information or more expeditious reporting, nothing in these Rules shall be construed as modifying the FERC rules.

Audit Criteria

- SCE has not used the ATR to modify more detailed FERC recordkeeping and reporting requirements

Audit Steps

- Assess whether SCE has taken appropriate steps to assure that their plan for meeting the ATR does not modify FERC rules

Conclusions

SCE is in compliance with Rule IV.H.

We found no instances where SCE’s implementation of ATR was in conflict with FERC standards for recordkeeping and reporting. SCE has analyzed the requirements of the ATR and FERC in the development of the ATR Manual. Both sets of rules are listed in the Manual (ATR - Chapter 18, FERC Standards – Chapter 19). The Manual effectively delineates SCE’s recordkeeping and reporting requirements. (DR 5, DR 183).

During review of these materials, we discovered no instances in which SCE’s procedural response to the ATR modified FERC’s requirements. Furthermore, Resolution E-3539 confirmed that Rule IV.H is not at issue. (DR 1, DR 3, DR 5).

Rule V – Separation

CPUC Rule

V. Separation

V.A. Corporate Entities: A utility and its affiliates shall be separate corporate entities.

Audit Criteria

- SCE and its affiliates are organized as separate corporate entities

Audit Steps

- Examine incorporation papers evidencing that SCE and its affiliate are separate corporate entities

Conclusions

SCE is in compliance with Rule V.A.

Each of SCE's principal affiliates is a separate corporation, limited liability company or trust. We determined this by examining the articles of incorporation for SCE and its affiliates, including the following:

- Edison Capital/Edison Mission First Financial (September 1988)
- Edison Enterprises (June 1997)
- Edison Insurance Services (September 1997)
- Edison Mission Energy (August 2001)
- Edison O&M Services (August 1999)
- Edison TransEnergy (August 1996)
- EIX (May 1996)
- Mission Energy Holding Company (June 2001)
- Mission Horizons (September 1987)
- Mission Land Company (March 1987)
- The Mission Group (September 1988); merged into the Edison Mission Group Inc. (April 2003) (DR 46, DR 47)

CPUC Rule

V.B. Books and Records: A utility and its affiliates shall keep separate books and records.

V.B.1. Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Principles (GAAP).

V.B.2. The books and records of affiliates shall be open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Section 314.

Audit Criteria

- SCE and its affiliates maintain separate accounting records

Rule V – Separation

- SCE's records are maintained in accordance with applicable Uniform System of Accounts and Generally Accepted Accounting Principles

Audit Steps

- Review accounting records and reports and note that financial information is maintained separately for SCE and its affiliates
- Review Internal Audit reports for evidence that SCE and its affiliates maintain separate books and financial records
- Note that the financial statements of EIX and SCE have been certified as being prepared in accordance with generally accepted accounting principles by an outside auditing firm
- Interview accounting personnel and review accounting transactions to ensure that separate records are maintained by SCE and its affiliates

Conclusions

SCE is in compliance with Rule V.B.

SCE was found to maintain accounting records separate from its affiliates. We were able to develop this conclusion based on evidence discussed below.

First, the ATR Manual states that "Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Procedures [Principles] (GAAP)". (DR 5)

In its 2003 annual report, SCE's Chief Executive Officer and SCE's Controller signed the Responsibility for Financial Report letter, in which they stated "SCE's independent public accountants, PricewaterhouseCoopers LLP, are engaged to audit the financial statements in accordance with auditing standards generally accepted in the United States and to express an informed opinion on the fairness, in all material respects, of SCE's reported results of operations, cash flows and financial position". In the 2002 annual report, PricewaterhouseCoopers LLP, found SCE's 2002 financial statements to be "in conformity with accounting principles generally accepted in the United States of America." (DR 12)

EIX's 2002 and 2003 annual reports break out separate results for its major business units, including SCE, Mission Energy, Mission Energy Holding Company, Mission Capital and EIX parent company and other. Information presented by business unit includes: revenues, earnings(loss), earnings(loss) per share contribution, assets and equity. EIX financial statements are subject to audit by the public accounting firm of PricewaterhouseCoopers (2002 and 2003). The ability to produce financial reports by business unit indicates a separation in the underlying books and records. (DR 12)

We reviewed a sample of intercompany billings and noted that SCE charges to affiliates for corporate support were ultimately recorded to intercompany receivable and payable

Rule V – Separation

accounts, as shown in the general ledger summary trail balance. (DR 133) This is another indication of separate accounts and records.

SCE appears to ensure that the books and records of affiliates are open to examination by the Commission and its staff. In 2002, the Office of Ratepayer Advocates (ORA) conducted an audit of SCE in connection with the Company's General Rate Case. Among other things, the audit's scope covered affiliate transactions that impact ratepayers. There was no indication in their report that ORA was prohibited from viewing the records of affiliates in connection with this audit. (2002 Affiliate Transactions Audit DR 34)

CPUC Rule

V.C. Sharing of Plant, Facilities, Equipment or Costs: A utility shall not share office space, office equipment, services, and systems with its affiliates, nor shall a utility access the computer or information systems of its affiliates or allow its affiliates to access its computer or information systems, except to the extent appropriate to perform shared corporate support functions permitted under Section V E of these Rules. Physical separation required by this rule shall be accomplished preferably by having office space in a separate building, or, in the alternative, through the use of separate elevator banks and/or security-controlled access. This provision does not preclude a utility from offering a joint service provided this service is authorized by the Commission and is available to all non-affiliated service providers on the same terms and conditions (e.g., joint billing services pursuant to D.97-05-039).

Audit Criteria

- Except as it relates to corporate support functions, SCE does not share office space, equipment, services or systems with affiliates. There is appropriate physical separation. SCE's information systems cannot be accessed by affiliates except where it relates to corporate support functions.

Audit Steps

- Identify the location of SCE and affiliate buildings and facilities
- Examine select SCE facilities to verify appropriate physical separation from affiliates
- Interview IT security personnel to determine how SCE manages access to its business applications and IT infrastructure
- Verify a sample of affiliate personnel to determine if their access to SCE's information systems is controlled and is associated with their shared corporate support-related activities

Conclusions

SCE is in compliance with Rule V.C.

Rule V – Separation

Facilities – Affiliate Sharing

The ATR Manual states that SCE shall not share office space and office equipment with its Class A affiliates except where there is appropriate physical separation. “Shared office space” is defined as facilities that do not have separate security controlled access for utility- and affiliate-occupied space. (DR 5)

SCE occupies 69 non-electric facilities. As shown in the table below, two affiliates occupy a small portion of SCE facilities.

Facility Types	SCE Owned/Leased Facilities Occupied By					
	SCE		EIX		EME	
	Number	Sq. Feet	Number	Sq. Feet	Number	Sq. Feet
Office	7	1,255,395	1	21,094	1	1,820
Service Centers	37	1,458,365				
Computer/Phone Center	4	363,396				
Local Offices	2	7,925				
Other	13	1,119,062				
Leased	6	166,458				
Total	69	4,370,601	1	21,094	1	1,820

Source: DR 147

SCE leases to EME, a Class A affiliate, space in its Gateway Business Center, an office park in Irwindale. It is used as a backup emergency operations center and contains EME-owned computer and telecommunications equipment. It is a “lights-out” operation, so no EME personnel regularly occupy the space. EME’s space abuts SCE office space but there are floor-to-ceiling walls that separate them and access to both offices is controlled. There are no common or shared areas. SCE charges EME market rental rates for the space. There are other third-party tenants in the Gateway Business Center. (DR 49) We conducted an inspection of this EME’s space and found it to be hard-wall separated from SCE’s space. EME’s office was locked and accessible only with an EME security card. The adjacent SCE space was also locked and accessible only with an SCE security card.

SCE leases space in its Rosemead General Office #1 building to EIX, its parent company, a Class B affiliate. Approximately 35 EIX executives and their staff maintain their offices here. We inspected this space and noted that there was hard-walled separation between EIX and SCE offices. There were a few adjoining doors, which were kept closed and locked. (DR 49, DR 91)

EIX is the leaseholder of the Washington, D.C. office which is shared by EIX, EME, SCE and one non-affiliate third-party. The office has a common lobby and separate office suites for each entity. The suites are separated by floor-to-ceiling walls. Access to SCE’s office is card controlled, so EIX and EME personnel cannot enter SCE’s suite. (DR 49) We confirmed this arrangement by reviewing the office blueprints. (DR 100) We also evaluated the basis for allocating the Washington, D.C. office and found it to be reasonable. (DR 101)

Rule V – Separation

There was one other instance where SCE personnel are located in affiliate offices. During 2003, SCE's Audit Services Department had 11 auditors and 1 administrative staff located in an Edison Mission Energy building in Irvine. Also, SCE's Vice President and General Auditor and four senior audit managers have office space in the same location. The auditors' activities are allowed under Rule V.E (corporate support). Separate offices and filing systems are maintained for this audit staff to ensure that confidential information is not transferred from SCE to an affiliate. (DR 92) We agree with SCE's interpretation that this arrangement is allowable under Rule V.C.

SCE maintains temporary office space (also known as "hotels") in one room of its Rosemead General Office #1 building. This space is outfitted with desks and PCs and is available only to SCE employees who are visiting the General Office. We inspected this office and noted signs throughout indicating that the space is restricted to SCE personnel. The PCs require a SCE-specific logon ID and password, thus are not accessible by affiliate employees. (DR 5)

Facilities – Affiliate Access

The ATR Manual specifies that Class A affiliate personnel are prohibited from visiting SCE facilities except:

- to perform shared corporate oversight, governance and support functions pursuant to Rule V.E (corporate support),
- to attend a meeting pursuant to provision of Rule V.F.4.a (joint meeting requested by a customer), or
- where attendance is open to non-affiliates. (DR 5)

Authorized affiliate personnel visiting the General Office must be accompanied by an SCE employee. Affiliate badges are a different color than those of SCE employees so they can be easily distinguished. (INT 5)

Access to the Rosemead General Office is controlled as described below:

- Buildings #1 and #4 (corporate offices) – These adjoining buildings have four access points, each requiring electronic badge-in for SCE and EIX employees and contractors. Visitors, including affiliate employees, must sign-in with security guards at one of two access points. The other two entrances have revolving doors that are activated by scanning an EIX or SCE identification badge. Video cameras allow security to monitor these revolving door entrances. Affiliate employee identification badges do not permit entry through these doors.
- Building #2 (data center and office space) – Access is limited to SCE employees who work in or are authorized to be in Building #2. Building #2 has security guards stationed at its two access points and entry requires identification badge-in.
- Building #3 (IT, T&D Engineering, Customer Services Business Unit) – badge-in entry. (INT 5)

Rule V – Separation

We reviewed a sample of 6 affiliate employee visitors who logged-in with security when they visited the Rosemead General Office Buildings 1-2-3-4 during September, 2003. We noted each affiliate guest had designated an SCE employee that they were visiting. (DR 74)

Information Systems and IT Infrastructure

In accordance with Rule V, the ATR Manual specifies that SCE and Class A affiliates are prohibited from accessing each other's computing systems except:

- to perform shared corporate oversight, governance and support functions pursuant to Rule V.E (corporate support), or
- where access is open to non-affiliates. (DR 5)

Access to SCE's systems and IT infrastructure is also managed through the use of standards, security mechanisms, and procedures. (DR 5) IT security procedures are described in SCE's IT Policies, covering the following topics:

- Security controls
- Applications and data security
- Network security
- Physical security
- Electronic mail. (DR 87)

Security hardware and software, including firewalls, protect SCE's IT assets from outsider access. With the exception of Class B affiliates, EIX and Edison Capital, the IT assets of all other affiliates reside outside of SCE's network perimeter. SCE's Rosemead data center hosts all of EIX's servers and SCE's Irvine data center hosts three Edison Capital servers. In both instances, affiliate IT personnel only access their servers through a controlled network connection. They are not permitted physical entry into the SCE data centers. If there is the need to touch these servers, SCE's IT personnel perform that work. The server hosting arrangements with EIX and Edison Capital were approved by SCE's Affiliates Officer. SCE is reimbursed for this service via a chargeback arrangement. (INT 26, DR 50)

Each EIX company maintains a separate communications infrastructure. SCE and some Class A affiliates use Lotus Notes/Domino as their email system. However SCE and Class A affiliates maintain separate mail servers and use different network to route messages to addressees. (DR 5) Thus, it is not possible for any affiliate employee to somehow hack into SCE email in an effort to gain information that is prohibited by the ATR.

In 2003, there were no instances in which affiliate employees had access to SCE business applications other than for Corporate Support purposes as allowed by Rule V.E. Approximately 135 affiliate employees (DR 118) have access to 33 SCE applications and tools (DR 76), as shown in Exhibit 3. After reviewing the list and

Rule V – Separation

description of these applications and tools, we found them to be related to shared corporate support.

Requests for network and application access are processed by SCE's IT Security Administration unit using the Information Systems Security Menu (ISSM). (DR 75) An affiliate employee fills in the online ISSM form with personal information and designates which business applications they must access. The employee's supervisor electronically approves the form and sends it on to the affiliate human resources unit who routes it for necessary approvals. An affiliate employee must have approvals from the following to gain access to SCE applications:

- President of the affiliate company
- SCE's Affiliates Officer or his/her designee
- Supervisor/manager of Network Operations. (INT 26)

Once all approvals have been received, the employee's data is entered into the Global Database System, IT Security Administration's central database of all users, their IDs and their application access. IT Security then activates the employee for their approved access to the SCE network and applications. A note is sent to the employee asking them to call IT Security to obtain an ID and a password to enable their access. (INT 26) We selected a sample of affiliate employees with access to SCE applications and determined that they had received all necessary approvals. (DR 173)

When an affiliate employee is leaving or no longer requires access, their supervisor notifies the affiliate human resources unit who enters the termination into the Global Database System. The system produces a "Former Report" from which IT Security Administration creates an ISSM form for the employee. The employee access is then suspended and their supervisor is contacted to confirm that the person's access should be terminated. After suspension, the person cannot access SCE's systems. Once confirmation is received from the supervisor, the employee's access is permanently terminated. (INT 26)

In January 2003, Audit Services completed their report on an Affiliate IT Access Approvals audit in which they concluded "The system and supporting processes are adequate for ensure that affiliate employees access to SCE data and applications is appropriately restricted." (DR 13)

**2003 Affiliate Transactions Audit of SCE
Analysis Of Affiliate Personnel Access To SCE Applications**

Application	Application or Tool?	EIX	EME	Mission O&M	Mission Energy NY	EME Homer City	Edison Mission M&T	Mission Land	Midwest Gen	Midwest Gen LLC	EO&MS
A & I (Approval & Inquiry) - Automated system that routes employee job data changes. For affiliates, any job data changes must be made directly in the PeopleSoft application.	A	7	9	2	-	3	3	-	7	14	2
ATSLAN (Distributed Time Keeping) - Required for processing employee time sheets.	A	12	3	7	-	6	3	2	8	63	2
ATSSD002 (ATSLAN System Test) - Test region for ATSLAN	A	-	-	-	-	-	-	-	2	28	1
BATCHD - Batch on System D: Functional ID that allows application to application communication.	A	-	-	-	-	-	-	-	-	-	2
CICS - An extension to the operating system of IBM mainframe computers. An ID created for each person accessing the mainframe computer. This does not mean that the ID owner has access to SCE customer data.	A	14	4	6	-	6	3	1	5	28	-
APS ALL (Accounts Payable) - Application used by the Accounts Payable department.	A	2	-	-	-	-	-	-	-	-	-
CRD ALL (Credit Card Recon) - Application used for reconciling credit card data.	A	3	-	-	-	-	-	-	-	-	-
DRS ALL (R/DARs) - Required for viewing the RDARS reports on the host system. This application allows payroll personnel to view payroll information, i.e., time sheet errors, paycheck data, etc.	A	2	4	6	-	6	3	1	5	28	-
FAR ALL - Financial Reporting	A	10	-	-	-	-	-	-	-	-	-
FAS ALL - Corporate Accounting	A	10	-	-	-	-	-	-	-	-	-
MTS ALL - Material Management	A	6	-	-	-	-	-	-	-	-	-
DOMINO MAIL - Domino Mail (SCE): Lotus Notes E-Mail	T	33	-	-	-	-	-	-	-	-	-
DOMINO - The platform (server) on which Domino Mail resides. This is a system generated application that is created whenever a Domino Mail ID is assigned.	T	33	-	-	-	-	-	-	-	-	-
DSS HR (Decision Support Sys HR) - Dynamic system which allows users to generate reports on a range of data, limited by access privileges, that includes time keeping, payroll, and demographic tables.		2	9	6	-	6	3	1	10	22	1
FACTIVA - Dow Jones Interactive: Dow Jones web site; access is tracked in Global database.	T	3	29	-	1	-	1	-	7	1	-
INETALIAS - An application in Global that allows client to have multiple e mail IDs.	T	1	-	-	-	-	-	-	-	-	-

Source: DR 76

**2003 Affiliate Transactions Audit of SCE
Analysis Of Affiliate Personnel Access To SCE Applications**

Application	Application or Tool?	EIX	EME	Mission O&M	Mission Energy NY	EME Homer City	Edison Mission M&T	Mission Land	Midwest Gen	Midwest Gen LLC	EO&MS
Landial - remote access dialup	T	19	-	-	-	-	-	-	-	-	-
MODEM LINE - modem line connection	T	1	-	-	-	-	-	-	-	-	-
NETWARE - SCE Tree: allows printing capabilities	T	27	5	-	-	-	-	-	-	-	-
NONTSOG - region where TPX resides (see TPXR)	T	1	-	-	-	-	-	-	-	-	-
PAS (Payroll Adjustment Sys) - Required to adjust past payroll information to reflect time or rate changes.	A	3	3	6	-	6	3	1	5	28	1
PSOFT (Peoplesoft) - Required to maintain and update a variety of personnel information including: benefit; in. service dates; emergency contacts; job history; vacation and sick. time balances; and education level.	A	4	6	6	-	6	3	1	10	20	1
SCE-NT - NT domain: desktop access	T	29	5	-	-	-	-	-	-	-	-
SCE-WIN2K - Windows 2000 product: XP/desktop access	T	29	-	-	-	-	-	-	-	-	-
SYBAP002 - SThe server where ATSLAN resides. This is a system generated application that is created whenever an ATSLAN ID is assigned.	A	12	3	7	-	6	3	2	8	63	2
SYBS001 - The server where ATSSD002 resides. This is a system-generated application that is created whenever an ATSSD002 ID is assigned.	A	-	-	-	-	-	-	-	2	-	1
TPX7 - A region within TPX (see description for TPXR).	T	1	-	-	-	-	-	-	-	-	-
TPXR - TPX allows a client to sign onto and maneuver between multiple mainframe applications at one time. Very similar to the way windows are accessed using the ALT-TAB keys.	T	1	-	-	-	-	-	-	-	-	-
TSOD - TSO – System D: This mainframe ID is required for clients to access DSS HR. It is also a region used by project/program managers or developers for test purposes.	A	4	9	6	-	6	3	1	12	22	1
UNIXACCT - unique acct number associated with an individual for accessing Unix applications	T	21	-	-	-	-	-	-	1	-	-
UNIXID - Unique user ID associated with an individual for accessing Unix applications.	T	21	-	-	-	-	-	-	1	-	-
VPN - Virtual Private Network: Remote access using cable modem or DSL	T	7	-	-	-	-	-	-	-	-	-
Wireless LAN - Wireless LAN Access: Remote access using wireless technology.	T	1	-	-	-	-	-	-	-	-	-

Source: DR 76

Rule V – Separation

Desktop Support

Resolution E-3539 specified that SCE is not permitted to perform hands-on desktop maintenance and troubleshooting as a corporate support function for fear that confidential SCE information could be passed to an affiliate. However, SCE is permitted to provide telephone support to affiliate personnel. We obtained statistics for 2003 affiliate employee calls to SCE's Help Desk and determined that all were resolved as Tier 1 or Tier 2 issues. (DR 77) This support is conducted over the telephone and does not involve on-site troubleshooting. This Help Desk support is permissible under Rule V.E., as described in SCE's Compliance Plan ("IT Service Center Support [not including Desktop Support]"). (MCP, DR 1)

CPUC Rule

V.D. Joint Purchases: To the extent not precluded by any other Rule, the utilities and their affiliates may make joint purchases of goods and services, but not those associated with the traditional utility merchant function. For purposes of these Rules, to the extent that a utility is engaged in the marketing of the commodity of electricity or natural gas to customers, as opposed to the marketing of transmission and distribution services, it is engaging in merchant functions. Examples of permissible joint purchases include joint purchases of office supplies and telephone services. Examples of joint purchases not permitted include gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. The utility must insure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions of such purchases, and in accordance with applicable Commission allocation and reporting rules.

Audit Criteria

- SCE and its affiliates engage in no joint purchases of the following items: electricity for resale, gas, gas transportation, coal, coal transportation, electric transmission, system operations, or marketing services
- When SCE and its affiliates make joint purchases of goods and services, SCE ensures that joint purchases are priced, reported and conducted in a manner that makes utility and affiliate portions of the purchase clearly identifiable

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review the process for joint purchases
- Identify the types of goods and services that are purchased jointly by SCE and affiliates. Review all service agreements and contracts, including purchases of bulk power, fuel, fuel transportation, transmission and marketing services.
- Sample/evaluate the methodology for allocating the costs of joint purchases to ensure SCE is not subsidizing affiliates

Conclusions

SCE is in compliance with Rule V.D.

Rule V – Separation

SCE' process to comply with the requirements of this Rule is well documented, widely communicated and consistently followed. Our evaluation of various joint purchase transactions provided no evidence of any violation of this Rule. One recommendation we made in the 2002 Affiliate Transaction Audit regarding procedural guidance has almost been fully implemented. Another recommendation from the 2002 audit needs further refinement.

General requirements of this Rule are explained in the SCE's Modified Compliance Plan (MCP) and the ATR Manual, both of which are available to all employees. (DR 1, DR 5) Joint purchases of goods and services associated with the utility merchant function are specifically prohibited. Joint purchases of other goods and services, under specific conditions, are allowable. Particularly important are conditions that payments for joint purchases, and reporting of those payments, clearly identify/segregate the SCE and affiliate portions. Although not explicitly stated in the wording of this Rule, the spirit of other Rules establishes an expectation that SCE and an affiliate would share equally in any benefit derived from a joint purchase.

Management personnel representing Procurement and Materials Management and Regulatory Policy and Affairs (RP&A) (INT 1, INT 2, INT 12, INT 19) affirmed for us their belief that their organizations had followed these processes and were in compliance with Rule V.D throughout 2003.

Our transaction reviews for Rule V.D included an evaluation of all joint purchase arrangements initiated in 2003 or in effect during 2003. (DR 65). The list of joint purchases includes:

- Three joint contracts with SCE and affiliate(s) as original parties to the contract
- Eleven single party joint contracts for which the supplier agreed to extend the terms of the contract to an affiliate
- Twenty-four joint negotiations which resulted in separate SCE and affiliate contracts

None of the contracts or negotiations covered goods and services associated with the traditional utility merchant function. For further verification of compliance with this part of the Rule, we reviewed wholesale power transactions, fuel purchases, and transmission purchases. During 2003 there were no wholesale power contracts in existence between SCE and an affiliate except for four allowable and preexisting QF contracts and no joint purchases of wholesale power with affiliates. (DR 71, DR 72, DR 73, DR 160, DR 162). Additionally, there were no transmission contracts between SCE and an affiliate nor were there any joint purchases or sales of transmission services. (DR 10, DR 127). And finally, no fuel (e.g., natural gas or coal) or fuel transportation contracts were in existence between SCE and an affiliate (DR 10), nor were there any joint fuel purchases or sales. (DR 125, DR 126).

We also verified that all allowable joint purchase arrangements initiated in 2003 followed the internal procedure that requires RP&A to provide preliminary approval of the

Rule V – Separation

arrangement using Joint Procurement Notification Forms. (DR 64) See Rule IV.D for more about Joint Procurement Notification Forms and a related recommendation.

To test SCE's adherence to the part of Rule V.D requiring "clear identification of utility and affiliate portions" of joint purchases, we reviewed the methodology/formulas used to allocate costs between SCE and affiliates in the case of the fourteen joint contracts. In all cases, SCE was able to clearly distinguish between SCE and affiliate portions of the payments and effectively explain the methodology/formulas used. (DR 116)

We also sampled payments for goods and services made under the terms of the twenty-four joint negotiations that ultimately resulted in separate contracts between (1) the vendor and SCE and (2) the vendor and affiliate. By their nature, these kinds of arrangements automatically meet the "clear identification of utility and affiliate portions" requirements of Rule V.D. The following standard language is inserted in "joint-negotiation-resulting-in-separate contracts":

If sales to any other Affiliate of an Edison International Company are consummated, the services requested by such company shall be made pursuant to a separate Purchase Order or Letter Agreement. If any sales of any services to an Edison International Company or an Affiliate of an Edison International Company include a greater discount or incentive than has been previously provided with respect to the prior sales of the same services to another Edison International Company or an Affiliate of an Edison International Company, the discount or incentive thereafter used to compute the price payable for such services shall be the same as the largest discount or incentive provided to any Edison International Company or an Affiliate of an Edison International Company for such services.

Vendors risk a breach of contract if, after the negotiations, they offer better terms to an affiliate compared to SCE. The importance of this issue led us to make 2002 Affiliate Transactions Audit Recommendation Six. We suggested that, as an added measure of protection, SCE should periodically audit / compare vendor invoices to SCE invoices for separate contracts growing out of the same negotiation. SCE accepted this recommendation and indicated it would "request the comparison be included in future Annual Affiliate Transaction Audits" and would "periodically request SCE's Audit Department to do a similar comparison". (DR 11)

In accordance with this direction, we compared SCE invoices with affiliate invoices for as many of the contracts resulting from joint negotiations as SCE could provide to us. We saw no advantage being gained in pricing or terms by affiliates in the sample of invoices we were able to obtain. (DR 172)

However, it appeared to us the gathering of these invoices by SCE was difficult and was likely hindered by the lack of a contemporaneously prepared log of purchase order identifiers associated with the joint negotiation. Cross-referencing materials provided to

Rule V – Separation

us by SCE were less helpful than we hoped. (DR 170) We believe this problem will be remedied by our previous recommendation made under Rule IV.D. This improvement will allow future auditors, including the SCE Audit Services Department, to more easily review joint purchase transactions.

In Recommendations Four and Five from our 2002 Affiliate Transactions Audit, we suggested changes in procedural guidance maintained both by the Procurement and Materials Management (PAMM) and RP&A departments. SCE accepted both recommendations and committed to making the proposed changes by the end of 2003. (DR 11) In response to these recommendations, PAMM issued a draft manual “Doing Business in Compliance with the Affiliate Transaction Rules” dated 2/18/04 which includes proposed language. However, the final manual has not yet been released by PAMM. (DR 153) A recommendation to finalize this manual is included above in the section for Rules IV.F and Rule IV.G.

CPUC Rule

V.E. Corporate Support: As a general principle, a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems, and personnel. Any shared support shall be priced, reported and conducted in accordance with the Separation and Information Standards set forth herein, as well as other applicable Commission pricing and reporting requirements.

As a general principle, such joint utilization shall not allow or provide a means for the transfer of confidential information from the utility to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of the specific mechanisms and procedures in place to ensure the utility follows the mandates of this paragraph, and to ensure the utility is not utilizing joint corporate support services as a conduit to circumvent these Rules.

Examples of services that may be shared include: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment practices), employee records, regulatory affairs, lobbying, legal, and pension management.

Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing.

Audit Criteria

- Shared corporate services involve allowed joint corporate oversight, governance, support systems and personnel; services specifically precluded by Rule V.E are not shared
- The basis for allocating shared corporate support expenses is equitable and does not cross-subsidize affiliates
- Corporate support arrangements are not used to transfer confidential information from SCE to affiliates or create unfair opportunities for affiliates

Audit Steps

- Review shared corporate services and determine that they meet the specifications of Rule V.E

Rule V – Separation

- Evaluate the allocation methods for shared corporate support
- Determine that there are safeguards against inappropriate sharing of confidential SCE information with affiliates who participate in shared corporate services

Conclusions

SCE is in partial compliance with Rule V.E.

Corporate Support Services

We found SCE's definition of corporate support services is in line with the requirements of Rule V.E.

In the MCP, CP02 and the ATR Manual, SCE defines in detail what it considers allowable corporate support functions under Rule V.E. (DR 1, DR 2) We reviewed the description of the 60 functions and found SCE's interpretation met the following guidelines as to what qualifies as corporate support:

- Activities that are integral to corporate governance and oversight necessary to meet management's fiduciary responsibilities,
- Activities that are essential to maintain corporate, regulatory and other critical standards and policies, or
- Activities that produce economies of scale by serving the entire enterprise and that ultimately benefit ratepayers (DR 2)

In addition to clearly defining corporate support activities, SCE has further delineated such work by specifying areas of the company that may provide these services to affiliates. For each of the 60 or so corporate support functions, organizational units (called Core Areas of Responsibility or Core AORs) are named in the ATR Manual as authorized to provide that service. For example, Human Resources and Treasurer's are designated as the Core AORs that perform the corporate support activity "pension management". If, for instance, the Treasurer's Department required assistance from a statistician in the ES&M Department in the provision of pension management services to an affiliate, then the ES&M Department would be required to complete a Corporate Support Authorization Form (CSR) to obtain the necessary approvals before performing the work. Once a year, RP&A sends out an email to departments that have performed directly charged corporate support to affiliates in the past, reminding them of the need to submit a CSR if they will continue to provide the services in the next year.

We reviewed the six CSRs completed in 2003 and found them to be appropriate for the circumstances involved. However, one CSR (#03-006) did not receive the necessary approvals until months after the actual work had been performed. In this instance, SCE's Power Production Department provided assistance to EO&MS with an arbitration hearing (this function is a permissible shared corporate support category) involving a former employee of EO&MS. The SCE Power Production employees involved were former employees of EO&MS and their presence was required at this hearing. The

Rule V – Separation

Power Production Department failed to complete the CSR form and send it to RP&A for processing before the hearing took place in February 2003. As a result, SCE's Affiliates Officer was not able to approve the CSR until October 2003. (DR 99)

We also tried to determine that the time that these two Power Production Department employees spent on the hearing had been charged to EO&MS. We were unable to find their names and time on the Loaned Labor Report, which shows all SCE employees who have charged time to affiliates. (DR 89) Further investigation determined that only non-labor expenses were charged to EO&MS. Each employee incurred 40 hours performing this work which should also have been charged to EO&MS. SCE has indicated it will set up a receivable for this time in March 2004. (DR 184)

Each month, the Controller's Department prepares an exception report showing charges for corporate support by non-Core AORs. (DR 89) This report is used to verify that the charges were appropriate and that a CSR form was prepared, if necessary. It provides a detective control over corporate support charges. (DR 2)

The MCP, CP02 and ATR Manual, SCE specifies it will not provide affiliates with the services precluded by Rule V.E. Those are employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. (DR 1, DR 2) We found no instances where these services were being provided to affiliates by SCE. (DR 99)

Under Rule V.C, we determined there were adequate controls over affiliate personnel with access to business applications and networks in connection with shared corporate services. We also cover the issue of transfer of confidential information under Rule IV.

As specified by Rule V.E, the MCP, CP02 and CP03 contain a letter from SCE's Affiliates Officer and Vice President and Controller verifying that "specific mechanisms and procedures in place are believed to be sufficient to ensure: a) that SCE follows the mandates of Rule V.E., and b) that SCE is not utilizing joint corporate support services as a conduit to circumvent the Rules." (DR 1 Appendix B)

Allocation of Corporate Support Expenses

We found SCE's methodology for allocating corporate support expenses is appropriate and meets the requirements of Rule V.E.

The analysis below shows the trend in corporate support charges to affiliates during the past several years.

Rule V – Separation

	2000	2001	2002	2003
Directly Charged Services	\$10,272,781	\$ 6,269,838	\$ 6,403,777	\$ 6,937,080
Allocated Corporate Support	\$11,178,436	\$ 9,853,471	\$ 8,034,851	\$ 9,954,406
Total	\$21,451,217	\$16,123,309	\$14,438,628	\$16,891,486

Note: Audit Services charges are included in 2002 and 2003 but not in 2000 or 2001

(DR 128)

Shared corporate support expenses are assigned to affiliates based on the nature of the underlying work, as described below.

- **Directly Charged** – Work is performed for one affiliate who is charged with the cost of the service. It is possible to readily identify the amount of time spent on these activities and the affiliate(s) benefiting from the activities. Examples of this type of work include internal audits, preparation of tax returns and legal work.
- **Time-Identified** – Work that benefits affiliates but whose cost cannot be directly associated and assigned to specific affiliates. Time-identified costs are allocated to affiliates. Examples of this type of work include cash management, corporate accounting, tax department support, legal work and information technology.
- **Automatically Allocated** – Work that indirectly benefits affiliates. Examples of this type of work include corporate governance, corporate security, equal opportunity, mail services and corporate communications. (DR 5, DR 82)

The following factors are used to allocate the cost of corporate support services that cannot be directly charged to affiliates:

- **Multi-Factor Method** – This formula is based on each company’s share of operating revenues, operating expenses (excluding income taxes and cost of sales), number of employees and total assets. Each factor is given equal weight in calculating the composite multi-factor ratio. This is the most common method. Examples of departments whose costs are allocated this way include IT (telephone operators), Corporate Communications, Community Involvement, Corporate Security and Corporate Mail. (DR 5, DR 82)
- **Equity Investment and Advances Method** – This formula is based each company’s share of equity as calculated for Edison International consolidated financial statements. Examples of departments whose costs are allocated this way include Shareholder Meetings, Corporate Governance and Controller’s (Outside Services). (DR 5, DR 82)
- **Number of Employees Method** – This formula is based on each company’s number of regular employees. Examples of departments whose costs are allocated this way include Equal Opportunity (Equal Opportunity Division), Treasurer’s (Investments) and Controller’s (Outside Services and Benefits Accounting). (DR 5, DR 82)

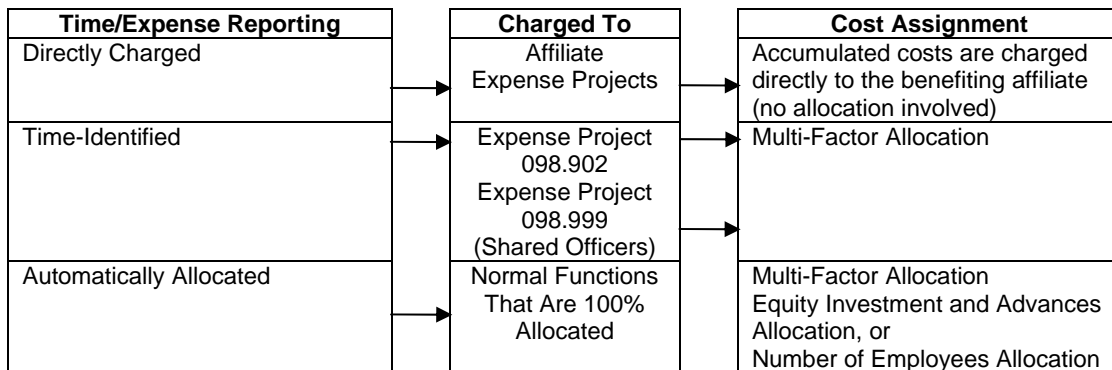
The allocation factors are recalculated every month. (INT 11) We believe these allocation factors are appropriate. Our conclusion is supported by a 2002 examination

Rule V – Separation

by the Office of Ratepayer Advocates (ORA) related to SCE’s General Rate Case. ORA assessed the basis for allocating Corporate Support costs and concluded:

Based on the documents received from SCE and information on the methodology used by SCE when calculating the allocation factors, ORA concludes that SCE’s allocations formulas and calculations used to allocate costs of certain shared support services appear reasonable. (2002 Affiliate Transaction Audit, DR 34)

The “expense project” is SCE’s accounting mechanism for accumulating and assigning many corporate support expenses to affiliates. Approximately 100 expense projects have been established for this purpose. (DR 90) Essentially, employees charge time and expenses to the appropriate expense project. Every month, the accumulated charges are then assigned to affiliates. (INT 11) The table below summarizes this process.



(DR 148)

Expense project costs are reported on the monthly intercompany invoices presented to affiliates. (INT 11) This provides them with detail they need to validate the charges.

As part of our audit work, we performed a detailed review of the May 2003 intercompany invoices from SCE to EME to validate corporate support charges were accumulated and charged properly. The line items on the invoices were: charges by expense project, labor markup and facility charge (i.e., cost of the General Office complex). We reviewed the calculation of labor markup and facilities charges and found them to be appropriate. We traced expense project charges back to supporting detailed accounting reports. We also reviewed that month’s calculation of the three allocation factors (multi-factor, equity investment and advances, and number of employees) and found them to be appropriate. Finally, we tied the invoice total into the general ledger trial balance. We noted no problems in this review. (INT 11, DR 133, DR 165)

Recommendation

6. Re-emphasize The Need To Obtain Timely Approvals For Corporate Support Services Performed By Employees In “Non-Core” AORs And For Employees Who Perform That Work To Charge Their Time To Affiliates. Before corporate support

Rule V – Separation

work is performed by an employee who is not part of the pre-established AOR for a particular function, RP&A should have the opportunity to review the requesting department's Corporate Service Request (CSR) and then obtain SCE's Affiliates Officer's approval. This requires that the requesting departments get their CSRs to RP&A well before the services are provided. RP&A should initiate more extensive communications with SCE corporate department representatives to remind them of the need for timely approvals and for their employees to charge their time correctly.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.1. A utility shall not trade upon, promote, or advertise its affiliate's affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:

V.F.1.a. The affiliate "is not the same company as [i.e. PG&E, Edison, the Gas Company, etc.], the utility," and the affiliate "is not regulated by the California Public Utilities Commission

V.F.1.b. In the case of energy service provider affiliates, the disclaimer will be:

The affiliate "is not the same company as [i.e., PG&E, Edison, the Gas Company, etc.], the utility and the California Public Utilities Commission does not regulate the terms of [the affiliate's] products and services."

The application of the name/logo disclaimer is limited to the use of the name or logo in California.

Audit Criteria

- SCE does not trade upon, promote or advertise affiliate's connection with SCE
- Affiliates do not trade upon, promote or advertise their affiliation with SCE
- Affiliate publications do not incorporate SCE's name, logo, or taglines, except where they appropriately disclose that the affiliate is not the same company as SCE and not regulated by the CPUC.

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure compliance with this rule
- Review billing inserts to assure they have not been used to promote affiliate's business, and to assure affiliations with SCE are not promoted without proper name/logo disclaimers.
- Review SCE and affiliate marketing/advertising/promotional/website materials (e.g., publications, advertisements, web pages) to assure affiliations with SCE are not promoted without proper name/logo disclaimers
- Sample SCE presentations to large commercial and industrial customers to assure affiliations with SCE are not promoted without proper name/logo disclaimers

Rule V – Separation

- Sample account managers' diary entries to assure SCE is not promoting business for affiliates

Conclusions

SCE is in compliance with Rule V.F.1.

SCE's process to comply with the requirements of this Rule is generally well documented and widely communicated. However, we believe improvements could be made in the specific guidance provided by corporate communications organizations concerning the implementation of this Rule. Our transactions review of data associated with the Rule showed no instances of non-compliance.

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Corporate Communications (INT 15) and Major Customer Division (INT 25, INT 27) affirmed for us that their organizations were in compliance with Rule V.F.1 throughout 2003.

SCE's Affiliate Transactions Compliance Plan – 2002 Update (CP02) and its Affiliate Transaction Rule (ATR) Manual, which are available to SCE and affiliate employees, describe the general requirements of Rule V.F.1 and its sub-rules. (DR 1, DR 5).

Both documents delegate responsibilities for disclaimer portions of Rule V.F.1 to specific SCE, affiliate, and EIX organizations. SCE and affiliate operating organizations are named responsible for including disclaimers when required. Also the EIX Corporate Communications department, while apparently not required to do so, has agreed to "review publications, advertisements, affiliate Web pages, affiliate 'give-aways' and other materials to ensure compliance with this Rule". (DR 5) Corporate Communications also assists affiliates in the preparation of materials which are covered under the ATRI Rules. (DR 157)

We found a number of EIX intranet sites which address a variety of topics all grouped under the "Corporate Identity Standards" heading (<https://myedison.net/cpi/policies/identity/>). (DR 27) It appears these are maintained by EIX Corporate Communications. Of most relevance to this Rule are the following topics: (1) Marketing Communications (<https://myedison.net/cpi/policies/identity/marcom.shtml>); (2) External Web Sites ([../exweb.shtml](https://myedison.net/cpi/policies/identity/exweb.shtml)); (3) Branded Merchandise ([../geegaws.shtml](https://myedison.net/cpi/policies/identity/geegaws.shtml)); and (4) <Disclaimer> Rules ([../rules.shtml](https://myedison.net/cpi/policies/identity/rules.shtml)). (DR 27) Typically these intranet sites refer any affiliate rule issues to the intranet site that houses the ATR Manual, although Corporate Communications contacts and phone numbers are provided in case the reader has questions. In the case of the External Web Sites topic, the intranet goes so far as to require EIX Corporate Communication be involved in the authorization and development of all customer-facing Web sites.

Rule V – Separation

Rule V.F.1 has undergone a number of changes over the years as can be seen in the following table of evolving versions of compliance plans. Many of these evolving versions included rewording of disclaimers.

Compliance Plan Version (DR 1)	New / Revised V.F.1 in Version?
Preliminary Affiliate Transactions Compliance Plan (PCP), 12/31/97, Advice 1278-E	Yes
Supplemental Affiliate Transactions Compliance Plan (SCP), 1/30/98, Advice 1278-E-A	Yes
Revised Affiliate Transactions Compliance Plan (RCP), 10/16/98, Advice 1278-E-B	Yes
Amended Revised Affiliate Transactions Compliance Plan (ARCP), 5/5/99, Advice 1278-E-C	Yes
Updated Affiliate Transactions Compliance Plan (UCP), 11/12/99, Advice 1278-E-D	Yes
Amended Affiliate Transactions Compliance Plan (ACP), 5/9/2000, Advice 1278-E-E	No
Modified Affiliate Transactions Compliance Plan (MCP), 12/12/01, Advice 1278-E-F	Yes
Affiliate Transactions Compliance Plan – 2002 Update (CP02), 12/12/02, Advice 1278-E-G	Yes
Affiliate Transactions Compliance Plan – 2003 Update (CP03), 12/22/03, Advice 1278-E-H	No

Generally, the disclaimer portion of Rule V.F.1 requires a disclaimer to be used by any affiliate that mentions Southern California Edison (or SCE) or uses the SCE “plug and color bars” logo in affiliate advertising or marketing materials. The disclaimer is also required if the affiliate uses the “An Edison International Company” tagline in its own logo. The exact wording of the disclaimer has changed over the years. This change was documented in the various Compliance Plans listed in the table above. The current disclaimer from CP02 reads:

“The <affiliate> is not the same company as Southern California Edison (SCE), the utility, and <the affiliate> is not regulated by the California Public Utilities Commission.” [Disclaimer A]

Affiliate Internet Websites. In our review of affiliate websites we noted a variety of approaches to adding disclaimers. (DR 31) In many cases, disclaimers are included when, technically, they are not required. For example, most of the EIX Web pages include the disclaimer:

“Southern California Edison (SCE), the utility, is separate from the other Edison International companies, which are not regulated by the California Public Utilities Commission”. [Disclaimer B].

Rule V – Separation

Even though this disclaimer is no longer required under the Rules, SCE noted that its use probably was to leave no doubt of SCE's regulated status. (INT 29) The verbiage used in this disclaimer is not consistent with the current CP02 requirements, but is consistent with older language used in superceded Compliance Plans, namely the SCP (1/98), and RCP (10/98), both of which predate Resolution E-3539 dated 9/17/98. (DR 3) In Resolution E-3539, the CPUC confirmed that EIX is not an affiliate subject to the ATRI Rules and that it may distribute materials under its own name that reference multiple subsidiaries without disclaimers. (DR 1, ARCP)

As another example, the website of Edison Source's Norvik unit contains six pages (<http://www.minit-charger.com/>). (DR 31) All six contain the same disclaimer taken from the SCP and RCP and described above. But one of the six (<http://www.minit-charger.com/pages/contact.html>) includes two disclaimers, the second of which reads:

“Edison Source is not the same company as Southern California Edison, the utility, and is not regulated by the California Public Utilities Commission. You do not have to buy Edison Source's products in order to continue to receive quality regulated services from the utility.”
[Disclaimer C]

The verbiage of this disclaimer first appeared in the original Compliance Plan, the PCP (12/97), and was repeated up through the MCP (12/01). It was changed slightly in CP02 (12/02). And this disclaimer was consistent with Edison Source's 5/5/98 agreement to use it (the disclaimer) anytime it used the name “Edison” or the sunburst logo on materials in California. This voluntary move by Edison Source was to remain in effect until a complaint by the Office of Ratepayer Advocates (ORA) and the Utility Reform Network (TURN) was resolved (Case 98-04-019). In fact that complaint was dismissed 10/10/02. So Edison Source Norvik's use of this specific disclaimer is technically no longer required.

This use of older and differently worded disclaimers triggers no violation because in our opinion the Norvik website and advertising materials we reviewed as part of this audit need no disclaimer at all. (DR 28, DR 31) The SCE corporate tagline is not used, nor is the utility's name or “plug and bars” logo. These, as described in CP02, are the only situations which would trigger the use of a disclaimer.

Another part of our transaction review effort included the review of affiliate websites to be sure disclaimers were included if triggered by Rule requirements. SCE provided us the web addresses of five affiliates. (DR 31) At three of the five websites we found logos in use which included the SCE corporate tagline, “An Edison International Company”. All three were sponsored by international units of Edison Mission Energy.

Rule V.F.1 specifies that the application of a disclaimer is limited to the use of the name or logo in California. While we could view all of the three websites while in California, we believed that a common sense interpretation would likely exempt all three sites from the need for a disclaimer, which otherwise would have been required. We reviewed

Rule V – Separation

various CPUC opinions and decisions to see if this issue had ever been addressed but could find no such specific guidance. We asked RP&A management to define for us the circumstances under which an affiliate website using the SCE corporate tagline would not need to include a disclaimer. We were told that while no specific guidance regarding this issue had ever been written into procedures, it was generally believed that any website using a non-U.S. domain such as “.nz” or “.uk” would be exempt from the Rule. (INT 29)

We concur with RP&A that a common sense interpretation of the Rule would shield non-U.S. websites from its requirements. Taking this approach, two of the three websites that use the tagline without a disclaimer, specifically www.edisonmission.co.nz and www.firsthydro.co.uk, would be exempt from the Rule.

The remaining website, www.edisonpowerprogramme.com, is clearly intended for United Kingdom audiences, specifically school children. And because of its content, we cannot imagine how its being viewed in California would distort the competitive electricity environment in the state. We would be hard pressed to conclude this would construe a violation of the Rule. However, it does use the “.com” extension, which implies it is a U.S. domain.

The use of the internet for obtaining information has grown dramatically since the ATRI Rules were put in place. For that reason, we think SCE should articulate a policy which better defines the situations under which affiliate websites would and would not need to include disclaimers. The use of a “.com” domain, regardless of the home office location of the affiliate, would likely trigger the use of a disclaimer if one otherwise would have been necessary. See Recommendation 8 below.

We attempted to find websites for about 30 other affiliates from the list in the Background chapter of this report. We used the “Google” search engine to locate a website for each affiliate, if there was one. Only 6 of the 30 affiliates had websites and one of those was marked “under construction”. Of the remaining 5 sites, we found no logos or taglines which would trigger the need for a disclaimer.

We also performed a number of other transaction reviews to determine if SCE was in compliance with Rule V.F.1 and its sub-rules. The outcome of these reviews is summarized below.

Billing Inserts, Advertisements, Promotions & Giveaways. We reviewed all 33 billing inserts mailed to both commercial and residential customers during 2003. (DR 30) We examined all mass market advertisements, promotions, and giveaways sponsored by either SCE or its affiliates during 2003. (DR 28, DR 131, DR 182). The SCE advertisements included 19 print ads, 16 radio spots, 15 TV ads, and 4 outdoor ads. Edison Source – Norvik sponsored 10 print ads. There were no giveaways to customers in California. All of the inserts and advertisements complied with Rule V.F.1.

Rule V – Separation

Of the ten different advertisements and specification sheets used by Edison Source Norvik Minit-Charger in 2003, eight use the current disclaimer [A, above], and two use the older longer disclaimer [C, above]. (DR 28) Again, no disclaimer was actually needed for any of these items, but one was used anyway. We presume these ten sheets were all available to various customers in California, but we found it difficult to characterize the copy of the material we received from SCE as to what publication and date each item was used.

We believe Corporate Communications and RP&A would be well served to introduce and maintain a new log/index that catalogs all advertisements, promotions, and giveaways with time dating and where the items were presented. See Recommendation 7 below.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2003. (DR 29, DR 113)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 114) These notes document meetings held with large customers in 2003. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2003.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2003, and to indicate which, if any, resulted in an SCE proposal. SCE received five such RFPs in 2003 and responded to four. Any response to the fifth RFP would have been made in 2004. We reviewed the four 2003 proposals, all of which related to possible privatization of government electric systems. (DR 115)

We found SCE to be in compliance with Rule V.F.1 with respect to all of these methods used to communicate with large commercial and industrial customers.

Implementation of 2002 Recommendation Seven. In the 2002 Affiliate Transactions Audit, we recommended that SCE redouble its efforts to assure compliance with Rule V.F.1. The recommendation came in response to the identification of two instances of disclaimer non-compliance during 2002. In addition to notifying the CPUC of these situations in two separate "self-reporting" letters (DR 132 and 2002 DR 161), SCE accepted our recommendation and took steps to better assure compliance in the future. (DR 11)

On December 9, 2002, Edison International's (EIX) Executive Vice President and General Counsel sent a letter to all of EIX's Class A, covered-affiliate officers. This letter emphasized the corporation's commitment to ensuring that all operating

Rule V – Separation

companies conduct their operation in full compliance with applicable laws and regulations, among them the Commission’s Affiliate Transactions Rules. To ensure consistent conformance with regulatory and corporate standards, he reiterated the corporate policy that requires EIX approval and sign off of layout and copy of advertising and promotional materials of Class A, covered-affiliates. This approval must be obtained in advance, from the EIX Vice President of Corporate Communications. Also, copies of the rules governing marketing and advertising were sent to the corporation's major advertising agency. (DR 11)

In addition, in the second self-reporting letter to the CPUC dated 2/25/03, SCE indicated that EIX had updated its manual to address logo placement standards and would communicate these revised standards to affiliate employees involved in the design or procurement of items displaying logos. (DR 132) Corporate Communications acknowledged these steps had been taken. (DR 180)

Recommendations

7. The EIX Corporate Communications organization should develop and maintain contemporaneous logs of all advertisements & promotional materials. Both SCE materials and Class A affiliates’ materials that could be seen in California would be included in the log. At the end of each quarter, a copy of the current log would be sent to the RP&A affiliate compliance organization. It should show activity for the previous quarter, i.e., showing the materials that were “in play” during that quarter. The log should: describe the item, indicate the type of advertisement or promotion (radio, TV, billboard, newspaper, magazine, product spec sheet, giveaway, etc.), indicate the timing of its “play”, and provide a link to the file where the item is kept.
8. Develop and communicate a policy that addresses the use of disclaimers on affiliate website accessible in California. This would involve a discussion of U.S. and foreign domains. It would also specifically identify the affiliates that do, and those that do not, need to concern themselves with disclaimer requirements, and would be regularly updated.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.2. A utility, through action or words, shall not represent that, as a result of the affiliate’s affiliation with the utility, its affiliates will receive any different treatment than other service providers.

Audit Criteria

- SCE does not represent that its affiliates will receive different treatment than other service providers

Rule V – Separation

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Monitor actual customer conversations with SCE Customer Call Center representative, both Residential and Commercial & Industrial, to determine affiliates are not being provided preferential treatment
- Review billing inserts to determine there is no representation that affiliates receive different treatment than other service providers
- Review SCE and affiliate marketing and advertising materials (e.g., publications, advertisements, web pages) to assure there is no representation that affiliates receive different treatment than other service providers
- Sample SCE presentations to large commercial and industrial customers to assure there is no representation that affiliates receive different treatment than other service providers
- Sample account manager/account executive journal entries to determine there is no representation that affiliates customers will be given preferential treatment

Conclusions

SCE is in compliance with Rule V.F.2.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with the Rule showed no evidence of instances of non-compliance.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the requirements of Rule V.F.2. (DR 1, DR 5). Specifically, these documents say that "SCE will neither claim, nor provide preferential treatment to, its affiliates or affiliates customers".

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Corporate Communications (INT 15), Customer Services Operations (INT 21), and the Major Customer Division (INT 27) affirmed for us that their organizations were in compliance with Rule V.F.2 throughout 2003.

We performed a number of transaction reviews to assess SCE's compliance with Rule V.F.2. The outcome of these reviews is summarized below.

Customer Call Centers. We listened in on a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any preferential treatment being discussed or provided. (DR 124)

Rule V – Separation

Billing Inserts, Advertisements & Websites. We reviewed all 33 billing inserts mailed to both commercial and residential customers during 2003. (DR 30). We examined all mass market advertisements sponsored by SCE during 2003. (DR 28, DR 182) The SCE advertisements included 19 print ads, 16 radio spots, 15 TV ads, and 4 outdoor ads. We also linked to SCE and affiliate websites. (DR 31) In none of the inserts, advertisements, or websites did we see any evidence of preferential treatment being offered, or given, to any of SCE's affiliates or their customers.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2003. (DR 29, DR 113)

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2003. (DR 29, DR 113)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 114). These notes document meetings held with large customers in 2003. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2003.

Nothing in the presentations to large customers or the sample of diary notes indicated SCE would provide preferential treatment to affiliates. And there was no evidence that terms, conditions, and pricing offered affiliates or their customers were better or different than those offered to others.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.3. A utility shall not offer or provide to its affiliates advertising space in utility billing envelopes or any other form of utility customer written communication unless it provides access to all other unaffiliated service providers on the same terms and conditions.

Audit Criteria

- Affiliates advertise using SCE's bill inserts only if the same opportunity is available to unaffiliated service providers for the same terms and conditions

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule

Rule V – Separation

- Review all billing inserts to determine if they have been used to promote affiliate’s business. If so, determine that non-affiliate suppliers were offered the same terms and conditions to utilize bill inserts to advertise.

Conclusions

SCE is in compliance with Rule V.F.3.

SCE’s process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with this Rule gave us confidence that SCE complied with the Rule in 2003.

SCE’s Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to SCE and affiliate employees, describe the requirements of Rule V.F.3. (DR 1, DR 5).

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), and Corporate Communications (INT 15) affirmed for us that their organizations were in compliance with Rule V.F.3 throughout 2003.

We reviewed all 33 billing inserts mailed to both commercial and residential customers during 2003. (DR 30). In none of the inserts did we see any evidence of affiliate advertising or promotion.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.4. A utility shall not participate in joint advertising or joint marketing with its affiliates. This prohibition means that utility may not engage in activities which include, but are not limited to the following:

V.F.4.a. A utility shall not participate with its affiliates in joint sales calls, through joint call centers or otherwise, or joint proposals (including responses to requests for proposals (RFPs)) to existing or potential customers. At a customer’s unsolicited request, a utility may participate, on a nondiscriminatory basis, in non-sales meetings with its affiliates or any other market participant to discuss technical or operational subjects regarding the utility’s provision of transportation service to the customer;

V.F.4.b. Except as otherwise provided for by these Rules, a utility shall not participate in any joint activity with its affiliate. The term “joint activities” includes, but is not limited to, advertising, sales, marketing, communications and correspondence with any existing or potential customer;

V.F.4.c. A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.

Audit Criteria

- SCE does not participate in joint advertising or marketing with affiliates including joint sales calls, proposals, or trade shows

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule

Rule V – Separation

- Review billing inserts to determine there is no joint advertising or marketing with affiliates
- Review SCE and affiliate marketing/advertising/promotional materials (e.g., publications, advertisements, web pages) to assure there is no joint advertising or marketing with affiliates
- Sample SCE presentations to large commercial and industrial customers to assure there is no joint advertising or marketing with affiliates
- Sample calendar and journal information contained in Major Customer Division's contact management system to assure that SCE does not make joint sales calls with affiliates
- Review SCE proposals responding to RFPs from major SCE customers to assure there is no joint marketing with affiliates
- Review trade shows, conferences, and marketing events attended by both SCE and affiliates to assure elements of the rule were followed

Conclusions

SCE is in compliance with Rule V.F.4.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with the Rule showed no evidence of instances of non-compliance.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to SCE and affiliate employees, describe the requirements of Rule V.F.4 and its sub-rules. (DR 1, DR 5). The ATR Manual is particularly relevant.

In addition to the overall prohibitions, the ATR Manual provides examples of proper and improper acts under Rule V.F.4. For example, the ATR Manual instructs affiliate employees to never raise marketing issues in meetings where SCE employees are present. It instructs any SCE employee attending such meetings to explain the prohibition on joint marketing included in this Rule if marketing or sales promotion issues are raised unexpectedly by a third party.

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2), Customer Communications (INT 14), Corporate Communications (INT 15) and Major Customer Division (INT 25, INT 27) affirmed for us that their organizations were in compliance with Rule V.F.4 throughout 2003.

SCE confirmed that in 2003 there were no instances in which SCE participated in joint advertising or marketing with an affiliate. (DR 105). And SCE confirmed there were no joint call centers used by both SCE and affiliates. (INT 14)

We performed a number of transaction reviews to determine if SCE was in compliance with Rule V.F.4 and its sub-rules. The outcome of these reviews is summarized below.

Rule V – Separation

Billing Inserts, Advertisements, Promotions & Giveaways. We reviewed all 33 billing inserts mailed to both commercial and residential customers during 2003. (DR 30). We examined all mass market advertisements, promotions, and giveaways sponsored by either SCE or its affiliates during 2003. (DR 28, DR 131, DR 182). The SCE advertisements included 19 print ads, 16 radio spots, 15 TV ads, and 4 outdoor ads. Edison Source – Norvik sponsored 10 print ads. There were no giveaways to customers in California. In none of the inserts or advertisements did we see any evidence of joint advertising or marketing between SCE and any affiliate.

Web Pages. We reviewed all websites maintained by SCE and its affiliates. (DR 31) No evidence of joint advertising or marketing was apparent on any of the sites.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2003. (DR 29, DR 113)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 114) These notes document meetings held with large customers in 2003. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2003.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2003, and to indicate which, if any, resulted in an SCE proposal. SCE received five such RFPs in 2003 and responded to four. Any response to the fifth RFP would have been made in 2004. We reviewed the four 2003 proposals, all of which related to possible privatization of government electric systems. (DR 115)

Nothing in the presentations to large customers, the sample of diary notes or the SCE proposals provided any evidence of joint advertising or marketing, joint sales calls or joint proposals.

Trade shows, conferences and marketing events. SCE confirmed that at no time in 2003 did representatives of SCE attend a trade show, conference, or other information/marketing event in California that also was attended by representatives of a Class A affiliate. (DR 107).

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.5. A utility shall not share or subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research.

Rule V – Separation

Audit Criteria

- SCE’s funding of research and development and advanced technologies does not subsidize affiliates

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Review R&D projects to assure they are not funded by affiliates

Conclusions

SCE is in compliance with Rule V.F.5.

SCE’s process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with the Rule showed no evidence of SCE sharing or subsidizing R&D costs, fees, or payments with its affiliates.

SCE’s Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to SCE and affiliate employees, describe the requirements of Rule V.F.5. (DR 1, DR 5). SCE states as its policy that it “will neither share nor subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research”.

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1, INT 2) and Research, Development and Demonstrations (INT 10) affirmed for us that their organizations were in compliance with Rule V.F.4 throughout 2003.

During 2003, nineteen internal research, development and demonstration projects were active within SCE. (DR 69). In addition, SCE participated in research conducted by the Electric Power Research Institute (EPRI).

We evaluated whether any of this research information was relevant to affiliates. Some of the EPRI deliverables describe state-of-the-art approaches to utility operations and maintenance and definitely would be of value to affiliates. (DR 70) However, we confirmed that none of the EPRI research products had been made available for use by affiliates. (DR 137)

We confirmed that none of the nineteen research projects or the EPRI research were jointly funded by SCE and an affiliate. (DR 108) We established that SCE and its affiliates did not share or subsidize any costs, fees, or payments for research and development activities, or for advanced technology research. (DR 111)

We also verified that none of the research projects conducted in 2003 were undertaken with the intent to benefit any affiliate. (DR 109) And SCE validated that it has not

Rule V – Separation

transferred or licensed to any of its affiliates any end products or rights associated with any of its R&D projects. (DR 110)

CPUC Rule

V.G. Employees: Joint Directors, Officers and Employees

V.G.1. Except as permitted in Section V E (corporate support), a utility and its affiliates shall not jointly employ the same employees. This Rule prohibiting joint employees also applies to Board Directors and corporate officers, except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to affiliates that operate within California. In the case of shared directors and officers, a corporate officer from the utility and holding company shall verify in the utility's compliance plan the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules. In its compliance plan required in Rule VI, the utility shall list all shared directors and officers between the utility and affiliates. No later than 30 days following a change to this list, the utility shall notify the Commission's Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 of any change to this list.

Audit Criteria

- SCE does not jointly employ personnel with affiliates
- Directors and officers of SCE do not serve as officers and directors of Class A affiliates except where they provide corporate support activities defined by Rule V.E
- SCE has monitoring and reporting mechanisms that prevent prohibited sharing of directors and officers, and joint employment of personnel with affiliates

Audit Steps

- Review the Annual Report of Affiliated Company Transactions to identify instances of shared officers and directors in 2003
- Review the list of directors and officers of EIX, SCE and affiliates for positions held during 2003
- Search for instances where personnel were jointly employed by SCE and affiliates

Conclusions

SCE is in compliance with Rule V.G.1.

Officers and directors of SCE and affiliates are listed in the Annual Report of Affiliated Company Transactions (DR 2), as required by Rule V.G.1. It can be noted which individuals are shared officers and directors of SCE and affiliates. The accuracy of the 2002 Annual Report of Affiliated Company Transactions was verified by SCE's Affiliates Officer, who signed that the report is complete and accurate with no material omissions. In 2003, there were no changes to this list that required 30-day notification of the CPUC and applicable parties.

Rule V – Separation

No instances were found in which a director of SCE was also a director of a Class A affiliate during 2003 (DR 15, DR 53, DR 93). There was one instance where an officer of SCE was also an officer of two Class A affiliates. This is SCE's Vice President and Secretary who also serves as the Secretary of Edison Source and EO&MS, both Class A affiliates. Rule V.G.1 specifies that an officer of SCE may not be an officer of a Class A affiliate. SCE petitioned the CPUC for clarification of this rule to allow such arrangements where the officer's duties constituted a shared corporate support function allowed by Rule V.E. In Decision D.98-08-035 (DR 3), the CPUC ruled in SCE's favor, stating:

We clarify that Rules V.E and V.G.1, when read together, can provide for limited sharing of directors and officers not only as explicitly set forth in Rule V.G.1, but also in their performance of the corporate support functions set forth in Rule V.E, and as set forth in the examples cited above which Edison has provided, namely, the Chief Financial Officer or General Counsel. (DR 3)

The MCP (DR 1) and the ATR Manual (DR 5) both state that the joint employment of the same person by SCE and a Class A affiliate is prohibited. "Joint employment" exists when an employee earns wages simultaneously from SCE and an affiliate (i.e., such that those earnings would be recorded toward W-2 earnings from both SCE and an affiliate during the same time period). We noted no such instances where an employee of SCE was also an employee of Class A affiliate. SCE also affirmed this in response to our data request. (DR 15, DR 84, DR 93)

As required by Rule V.G.1., the MCP contains a letter from SCE's Affiliates Officer and EIX Vice President and Controller verifying that "specific mechanisms and procedures in place are believed to be sufficient to ensure that SCE is not utilizing shared officers and directors as a conduit to circumvent any of the Rules." (DR 5 Appendix B)

CPUC Rule

V.G. Employees: Employee Movements

V.G.2. All employee movement between a utility and its affiliates shall be consistent with the following provisions:

V.G.2.a. A utility shall track and report to the Commission all employee movement between the utility and affiliates. The utility shall report this information annually pursuant to our Affiliate Transaction Reporting Decision, D.93-02-016, 48 CPUC2nd 163, 171-172 and 180 (Appendix A, Section I and Section II H.).

V.G.2.b. Once an employee of a utility becomes an employee of an affiliate, the employee may not return to the utility for a period of one year. This Rule is inapplicable if the affiliate to which the employee transfers goes out of business during the one-year period. In the event that such an employee returns to the utility, such employee cannot be retransferred, reassigned, or otherwise employed by the affiliate for a period of two years. Employees transferring from the utility to the affiliate are expressly prohibited from using information gained from the utility in a discriminatory or exclusive fashion, to the benefit of the affiliate or to the detriment of other unaffiliated service providers.

V.G.2.c. When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 25% of the employee's base annual compensation, unless the utility can demonstrate that some lesser percentage (equal to at least 15%)

Rule V – Separation

is appropriate for the class of employee included. In the limited case where a rank-and-file (non-executive) employee's position is eliminated as a result of electric industry restructuring, a utility may demonstrate that no fee or a lesser percentage than 15% is appropriate. The Board of Directors must vote to classify these employees as "impacted" by electric restructuring and these employees must be transferred no later than December 31, 1998, except for the transfer of employees working at divested plants. In that instance, the Board of Directors must vote to classify these employees as "impacted" by electric restructuring and these employees must be transferred no later than within 60 days after the end of the O&M contract with the new plant owners. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment (i.e. credited to the Electric Revenue Adjustment Account or the Core and Non-core Gas Fixed Cost Accounts, or other ratemaking treatment, as appropriate), on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision will not apply to clerical workers. Nor will it apply to the initial transfer of employees to the utility's holding company to perform corporate support functions or to a separate affiliate performing corporate support functions, provided that that transfer is made during the initial implementation period of these Rules or pursuant to a §851 application or other Commission proceeding. However, the rule will apply to any subsequent transfers or assignments between a utility and its affiliates of all covered employees at a later time.

V.G.2.d. Any utility employee hired by an affiliate shall not remove or otherwise provide information to the affiliate which the affiliate would otherwise be precluded from having pursuant to these Rules.

Audit Criteria

- Employee movements between SCE and affiliates are tracked, approved and reported to the CPUC in the annual Affiliate Transaction Report
- Movement of employee to affiliates adheres to Rule V.G.2.a-d timing requirements. Employees moving to affiliates are prohibited from using SCE information in a way that provides affiliates with a competitive advantage over unaffiliated service providers.
- Affiliates pay SCE the required fee for the transfer of its employees
- SCE employees are given temporary or intermittent assignments with affiliates, except those involved in marketing power, in a way that complies with the ATR

Audit Steps

- Determine that the proper fees were paid when SCE employees moved to affiliates in 2003
- Determine that affiliate employees who moved to SCE in 2003 had not been employed by SCE for a period of more than one year previous to their move to SCE, unless the affiliate went out of business or significantly scaled back its business (in the case of EO&MS) in which case the one-year residency requirement does not apply. Determine that the movement of affiliate employees to SCE was approved by the SCE affiliates officer.
- Determine that all 2003 employee movements between SCE and affiliates are reported in the Annual Affiliate Transaction Report
- Evaluate the controls in place to ensure that confidential SCE information is not given to an affiliate by a moving employee

Conclusions

SCE is in compliance with Rule V.G.2.a through d.

Rule V – Separation

SCE's Human Resources Department is responsible for processing movements of utility employees to Class A and B affiliates, including obtaining acknowledgement by the employee of restrictions pertaining to use of utility information and of residency requirements. Exit interviews are conducted for all utility employees to remind them of the prohibition against sharing of utility information. All relevant paperwork is reviewed by RP&A to ensure conformity with the ATR. (INT 9, DR 5, DR 68)

During 2003, three SCE employees moved to affiliates. We reviewed these moves and found the so-called transfer fees had been properly calculated and paid by the affiliate. (DR 35) We also confirmed that SCE's Affiliates Officer approved these transfers. (DR 67)

In 2003, there were 86 affiliate employees who transferred to SCE. We reviewed a sample of these employee moves and found that all met the residency requirements of Rule V.G.2.b. We also noted that SCE's Affiliates Officer approved the moves of the sample group. However, in reviewing the records of the other transferring employees, we noted that 14 (16%) did not have their transfer approved by SCE's Affiliates Officer. (DR 52)

SCE properly reports employee movements, which are detailed in its Annual Report of Affiliate Company Transactions, Volume II, Section H – Movement of Employees report to the CPUC. (DR 2)

Recommendation

9. Improve the processes for obtaining SCE Affiliates Officer approval for employees transferring from affiliates to SCE. Although not a Commission requirement, SCE Human Resources should improve its oversight of employee transfers from affiliates to SCE. to ensure that these transfers obtain the advance approval from SCE's Affiliates Officer.

CPUC Rule

V.G. Employees: Temporary Assignments

V.G.2.e. A utility shall not make temporary or intermittent assignments, or rotations to its energy marketing affiliates. Utility employees not involved in marketing may be used on a temporary basis (less than 30% of an employee's chargeable time in any calendar year) by affiliates not engaged in energy marketing only if:

V.G.2.e.i. All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 10% of direct labor cost, or fair market value. When the affiliate obtains the services of an executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value.

V.G.2.e.ii. Utility needs for utility employees always take priority over any affiliate request;

V.G.2.e.iii. No more than 5% of full time equivalent utility employees may be on loan at a given time;

V.G.2.e.iv. Utility employees agree, in writing, that they will abide by these Affiliate Transaction Rules; and

Rule V – Separation

V.G.2.e.v. Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers.

Audit Criteria

- SCE employees are not temporarily assigned to marketing affiliates
- SCE personnel involved in marketing cannot be temporarily assigned to Class A affiliates
- SCE employees can be temporarily assigned no more than 30% of their time during calendar year
- Affiliates are charged for temporarily assigned SCE employees at their fully loaded labor costs plus a markup of 10% of direct labor cost for non-executives and 15% of direct labor for executives
- SCE employees agree in writing that they will abide with ATR
- All necessary written approvals obtained from utility and affiliate officers
- No more than 5% of SCE FTEs may be on loan at a given time

Audit Steps

- Review all instances where SCE personnel performed work on a temporary basis for affiliates and determine if there was adherence to Rule V.G.2.e

Conclusions

SCE is in compliance with Rule V.G.2.e.

An Intercompany Service Request (ISR) form must be completed whenever an Affiliate requests services from SCE except for services performed as permissible shared support pursuant to Rule V.E. (DR 5, DR 51) The ISR documents the services being requested, estimated hours required for the task and all required approvals. The ISR process is monitored through the “Loaned Labor Report” which shows every SCE employee who has charged time on a “directly requested” basis. Controller’s Department reviews the report to determine that ISRs are in place, where appropriate, for all employees in the report. (INT 11, DR 89)

The following have been determined to be “energy marketing affiliates”:

- CL Power Sales Six, LLC
- Coalinga Cogeneration Company
- Edison Mission Marketing and Trading, Inc.
- Edison Source
- Kern River Cogeneration Company
- March Point Cogeneration Company
- Midway-Sunset Cogeneration Company, LP
- Mid-Set Energy Company
- Salinas River Cogeneration Company

Rule V – Separation

- Sargent Canyon Cogeneration Company
- Sunrise Power Company, LLC
- Sycamore Cogeneration Company
- Watson Cogeneration Company. (DR 96)

With respect to SCE employees, the terms "marketing" and "involved in marketing" have not been defined by the Commission for purposes of Affiliate Transaction Rule V.G.2.e. In order to comply with the Rules, SCE has itself defined these terms in its ATR Manual and its Modified Compliance Plan. The determination that a particular SCE employee is or is not "involved in marketing" for purposes of Rule V.G.2.e is made in the first instance by the employee's SCE manager when responding to a affiliate's request for use of that employee pursuant to an ISR. He or she will compare the requested employee's job function(s) with the definitions referred to above. Before the ISR can be processed, the manager is required to attest that the employee is not involved in marketing (Section III of the ISR form). This approval is separate and distinct from the manager's approval of the assignment itself. In reviewing the ISR prior to submittal to the Affiliates Officer for approval, RP&A staff will ensure, first, that this managerial attestation is signed. RP&A personnel will then note the department or division for which the requested employee works, and will inquire further with the employee and/or his or her manager, if there is ambiguity, or if it appears that the employee's SCE responsibilities might be construed to fall under the definition of "involved in marketing" as presented in the ATR Manual and in the Modified Compliance Plan. RP&A does not maintain a list of individual employees or functions that may be considered "involved in marketing." (DR 95)

During 2003, there were 66 ISRs. We examined each ISR and were able to reach the following conclusions:

- No SCE employees were assigned to marketing affiliates
- No SCE personnel involved in marketing were assigned to Class A affiliates
- No SCE employees were temporarily assigned more than 30% of their time during calendar year
- Every SCE employee agreed in writing (on the ISR form) that they will abide with ATR
- All written approvals were obtained from the SCE Affiliates Officer and SCE supervisor. Written approvals were obtained in all but one case from the appropriate affiliate officers. In this instance, the affiliate officer's signature could not be located in RP&A's files although they recall obtaining affiliate officer's approval. This was the first time Baryenbruch & Company found any ISR approval missing from the records. Given that we were able to find over 350 ISR approvals (3 approvals for each of more than 150 ISRs) in connection with the 2002 and 2003 audits, we find that one missing signature does not indicate a breakdown in controls or oversight. (DR 51)

Rule V – Separation

SCE has over 13,000 employees. (DR 7) Rule V.G.2.e. states that no more than 5%—about 650—may be temporarily assigned to affiliates at one time. SCE had only 66 temporary assignments throughout all 2003 and did not come close to the 5% limit.

We reviewed a sample of the 66 ISRs and were able to determine that:

- The employees' total payroll expense was accurate
- Appropriate payroll overheads (payroll taxes and benefits) were applied
- The appropriate markup and facilities charge was applied
- Fully loaded labor, markup and facilities charges were included on the affiliate invoices. (DR 177)

CPUC Rule

V.H. Transfer of Goods and Services: To the extent that these Rules do not prohibit transfers of goods and services between a utility and its affiliates, and except for as provided in Rule V.G.2.e, all such transfers shall be subject to the following pricing provisions:

V.H.1. Transfers from the utility to its affiliates of goods and services produced, purchased or developed for sale on the open market by the utility will be priced at fair market value.

V.H.2. Transfers from an affiliate to the utility of goods and services produced, purchased or developed for sale on the open market by the affiliate shall be priced at no more than fair market value.

V.H.3. For goods or services for which the price is regulated by a state or federal agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods and services, this Commission's pricing provisions govern.

V.H.4. Goods and services produced, purchased or developed for sale on the open market by the utility will be provided to its affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.

V.H.5. Transfers from the utility to its affiliates of goods and services not produced, purchased or developed for sale by the utility will be priced at fully loaded cost plus 5% of direct labor cost.

V.H.6. Transfers from an affiliate to the utility of goods and services not produced, purchased or developed for sale by the affiliate will be priced at the lower of fully loaded cost or fair market value.

Audit Criteria

- Transfers from SCE to affiliates of goods and services are valued according to the requirements of Rule V.H
- SCE does not discriminate in favor of affiliates in its offering of goods and services
- Transfers from affiliates to SCE of goods and services are valued according to the requirements of Rule V.H

Audit Steps

- Determine the policies and methodology for valuing affiliate transactions
- Examine a sample of 2003 transactions and determine if SCE and affiliates are following the valuation guidelines of Rule V.H
- Determine what management controls exist over the valuation of affiliate transactions

Rule V – Separation

- Evaluate 2003 property transfers to ensure they were properly valued

Conclusions

SCE is in compliance with Rule V.H.

We noted that the ATR Manual correctly specified how a value will be ascribed to each item covered by this Rule. SCE’s guidelines are summarized in the table below.

	Goods & Services Category	Valuation
SCE to Affiliate	V.H.1 For sale on open market (e.g., non-tariffed products & services)	Fair market value; no discrimination in favor of affiliates (V.H.4)
	V.H.3 Regulated by state or fed (e.g., tariffed products & services)	Fair market value (tariffed rate)
	V.H.5 Not for sale on open market (e.g., corporate support services)	Fully loaded costs plus 5% (10% or 15% for requested support)
Affiliate to SCE	V.H.2 For sale on open market (e.g., EO&MS services)	No more than fair market value
	V.H.6 Not for sale on open market (e.g., support services)	Lower of fully loaded cost or fair market value

DR 149

In the course of our audit work, we reviewed the valuation method for several of these categories of transactions. The results of those reviews are described below.

- V.H.1 SCE Open Market Product/Service Sales to Affiliates - We reviewed all the 2003 affiliate work performed by Energy Services, Inc. (ESI), a regulated subsidiary of SCE and an entity of SCE that performs various services for affiliates and non-affiliate third parties. The work performed by ESI for affiliates was priced out using rates from ESI’s standard price list, which is also used to price out non-affiliate third party customers. Thus, we can conclude these sales were at “fair market value” and there was no discrimination in favor of affiliates. (INT 24, DR 79)
- V.H.3 SCE Tariffed Product/Service Sales to Affiliates – We found no instances where SCE provided affiliates with discounts off their tariffed products and services. The ATR Manual states “SCE will provide no preferential treatment by the utility, such as discounts, in favor of affiliates.” There are a number of internal controls in place to guard against such discounts. First, the Finance Division of SCE’s Customer Services Business Unit, in consultation with SCE’s Controller’s Department, is responsible for reviewing the proposed pricing of all customer offerings, including proposed discounts and fee waivers. Pricing plans that may include a discount from the otherwise applicable tariff are also reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs (RP&A) and are subject to review and approval by the Commission. All of these reviews ensure that proposed offerings are not discriminatory. Thus, we can conclude these sales were at “fair market value.” (INT 31, DR 5)
- V.H.5 SCE Not-For-Sale Services to Affiliates – We reviewed the calculation of SCE corporate support charges to EME for one month in 2003 and found the

Rule V – Separation

proper calculation of fully loaded labor, overheads and the fee. Thus, we can conclude that these transactions were at “fully loaded costs plus 5%.” (DR 133)

- V.H.2 – Affiliates Open Market Product/Service Sales to SCE – We reviewed a sample of 2003 EO&MS invoices to SCE and EO&MS invoices to third party non-affiliates and found hourly rates charged to SCE were less than those charged to third-party non-affiliated companies, for the same type of workers. This indicates that SCE paid no more than fair market value for these services. (DR 120, DR 121, DR 122, DR 102)
- V.H.5 Affiliates Not-For-Sale Services to SCE – We noted none of these transactions in 2003. If there had been any, it is SCE’s stated policy to value them at the lower of fully loaded cost or fair market value. (DR 5)

SCE’s ATR manual calls for “fair compensation” for all assets transferred between SCE and its affiliates, regardless of the direction of the transfer. (DR 5) During 2003, several assets belonging to EO&MS were purchased by SCE. These asset transfers arose from EO&MS’ dissolution and SCE TDBU’s need for additional space for some 250 new employees. SCE took over EO&MS’ Fullerton office/service center, which includes office and shop/warehouse space. EO&MS, which occupied this facility for 1½ years, terminated its lease (paying a penalty) with the third party lessor who then rented it to SCE at a lower rate. (INT 17) Exhibit 4 presents a list of assets SCE purchased and describes how they were valued. Based on our review, we can conclude that the valuations can be deemed as “fair compensation.”

SCE’s Controller’s Department is responsible for ensuring that property transfers are calculated and recorded appropriately. When Controller’s questions the amount charged for goods and services, it will notify RP&A, the affected affiliate and affected utility business units for review of the transactions. (INT 28, DR 1)

Exhibit 4

2003 Affiliates Transactions Audit of SCE
2003 SCE Purchases Of EO&MS Assets

Item	Transfer Price	Comments
Miscellaneous Equipment	\$400,578	<p>Originally part of a 2001 asset sale from SCE to EO&MS. At that time, the assets had a net book value \$2.1 million and a fair market value of \$4.3 million (based on an outside appraisal). The assets were sold to EO&MS at \$4.3 million. After EO&MS acquired the assets, it wrote them down to SCE's net book value in order to simplify the consolidation of financial statements.</p> <p>This sale back to SCE represents only a portion of the assets EO&MS originally purchased. The \$400,578 represents EO&MS net book value of the assets transferred. This valuation is reasonable because it would have been approximately SCE's net book value if they had not been sold to EO&MS. Also, less than two years elapsed since the sale to EO&MS, at which time the fair market value was considerably higher than book value.</p>
Vehicles	\$32,488	<p>These vehicles were also part of a larger 2001 vehicle sale from SCE to EO&MS. At that time, the assets had a net book value of \$0.4 million and a fair market value of \$1.0 million (based on an outside appraisal). The assets were sold to EO&MS for \$1.0 million. Here too, EO&MS wrote down the vehicles' value to SCE's net book value so as to simplify financial statement consolidation.</p> <p>This sale back to SCE represents only a portion (10 vehicles) of the vehicles EO&MS originally purchased. The \$32,488 represents EO&MS net book value of the assets transferred. This valuation is reasonable because it would have been approximately SCE's net book value if the vehicles had not been sold to EO&MS. Also, less than two years elapsed since the sale to EO&MS, at which time the fair market value was considerably higher than book value.</p>
Office Equipment	\$200,000	<p>This represents EO&MS' Fullerton facility office equipment. It had a net book value of around \$375,000 and a market value of around \$200,000. SCE paid the market value which was based on an estimate by the furniture's manufacturer, Herman Miller.</p>
Leasehold Improvements	\$486,984	<p>EO&MS spend around \$1 million in leasehold improvements that SCE purchased for the net book value of around \$500,000. Since these improvements were made less than 2 years ago, it was felt that the market value would be at least the \$1 million original cost.</p>

INT 28, DR 54, DR 176

Rule VI – Regulatory Oversight

CPUC Rule

VI.A. Compliance Plans: No later than December 31, 1997, each utility shall file a compliance plan demonstrating to the Commission that there are adequate procedures in place that will preclude the sharing of information with its affiliates that is prohibited by these Rules. The utility should file its compliance plan as an advice letter with the Commission’s Energy Division and serve it on the parties to this proceeding. The utility’s compliance plan shall be in effect between the filing and a Commission determination of the advice letter. A utility shall file a compliance plan annually thereafter by advice letter served on all parties to this proceeding where there is some change in the compliance plan (i.e., when a new affiliate has been created, or the utility has changed the compliance plan for any other reason).

Audit Criteria

- SCE’s compliance plan is filed annually and served on all parties to the proceeding where there has been a reportable change (e.g., creation of a new affiliate subsidiary)

Audit Steps

- Determine that compliance plans in effect during 2003, the period of audit, sufficiently demonstrate that SCE has adequate procedures in place to adhere to the ATR, including prohibitions against sharing of information
- Determine that an updated compliance plan was filed in 2003

Conclusions

SCE is in compliance with Rule VI.A.

As shown in the table below, SCE has followed this Rule’s requirement to file annual updates to its compliance plan from 1998 through 2003. (DR 5)

Compliance Plan	Period Covered
PCP (Preliminary Compliance Plan)	1/1/98 – 1/29/98
SCP (Supplemental Compliance Plan)	1/30/98 – 9/16/98
SCP & Resolution E-3530	9/17/98 – 10/15/98
RCP (Revised Compliance Plan)	10/16/98 – 12/12/01
ARCP (Amended Revised Compliance Plan)	2/5/99 – 11/12/99
UCP (Updated Compliance Plan)	11/12/99 – 12/12/01
ACP (Amended Compliance Plan)	5/9/00 – 12/12/01
MCP (Modified Compliance Plan)	12/12/01 – present
CP02 (Compliance Plan Update for 2002)	12/12/02 – present
CP03 (Compliance Plan Update for 2003)	12/22/03 – present

DR 1

The most recent compliance plan, CP03, introduced relatively minor changes in SCE’s implementation of the ATR. Highlights of those changes are described below.

- Rule II.: added one new Class A affiliate (EMOM Services, Inc.), noted the name change of The Mission Group to Edison Mission Group, and noted the inactive status of affiliates Edison Environmental Services, Mission Power Engineering Company, and EIX Trust III.

Rule VI – Regulatory Oversight

- Rule IV.A: added a description of the consequences of a customer authorizing the release of their information to third parties by executing a Customer Information Service Request (CISR).
- Rule IV.C: added two Advice Letters (1491-E-E and 1491-E-F) to the previous list of Advice Letters concerning service provider information that have been filed with the CPUC.
- Rule V.G.1: added language concerning John Bryson, the chairman of EIX and SCE, specifying that he does not serve as a director or officer of any Class A affiliate.
- Rule VI.A: added CP03 to the list of compliance plans that have been filed by SCE in connection with the ATR.
- Rule V.I.B: added language to more clearly specify SCE’s commitment to notify the CPUC of new affiliates covered by the ATR.
- Rule VII.H: added March 28, 2002 and March 25, 2003 as dates that the annual NTP&S report has been filed with the CPUC.

During 2003, the following compliance plans covered the indicated rules:

Rule	Prevailing Compliance Plan	
	1/1/03 – 12/21/03	12/22/03 – 12/31/03
I	MCP	MCP
II.A-B	CP02	CP03
II.C through III.A	MCP	MCP
III.B	CP02	CP02
III.B.1 through III.F	MCP	MCP
IV.A	MCP	CP03
IV.B	MCP	MCP
IV.C	CP02	CP03
IV.D through V.D	MCP	MCP
V.E, V.F.1	CP02	CP02
V.F.2 through V.F.5	MCP	MCP
V.G.1	MCP	CP03
V.G.2 through V.H	MCP	MCP
VI.A, VI.B	CP02	CP03
VI.C through VII.G	MCP	MCP
VII.H	MCP	CP03
VII.I	MCP	MCP

DR 1

We reviewed the MCP, CP02 and CP03 to assess whether they sufficiently demonstrate that SCE has adequate procedures in place to adhere to the ATR. (DR 1) The MCP covers every Rule since it was meant to incorporate and supercede the compliance statements of several previous plans. Our review of the MCP showed SCE’s commitments to be complete and to generally involve a comprehensive interpretation of the Rules.

CP02 and CP03 were meant to cover specific Rule updates so it is a more concise document than the MCP. Essentially, the language of the MCP is annotated with

Rule VI – Regulatory Oversight

updates in CP02 and CP03. We reviewed these changes in light of the applicable Rules and found them to be appropriate. (DR 1)

We compared information and commitment statements in the MCP, CP02 and CP03 to the contents of the ATR Manual, the resource used by employees for directions on compliance with the ATR. We found the MCP, CP02 and CP03 to be consistent with the detailed instructions in the ATR Manual. (DR 1, DR 5)

It should be noted that in Resolution E-3539, Finding 91, the CPUC found SCE's process for updating its compliance plans reasonable. (DR 3)

CPUC Rule

VI.B. New Affiliate Compliance Plans: Upon the creation of a new affiliate which is addressed by these Rules, the utility shall immediately notify the Commission of the creation of the new affiliate, as well as posting notice on its electronic bulletin board. No later than 60 days after the creation of this affiliate, the utility shall file an advice letter with the Energy Division of the Commission, served on the parties to this proceeding. The advice letter shall demonstrate how the utility will implement these Rules with respect to the new affiliate.

Audit Criteria

- SCE communicates to affiliates the need to be promptly informed when new affiliates are created
- SCE properly reports on a timely basis, the creation of new affiliates which are subject to the ATR

Audit Steps

- Review communications between SCE and affiliates regarding the creation/establishment of new affiliates
- Review new affiliate advice letters to determine that the CPUC was notified of new affiliates in no later than 60 days after their creation

Conclusions

SCE is in compliance with Rule VI.B.

The ATR Manual states that SCE will notify the CPUC within 3 business days of the creation of a new affiliate. This deadline is more rigorous than the 60-day limit of Rule VI.B. (DR 5)

The CPUC has not defined "creation" for purposes of this Rule. SCE has therefore determined it will consider an affiliate created "when it [affiliate] begins providing products and services that would render it an affiliate as defined in the Rules." This may occur some time after the affiliate has been established. (DR 5) We find this position to be reasonable.

Rule VI – Regulatory Oversight

The last sentence of this Rule states that each new affiliate advice letter “shall demonstrate how the utility will implement these Rules with respect to the new affiliate.” Taken literally, it would seem this means SCE must have some customized compliance plan for each affiliate. However, SCE has taken the position that the existence of an adequate overall plan of compliance (as called for by VI.A) is sufficient to meet Rule VI.B. We concur with this approach.

No new Class A affiliates were created in 2003. SCE submitted one new affiliate Advice Letter (Advice 1685-E) on February 14, 2003 regarding EMOM Services, Inc., a Class A affiliate that had been reported to the CPUC on December 20, 2002. The CPUC approved this Advice Letter on March 24, 2003. (DR 46)

Regulatory Policy and Affairs (RP&A) is responsible for filing advice letters concerning new affiliates. RP&A relies on certain affiliate executives and managers to notify them when new Class A affiliates are created. In response to a recommendation in the 2001 Affiliate Transactions Audit, SCE’s Affiliates Officer sent a letter on June 12, 2002 to these employees reminding them of their affiliate notification responsibilities. The letter clearly described the criteria to use in determining if an entity should be reported. In addition to this letter, SCE’s Affiliates Officer held a meeting with affiliate personnel on March 18, 2002 covering the need to report on new affiliates. In response to a recommendation in the 2002 Affiliate Transactions Audit, SCE’s Affiliates Officer sent an e-mail in June 2003 to relevant affiliate executives and managers reminding them of their obligation to notify RP&A when a new Class A affiliates is formed. As an alternative check for unreported new affiliates, RP&A reviews the EIX Tier List and Affiliate Entity List, both prepared semi-annually by the Law Department. (2002 Affiliate Transactions Audit report, DR 11)

CPUC Rule

VI.C. Affiliate Audit: No later than December 31, 1998, and every year thereafter, the utility shall have audits performed by independent auditors that cover the calendar year which ends on December 31, and that verify that the utility is in compliance with the Rules set forth herein. The utilities shall file the independent auditor’s report with the Commission’s Energy Division beginning no later than May 1, 1999, and serve it on all parties to this proceeding. The audits shall be at shareholder expense.

Audit Criteria

- An annual audit of affiliate transactions is performed by independent auditors whose report is filed with the CPUC by May 1 after the calendar year of the audit
- The audit is conducted at shareholder expense

Audit Steps

- Determine that audits were conducted when required in the past and the reports were filed on time
- Determine that the audits were conducted at shareholder expense

Rule VI – Regulatory Oversight

Conclusions

SCE is in compliance with Rule VI.C.

As required by this Rule, SCE has engaged independent auditors to perform the affiliate transaction audits since 1999. Each audit report was filed with the CPUC on a timely basis. The audits were performed at shareholder expense. (DR 94)

The disposition of Baryenbruch & Company’s 2002 audit recommendations is shown in Exhibit 5.

CPUC Rule

VI.D. Witness Availability: Affiliate officers and employees shall be made available to testify before the Commission as necessary or required, without subpoena, consistent with the provisions of the Public Utilities Code Section 314.

Audit Criteria

- Affiliate officers and employees are available to testify before the CPUC without subpoena

Audit Steps

- Determine SCE’s level of cooperation on witness availability

Conclusions

SCE is in compliance with Rule VI.D.

The ATR Manual evidences SCE’s witness availability commitment by restating verbatim the text of this Rule. (DR 5) During 2003, a number of SCE officers and employees provided testimony in hearings related to the Mountainview Project, where the affiliate transaction rules were an issue. There were no other instances where SCE or affiliate officers or employees were asked to serve as a witness before the CPUC. (DR 56, INT 1)

2003 Affiliates Transactions Audit of SCE
Status of 2002 Audit Recommendations

Rule	Recommendation	SCE Disposition
II	<p>1. <u>Reclassify Mission Power Engineering Company</u> – Although it ceased business activities many years ago, this entity remains a Class A affiliate. Reclassification to Class B would reflect the reality that Mission Power Engineering is no longer “engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity.” It would also be consistent with the 2002 reclassifications of ETS and EEV.</p>	<p>SCE accepts this recommendation. Mission Power Engineering Company is an inactive entity that exists for legal and corporate purposes, but has not offered any products or services since 1990. In a letter dated May 30, 2003, SCE formally notified the Commission of the reclassification of Mission Power Engineering as an affiliate not covered by the Affiliate Transaction Rules.</p>
III.B	<p>2. <u>Consider compiling a summary of affiliate transactions at approximately mid-year.</u> The report would show year-to-date total transactions by principal affiliate and by categories currently used to classify transactions, including:</p> <ul style="list-style-type: none"> • Allocated corporate support • Directly charged corporate support • Directly requested services • Non-tariffed services • Other miscellaneous charges and reimbursements • Outside services • SCE subsidiary revenue from affiliates <p>Unusual variances from previous year would be researched and documented</p>	<p>SCE accepts this recommendation. A preliminary summary of affiliate transactions for the audit year will be prepared as of mid-year. This preliminary summary will be distributed to the SCE Affiliate Officer and the SCE Affiliate Controller. It will include year-to-date total transactions by principal affiliates and by type of transaction. SCE expects that the categories of transactions will be subject to change from year to year as the nature of affiliate transactions change. Since 2003 will be the first year for developing this information, SCE will not be able to research and document unusual variances until information from two years has been accumulated.</p> <p>Data contained in this preliminary summary will be based on information that is available at the time the summary is prepared and subject to change based on additional review prior to issuance of the Annual Report of SCE on Subsidiary, Affiliate and Holding Company Transactions in Compliance with R.92-08-008, Ordering Paragraph No. 2, to the Commission.</p>
IV.A	<p>3. <u>Update text in SCE’s next compliance plan and next revision of the ATR Manual to reflect new CISR-S protocols.</u> Update references and descriptions to cover CISR-S forms.</p>	<p>SCE accepts this recommendation. SCE’s next compliance plan update and next revision of the Affiliate Transaction Rules (ATR) Manual will be updated to reflect the new Customer Information Service Request – Standardized (CISR-S) protocols and forms.</p>

(DR 11)

2003 Affiliates Transactions Audit of SCE
Status of 2002 Audit Recommendations

Rule	Recommendation	SCE Disposition
IV.F	4. <u>Update the PAMM Affiliate Transaction Resource Manual to reflect latest versions of SCE's Compliance Plan (MCP/CP02) and the Affiliate Transaction Rule (ATR) Manual.</u> The Procurement and Materials Management Department's Affiliate Transaction Resource Manual contains out-of-date excerpts from both the Compliance Plan and the ATR Manual. It should be brought up-to-date and steps should be taken by PAMM to assure future updates are promptly incorporated.	SCE accepts this recommendation. The Procurement and Materials Management (PAMM) Department will work with Regulatory Policy and Affairs to combine the <i>PAMM Affiliate Transaction Resource Manual</i> and the <i>Joint Procurement Acquisition Guidelines</i> into a single, comprehensive manual to document the policies and procedures in place to comply with the Affiliate Transaction Rules. We expect to complete this effort during the fourth quarter 2003.
V.D	5. <u>Update procedural guidance related to Rule V.D approvals and categories.</u> Procurement and Materials Management's Affiliate Transaction Resource Manual and Joint Procurement Acquisition Process guideline should include a discussion of the Joint Procurement Notification Form. The ATR should include in Chapter 14 a section called "Procedure" that addresses the key elements of the Rule V.D <u>process</u> , particularly the need for preliminary and final approvals of joint purchasing arrangements by RP&A and the SCE Affiliates Officer. Varying flowcharts should be combined into one. Category lists for allowable types of joint purchases should be merged.	SCE accepts this recommendation. The Procurement and Materials Management (PAMM) Department will work with Regulatory Policy and Affairs to combine the <i>PAMM Affiliate Transaction Resource Manual</i> and the <i>Joint Procurement Acquisition Guidelines</i> into a single, comprehensive manual to document the policies and procedures in place to comply with the Affiliate Transaction Rules. We expect to complete this effort during the fourth quarter 2003.
V.D	6. <u>Audit "joint negotiation/separate contracts" vendor invoices for consistency in terms and conditions.</u> Periodically compare vendor invoices to SCE and to affiliates to ensure prices are the same for similar items.	SCE accepts this recommendation. SCE will request that this comparison be included in future Annual Affiliate Transaction Audits and will periodically request SCE's Audit Department to do a similar comparison.
V.F	7. Send a note to affiliate executives and managers reminding them of their responsibility to notify SCE's Affiliates Officer when a new Class A affiliate is created.	SCE accepts this recommendation. An e-mail to relevant affiliate executives and managers will be sent in June 2003.

(DR 11)

2003 Affiliates Transactions Audit of SCE
Status of 2002 Audit Recommendations

Rule	Recommendation	SCE Disposition
VI.B	<p>8. <u>Improve the processes for ensuring compliance with Rule V.F.1 concerning the use of a disclaimer in connection with advertising, business proposals or promotional items.</u> At a minimum, this should involve reiterating Rule V.F.1's requirements with affiliate personnel and advertising agencies responsible for designing and producing marketing-related materials.</p>	<p>SCE accepts this recommendation. On December 9, 2002, Bry Danner, Edison International's (EIX) Executive Vice President and General Counsel, sent a letter to all of EIX's Class A, covered-affiliate officers. This letter emphasized the corporation's commitment to ensuring that all operating companies conduct their operation in full compliance with applicable laws and regulations, among them the Commission's Affiliate Transactions Rules. To ensure consistent conformance with regulatory and corporate standards, he reiterated the corporate policy that requires EIX approval and sign off of layout and copy of advertising and promotional materials of Class A, covered-affiliates. This approval must be obtained in advance, from the EIX Vice President of Corporate Communications. In addition, copies of the rules governing marketing and advertising were sent to the corporation's major advertising agency.</p>

(DR 11)

Rule VII – Utility Products and Services

CPUC Rule

VII. Utility Products and Services

VII.A. General Rule: Except as provided for in these Rules, new products and services shall be offered through affiliates.

Audit Criteria

- New products and services are only offered by affiliates except where provided by this ATR

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.A
- Determine that new products and services are only offered through affiliates

Conclusions

SCE is in compliance with Rule VII.A.

SCE's current offerings of non-tariffed products and services were conditionally approved by the CPUC on January 6, 2000 when it issued Resolution E-3639 in response to SCE's Advice 1286-E. The CPUC ordered that SCE:

- Reclassify four categories of non-tariffed products and services (customer account management services for non-ESPs; use of general facilities; inspection, operation and maintenance, modification, upgrade, removal, and repair of generation, transmission and distribution related facilities and equipment; and miscellaneous services) so that they comply with the definition established in Rule VII.B.1
- Delete categories "sale of tariffed utility property and equipment/furniture requiring Section 851 application" and "sale of utility property and equipment/furniture (not requiring a section 851 application)" and reclassify the specific line items in each category as appropriate
- Delete the category "trading, buying and selling of emission credits pursuant to RECLAIM" from Attachment A to Advice 1286-E.

SCE implemented this directive and submitted Advice 1286-E-A on April 5, 2000 notifying the CPUC of its actions. On September 29, 2003, the CPUC approved SCE's actions through the issuance of Resolution E-3639, which became effective retroactive to May 15, 2000. (DR 3, INT 31)

In 2003, SCE requested authorization from the CPUC to create one new category of non-tariffed products and services. (DR97) At the time this report was being written, the CPUC had not formally ruled on this request. SCE did not offer any new products or services within its existing categories of non-tariffed products and services. (INT 31;

Rule VII – Utility Products and Services

DR 57). During the course of our interviews and data analysis, we found no evidence that SCE was not complying with Rule VII.

Exhibit 6 shows the volume of non-tariffed products and services in 2002 and 2003. The following areas of SCE provided these products and services:

- Customer Services Business Unit
- Edison Carrier Solutions
- Transmission and Distribution Business Unit
- Generation Business Unit
- Power Production
- Shared Services – Business Resources
- Shared Services – Corporate Real Estate
- Shared Services – Transportation Services
- Controller's. (DR 178)

Exhibit 6

2003 Affiliates Transactions Audit of SCE
2002-2003 Non-Tariffed Products and Services
(\$ thousands)

Product/Service Category	2002		2003	
	Revenues	Incremental Costs	Revenues	Incremental Costs
Secondary Use of Transmission Right of Ways, and Land	\$ 15,878	\$ 439	\$ 16,565	\$ 392
Secondary Use of Distribution Right of Ways, Land, Facilities and Substations	\$ 1,372	\$ 628	\$ 1,545	\$ 386
Secondary Use of Utility-Owned Generation Facilities and Land	\$ 218	\$ -	\$ 269	
Secondary Use of Utility-Owned Office Buildings and Offices	\$ 604	\$ 157	\$ 479	\$ 94
Use of Transmission Towers, Distribution Poles, Facilities, Conduits, Ducts and Streetlight Poles	\$ 1,987	\$ 815	\$ 1,388	\$ 377
Use of Communications and Computing Systems	\$ 24,311	\$ 11,137	\$ 41,963	\$ 11,451
License of Utility Software	\$ 26	\$ 16	\$ 188	\$ 39
Licensing of Utility-Held Patents	\$ -	\$ -		
Property Management, Property Maintenance and Real Property Brokerage Services	\$ 168	\$ 18	\$ 165	\$ 2
Recreation, Fish and Wildlife Activities	\$ 951	\$ 53	\$ 1,076	\$ -
Sales of Timber Stands on Utility-Owned Property	\$ 86	\$ -	\$ -	\$ -
Use of Customer Technology Application Center (CTAC) and Agricultural Technology Application Center (AgTAC) Facilities	\$ 164	\$ 69	\$ 112	\$ 25
Electric Vehicle (EV), Battery, and Charger-Related Services	\$ 27	\$ 20	\$ 254	\$ -
Energy Efficiency Engineering, Consulting and Technical Services	\$ -	\$ -	\$ -	\$ -
Billing and Customer Communications Center Services for Non-ESPs	\$ 426	\$ 33	\$ 424	\$ 4
Meter Reading and Field Services for Non-ESPs	\$ 2,481	\$ 1,560	\$ 2,464	\$ 1,045
Bill Payment Options	\$ 3,700	\$ 196	\$ 4,437	\$ 186
Vehicle Maintenance and Repair	\$ 265	\$ 115	\$ 182	\$ 58
Transportation and Disposal of Hazardous Materials	\$ -	\$ -	\$ -	\$ -
Use of Heavy Equipment and Machinery	\$ -	\$ -	\$ -	\$ -
Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities and Equipment	\$ 6,566	\$ 3,344	\$ 2,805	\$ 871
Advanced Testing of Hydraulic Pumps	\$ 67	\$ -	\$ 49	\$ -
Equipment and Machinery Repair, Testing, Maintenance and Calibration	\$ 14,919	\$ 12,341	\$ 13,904	\$ 9,935
Geographic Information Systems (GIS) Services	\$ -	\$ -	\$ 188	\$ -
Tariff Sheet Sales	\$ -	\$ -	\$ -	\$ -
Recycling Services	\$ 8	\$ -	\$ 15	\$ -
Training and Technical Certification Services	\$ 130	\$ -	\$ 327	\$ -
Material Procurement and Purchasing Services	\$ -	\$ -	\$ -	\$ -
Fuel Oil Pipeline System and Storage Facilities	\$ 28,868	\$ 7,160	\$ 16,646	\$ 88,297
Total	\$ 103,222	\$ 38,101	\$ 105,445	\$ 113,162

(DR 150)

Rule VII – Utility Products and Services

CPUC Rule

VII.B. Definitions: The following definitions apply for the purposes of this section (Section VII) of these Rules:

VII.B.1. “Category” refers to a factually similar group of products and services that use the same type of utility assets or capacity. For example, “leases of land under utility transmission lines” or “use of a utility repair shop for third party equipment repair” would each constitute a separate product or service category.

VII.B.2. “Existing” products and services are those which a utility is offering on the effective date of these Rules

VII.B.3. “Products” include use of property, both real and intellectual, other than those uses authorized under General Order 69-C.

VII.B.4. “Tariff” or “tariffed” refers to rates, terms and conditions of services as approved by this Commission or the Federal Energy Regulatory Commission (FERC), whether by traditional tariff, approved contract or other such approval process as the Commission or the FERC may deem appropriate.

Audit Criteria

- SCE’s definition of these terms is similar to those of this Rule

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.B
- Review the ATR Manual to determine that SCE has properly interpreted the terms included in this rule

Conclusions

SCE is in compliance with Rule VII.B.

The ATR Manual restates verbatim this Rule’s definitions of “category,” “existing,” “products” and “tariff/non-tariffed” (DR 5). We interviewed the RP&A personnel responsible for monitoring SCE’s compliance with Rule VII.B and found them to be properly interpreting and implementing the requirements of Rule VII concerning non-tariffed products and services. (INT 31)

CPUC Rule

VII.C. Utility Products and Services: Except as provided in these Rules, a utility shall not offer non-tariffed products and services. In no event shall a utility offer natural gas or electricity commodity service on a non-tariffed basis. A utility may only offer for sale the following products and services:

VII.C.1. Existing products and services offered by the utility pursuant to tariff;

VII.C.2. Unbundled versions of existing utility products and services, with the unbundled versions being offered on a tariffed basis;

VII.C.3. New products and services that are offered on a tariffed basis; and

VII.C.4. Products and services which are offered on a nontariffed basis and which meet the following conditions:

VII.C.4.a. The nontariffed product or service utilizes a portion of a utility asset or capacity;

VII.C.4.b. such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility service;

Rule VII – Utility Products and Services

VII.C.4.c. the involved portion of such asset or capacity may be used to offer the product or service on a nontariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;

VII.C.4.d. the products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and

VII.C.4.e. The utility's offering of such nontariffed product or service does not violate any law, regulation, or Commission policy regarding anticompetitive practices.

Audit Criteria

- SCE offers only tariffed products and services except for those non-tariffed products and services that meet the conditions spelled out in the ATR

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.C
- Review the 2002 and 2003 Reports of Utility Non-Tariffed Products and Services
- Verify that non-tariffed products and services offered by SCE meet the requirements of this Rule

Conclusions

SCE is in compliance with Rule VII.C.

SCE does not offer electric commodity service on a non-tariffed basis and only offers non-tariffed products and services that are allowed by Rule VII.C. In 2003, SCE assumed responsibility for energy purchases associated with contracts assigned to it by the Department of Water Resources. Also in 2003, SCE established an energy trading function to meet its power requirements. None of the selling activities of the trading function are deemed by SCE to be a non-tariffed product or service. (INT 31)

We reviewed the non-tariffed work that Edison ESI (ESI) performed for affiliates during 2003. This involved five jobs whose work properly fell into existing non-tariffed product and service categories. (DR 79) We also reviewed a NTP&S transaction mentioned in the CPUC's draft opinion on SCE's base rate revenue requirements in its 2003 general rate case. This transaction, noted in section 7.2 – Edison Select Costs, involved SCE's provision of billing services to the third party purchaser of the business of an Edison Enterprises subsidiary. We were able to find the revenue associated with this billing service to the NTP&S report prepared by SCE's Accounting Department. (DR 178)

We interviewed RP&A staff responsible for monitoring SCE's compliance with Rule VII.C and found them to be properly interpreting and implementing the rule. (INT 31)

We reviewed the 2002 and 2003 Periodic Reports of Utility Non-Tariffed Products and Services (DR 97) and noted that 4 of the 30 categories involved the use of more than 1% of applicable utility assets. We did not find this level of use to adversely affect the cost, quality or reliability of tariffed utility products and services, as described below.

Rule VII – Utility Products and Services

- Secondary Use of Transmission Right of Ways and Land (35.0% in 2003) – These non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services
- Secondary Use of Distribution Right of Ways, Land, Facilities and Substations (8.0% in 2003) – These non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services
- Secondary Use of Utility-Owned Generation Facilities and Land (46.2%) - These non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services
- Fuel Oil Pipeline System and Storage Facilities (41.8% in 2003) – While this is designated a category of non-tariffed products and services category, it has a separate history of regulatory treatment. Essentially, this pipeline is no longer used for utility service since certain SCE generating facilities that this system supported converted from oil to gas in the early 1990's. Later, the generating facilities were sold, thus removing any possibility SCE could use the pipeline in connection with tariffed electric service. Since conversion, the pipeline's capacity has been used to provide transportation and storage services to refineries in its vicinity. Thus, there is no impairment to SCE's tariffed services by the relatively high percent of pipeline assets devoted to non-tariffed products and services. This Pipeline was sold in 2003.
(INT 31, DR 97)

In 2002, SCE filed a Section 851 Application for approval to sell and transfer the Edison Fuel Oil Pipeline (FOP) that had been used to provide certain non-tariffed services (A.02-03-035). The CPUC approved the request on July 17, 2003 in Decision 03-07-031. These assets were subsequently sold in 2003. (INT 31)

SCE created no new categories of non-tariffed products or services in 2003. (INT 31, DR 57)

CPUC Rule

VII.D. Conditions Precedent to Offering New Products and Services: This Rule does not represent an endorsement by the Commission of any particular nontariffed utility product or service. A utility may offer new nontariffed products and services only if the Commission has adopted and the utility has established:

VII.D.1. A mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a non-tariffed basis;

VII.D.2. A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle.

VII.D.3. Periodic reporting requirements regarding pertinent information related to nontariffed products and services; and

VII.D.4. Periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services.

Rule VII – Utility Products and Services

Audit Criteria

- Any new non-tariffed products and services offered by SCE are not cross-subsidized by tariffed products and services, have received approvals from the CPUC as to the cost allocation method, and SCE complies with the associated reporting requirements

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.D
- Evaluate the accounting process for non-tariffed revenues and expenses
- Review any Internal Audit work pertaining to Rule VII.D

Conclusions

SCE is in compliance with Rule VII.D.

Since the CPUC issued Decision 99-09-070 on September 16, 1999, SCE has followed the guidelines for the Gross Revenue Sharing Mechanism called for in that decision. An automated accounting system was established in 2000 to collect revenue and incremental cost data from the various areas of SCE that provide non-tariffed products and services.

We reviewed the monthly report prepared by the Controller's Department showing a detailed tabulation of non-tariffed revenues and the calculation of gross revenue sharing. We noted that the sharing was properly calculated based on whether the revenue was passive or active. (DR 178)

We interviewed the RP&A personnel responsible for monitoring SCE's compliance with Rule VII.D and found them to be interpreting and implementing this rule correctly. (INT 31)

On January 30, 2002, Audit Services issued a report on its review of SCE's 2000 Periodic Report of Utility Non-Tariffed Products and Services. The audit's objectives were to: (1) ensure non-tariffed products and services revenues and incremental costs were reported correctly in SCE's 2000 Periodic Report of Utility Non-Tariffed Products and Services, (2) review the accounting of non-tariffed products and services revenues to ensure compliance with classifications as active or passive categories for purposes of SCE's Gross Revenue Sharing Mechanism, and (3) evaluate the efficiency and effectiveness of internal controls. The report concluded "procedures and internal controls currently in effect provide reasonable assurance that the objectives outlined above..." (DR 13 from the 2002 Affiliate Transactions Audit)

Finally, in its 2002 General Rate Case examination, the Office of Ratepayer Advocate's (ORA) reviewed SCE's accounting process for non-tariffed products and services and concluded:

Rule VII – Utility Products and Services

“Based on review of additional information obtained and workpapers provided in the 2003 GRC, it appears that revenues and incremental expenditures related to ECS [Edison Carrier Solutions] are excluded from the 2003 GRC.” (DR 34 from the 2002 Affiliate Transactions Audit)

CPUC Rule

VII.E. Requirements to File an Advice Letter: Prior to offering a new category of nontariffed products or services as set forth in Section VII C above, a utility shall file an advice letter in compliance with the following provisions of this paragraph.

VII.E.1. The advice letter shall:

VII.E.1.a. demonstrate compliance with these rules;

VII.E.1.b. address the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or service will not result in a degradation of cost, quality, or reliability of tariffed goods and services;

VII.E.1.c. demonstrate that the utility has not received competition transition charge (CTC) recovery in the Transition Cost Proceeding, A.96-08-001, or other related CTC Commission proceeding, for the portion of the utility asset dedicated to the non-utility venture; and

VII.E.1.d. address the potential impact of the new product or service on competition in the relevant market, including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect the market.

VII.E.1.e. be served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the rules governing the Commission’s advice letter process.

VII.E.2. For categories of nontariffed products or services targeted and offered to less than 1% of the number of customers in the utility’s customer base, in the absence of a protest alleging non-compliance with these Rules or any law, regulation, decision, or Commission policy, or allegations of harm, the utility may commence offering the product or service 30 days after submission of the advice letter. For categories of nontariffed products or services targeted and offered to 1% or more of the number of customers in the utility’s customer base, the utility may commence offering the product or service after the Commission approves the advice letter through the normal advice letter process.

VII.E.3. A protest of an advice letter filed in accordance with this paragraph shall include:

VII.E.3.a. An explanation of the specific Rules, or any law, regulation, decision, or Commission policy the utility will allegedly violate by offering the proposed product or service, with reasonable factual detail; or

VII.E.3.b. An explanation of the specific harm the protestant will allegedly suffer.

VII.E.4. If such a protest is filed, the utility may file a motion to dismiss the protest within 5 working days if it believes the protestant has failed to provide the minimum grounds for protest required above. The protestant has 5 working days to respond to the motion.

VII.E.5. The intention of the Commission is to make its best reasonable efforts to rule on such a motion to dismiss promptly. Absent a ruling granting a motion to dismiss, the utility shall begin offering that category of products and services only after Commission approval through the normal advice letter process.

Audit Criteria

- SCE offers only tariffed products and services except for those non-tariffed products and services that meet the conditions spelled out in the ATR
- New categories of non-tariffed products and services are only offered after an Advice Letter has been filed with the CPUC

Audit Steps

Rule VII – Utility Products and Services

- Interview SCE staff responsible for compliance with Rule VII.E
- Determine if SCE offered any new categories of non-tariffed products and services through: (1) interviews with SCE staff and (2) by comparing the 2003 and 2002 Utility Non-Tariffed Products and Services Report to the CPUC
- Note that Advice Letters were properly filed with the CPUC before a new category of NTP&S is established
- If new categories were offered, determined that an advice letter was filed

Conclusions

SCE is in compliance with Rule VII.E.

During 2003, SCE requested authorization from the CPUC to offer one new category of non-tariffed products and services. SCE filed Advice Letter 1731-E on August 11, 2003 asking to create Resale of Type II Telecommunications Circuits. The CPUC suspended this advice letter for 120 days on August 20, 2003. (DR 97) At the time of this report's writing, the CPUC had not formally ruled on SCE's request. (INT 31)

In 2003, no protest letters were filed regarding SCE's non-tariffed products and services or related advice letters. (DR 98)

CPUC Rule

VII.F. Existing Offerings: Unless and until further Commission order to the contrary as a result of the advice letter filing or otherwise, a utility that is offering tariffed or nontariffed products and services, as of the effective date of this decision, may continue to offer such products and services, provided that the utility complies with the cost of allocation and reporting requirement in this rule. No later than January 30, 1998, each utility shall submit an advice letter describing the existing products and services (both tariffed and nontariffed) currently being offered by the utility and the number of Commission decision or advice letter approving this offering, if any, and requesting authorization or continuing authorization for the utility's continued provision of this product or service in compliance with the criteria set forth in Rule VII. This requirement applies to both existing products and services explicitly approved and not explicitly approved by the Commission.

Audit Criteria

- SCE has properly responded to any 2003 CPUC orders as they relate to the offering of non-tariffed products and services

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.F
- Review any 2003 CPUC orders pertaining to the offering of tariffed and non-tariffed products and services

Conclusions

SCE is in compliance with Rule VII.F.

Rule VII – Utility Products and Services

As required by this Rule, SCE filed the Advice Letter 1286-E on January 30, 1998, identifying its tariffed and non-tariffed utility products and services. At the CPUC's direction, SCE filed an updated version of this advice letter on April 5, 2000 (Advice 1286-E-A), which the Commission approved on September 29, 2003. On February 22, 2000, SCE filed Advice Letter 1436-E requesting the CPUC authorize Newspaper Solicitation Service, a new category of non-tariffed products and services. In 2003, the CPUC ruled against SCE's request in Resolution E-3793 because it was felt the LA Times, the potential customer in question, may become less independent if SCE was providing it with this service. SCE complied with the resolution and has not offered the newspaper solicitation service. (DR 13, DR 97, DR 98, INT 31)

On July 17, 2003, the CPUC issued Decision 03-07-031 allowing SCE to sell its Fuel Oil Pipeline, an asset that was used to provide certain non-tariffed services. The CPUC ordered SCE to reduce rates since it no longer must maintain these facilities. In compliance, SCE decreased its Performance Based Ratemaking (PBR) Distribution Revenue Requirements by \$24.385 million beginning August 1, 2003. (INT 31)

CPUC Rule

VII.G. Section 851 Application: A utility must continue to comply fully with the provisions of Public Utilities Code Section 851 when necessary or useful property is sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered as part of a nontariffed product or service offering by the utility. If an application pursuant to Section 851 is submitted, the utility need not file a separate advice letter, but shall include in the application those items which would otherwise appear in the advice letter as required in this Rule.

Audit Criteria

- When SCE offers non-tariffed products and services that involve property subject this Rule, it submits a Section 851 Application or files a separate advice letter, as appropriate

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.G
- Review 2003 instances where SCE sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered necessary or useful property

Conclusions

SCE is in compliance with Rule VII.G.

In 2002, SCE filed a Section 851 Application for approval to sell and transfer the Edison Fuel Oil Pipeline (FOP) that had been used to provide certain non-tariffed services (A.02-03-035). The CPUC approved the request on July 17, 2003 in Decision 03-07-031. These assets were subsequently sold in 2003. (INT 31)

During 2003, SCE submitted Section 851 Applications for the following arrangements to lease SCE property to unaffiliated parties:

Rule VII – Utility Products and Services

- Park Edison (A.03-04-029)
- BBC, Inc. (A.03-05-016)
- RCH Communities, LLC (A.03-06-014)
- Fox Hollow I, LLC (A.03-07-044)
- Sprint Communications Company (A.03-11-027) (DR 58)

All of these arrangements fell into existing non-tariffed product and service categories, thus SCE was not required to fill any other Rule VII.G Advice Letters.

CPUC Rule

VII.H. Periodic Reporting of Nontariffed Products and Services: Any utility offering nontariffed products and services shall file periodic reports with the Commission's energy Division twice annually for the first two years following the effective date of these Rules, then annually thereafter unless otherwise directed by the Commission. The utility shall serve periodic reports on the service list of this proceeding. The periodic reports shall contain the following information:

VII.H.1. A description of each existing or new category of nontariffed products and services and the authority under which it is offered;

VII.H.2. A description of the types and quantities of products and services contained within each category (so that, for example, "leases for agricultural nurseries at 15 sites" might be listed under the category "leases of land under utility transmission lines," although the utility would not be required to provide the details regarding each individual lease);

VII.H.3. The cost allocated to and revenues derived from each category; and

VII.H.4. Current information on the proportion of relevant utility assets used to offer each category of product and service.

Audit Criteria

- The report format and content meets CPUC requirements
- The process for assembling the Periodic Report of Utility on Non-Tariffed Products and Services to the CPUC ensures the information is accurate and timely
- The report is filed by the required deadline of March 31

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.H
- Review the 2002 and 2003 Periodic Reports of Utility on Non-Tariffed Products and Services for: format, content and filing date
- Review Internal Audit work pertaining to non-tariffed products and services

Conclusions

SCE is in compliance with Rule VII.H.

Since January 1, 2003, SCE filed the following Periodic Report of Utility Non-Tariffed Products and Services:

Rule VII – Utility Products and Services

- 2002 Report covering January 1, 2002 through December 31, 2002 (filed March March 25, 2003)
- 2003 Report covering January 1, 2003 through December 31, 2003 (filed March 31, 2004) (DR 97)

Both reports contained the following information, as called for by Rule VII.H:

- Non-tariffed product/service categories offered during the reporting period
- Description of each category, including a listing of the types and quantities of products/services within each category
- Revenues and incremental costs associated with each product/service category
- Proportional share of relevant utility assets used to offer each product/service category

On January 30, 2002, SCE's Audit Services issued a report on its review of SCE's 2000 Non-Tariffed Products and Services Report. The audit's objectives were to: (1) ensure non-tariffed products and services revenues and incremental costs were reported correctly in SCE's Periodic Report of Utility Non-Tariffed Products and Services and (2) review the accounting of non-tariffed products and services revenues to ensure compliance with classifications as active or passive categories for purposes of SCE's Gross Revenue Sharing Mechanism, and (3) evaluate the efficiency and effectiveness of internal controls. The report concluded "procedures and internal controls currently in effect provide reasonable assurance that the objectives outlined above..." (DR 13 2002 Affiliate Transactions Audit)

CPUC Rule

VII.I. Offering of Nontariffed Products and Services to Affiliates: Nontariffed products and services which are allowed by this Rule may be offered to utility affiliates only in compliance with all other provisions of these Affiliate Rules. Similarly, this Rule does not prohibit affiliate transactions which are otherwise allowed by all other provisions of these Affiliate Rules.

Audit Criteria

- SCE only offers allowed non-tariffed products and services to affiliates

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.I
- Assess how non-tariffed product and service offerings are monitored to ensure compliance with Rule VII.I

Conclusions

SCE is in compliance with Rule VII.I.

The following SCE entities provided affiliates with non-tariffed products and services:

Rule VII – Utility Products and Services

- Edison ESI (ESI) – provided to EO&MS and EME subsidiaries Watson Cogen and Kern River, Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities Equipment and Equipment and Machinery Repair category services in 2003. ESI has service agreements in place with other affiliates but there was no activity in 2003. (DR 78, DR 79)
- Carrier Solutions – has a service agreement in place with EO&MS, but did not provide any non-tariffed products and services in 2003. Carrier Solutions provides services in the “Use of Communications and Computing Systems” category of non-tariffed products and services. (DR 135)
- Generation Business Unit – before 2003, the Generation Business Unit provided Training and Technical Certification category of non-tariffed products and services to EO&MS. In 2003, no such services were provided to EO&MS. (DR 134)

The ESI services to affiliates were found to be allowed by Rule VII. (INT 31)

Rule VIII – Complaint Procedures and Remedies

CPUC Rule

VIII. Procedure:

VIII.A. The Commission shall strictly enforce these rules. Each act or failure to act by a utility in violation of these rules may be considered a separate occurrence.

VIII.B. Standing:

VIII.B.1. Any person or corporation as defined in Sections 204, 205, and 206 of the California Public Utilities Code may complain to the Commission or to a utility in writing, setting forth any act or thing done or omitted to be done by any utility or affiliate in violation or claimed violation of any rule set forth in this document.

VIII.B.2. “Whistleblower complaints” will be accepted and the confidentiality of complainant will be maintained until conclusion of an investigation or indefinitely, if so requested by the whistleblower. When a whistleblower request anonymity, the Commission will continue to pursue the complaint only where it has elected to convert it into a Commission-initiated investigation. Regardless of the complainant's status, the defendant shall file a timely answer to the complaint.

VIII.C. Procedure:

VIII.C.1. All complaints shall be filed as formal complaints with the Commission and complainants shall provide a copy to the utility's designated officer (as described below) on the same day that the complaint is filed.

VIII.C.2. Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate rules and the utility's compliance plan adopted pursuant to these rules. Such officer shall also be responsible for receiving, investigating, and attempting to resolve complaints. The Affiliate Compliance Officer may, however, delegate responsibilities to other officers and employees.

VIII.C.2.a. The utility shall investigate and attempt to resolve the complaint. The resolution process shall include a meet-and-confer session with the complainant. A Commission staff member may, upon request by the utility or the complainant, participate in such meet-an-confer sessions and shall participate in the case of a whistleblower complaint.

A party filing a complaint may seek a temporary restraining order at the time the formal complaint is filed. The defendant utility and other interested parties may file responses to a request for a temporary restraining order within 10 days of the filing of the request. An assigned commissioner or administrative law judge, or the Commission shall act on the request for a temporary restraining order within 30 days. The request may be granted when: (1) moving party is reasonably likely to prevail on the merits, and (2) a temporary restraining order relief is necessary to avoid irreparable injury, will not substantially harm other parties, and is consistent with the public interest.

A notice of temporary restraining order issued by an assigned commissioner or administrative law judge will only stay in effect until the end of the day of the next regularly-scheduled Commission meeting at which the Commission can issue a temporary restraining order or a preliminary injunction. If the Commission declines to issue a temporary restraining order or a preliminary injunction, the notice of temporary restraining order will be immediately lifted. Whether or not a temporary restraining order or a preliminary injunction is issued, the underlying complaint may still move forward.

VIII.C.2.b. The utility shall prepare and preserve a report on each complaint, all relevant dates, companies, customers and employees involved, and if applicable, the resolution reached, the date of the resolution and any actions taken to prevent further violations from occurring. The report shall be provided to the Commission and all parties within four weeks of the date the complaint was filed. In addition to providing hard copies, the utility shall also provide electronic copies to the Commission and to any party providing an e-mail address.

VIII.C.2.c. Each utility shall file annually with the Commission a report detailing the nature and status of all complaints.

VIII.C.2.d. The Commission may, notwithstanding any resolution reached by the utility and the complainant, convert a complaint to an investigation and determine whether the utility violated these rules, and impose any appropriate penalties under Section VIII.D or any other remedies provided by the Commission's rules or the Public Utilities Code.

VIII.C.3. The utility will inform the Commission's Energy Division and Consumer Services Division of the results of this dispute resolution process. If the dispute is resolved, the utility shall inform the Commission staff of the actions taken to resolve the complaint and the date the complaint was resolved.

Rule VIII – Complaint Procedures and Remedies

VIII.C.4. If the utility and the complainant cannot reach a resolution of the complaint, the utility will so inform the Commission's Energy Division. It will also file an answer to the complaint within 30 days of the issuance by the Commission's Docket Office of instructions to answer the original complaint. Within 10 business days of notice of failure to resolve the complaint, Energy Division staff will meet and confer with the utility and the complainant and propose actions to resolve the complaint. Under the circumstances where the complainant and the utility cannot resolve the complaint, the Commission shall strive to resolve the complaint within 180 days of the date the instructions to answer are served on the utility.

VIII.C.5. The Commission shall maintain on its web page a public log of all new, pending and resolved complaints. The Commission shall update the log at least every week. The log shall specify, at a minimum, the date the complaint was received, the specific allegations contained in the complaint, the date the complaint was resolved and the manner in which it was resolved, and a description of any similar complaints, including the resolution of such similar complaints.

VIII.C.6. Preliminary Discussions

VIII.C.6.a. Prior to filing a formal complaint, a potential complainant may contact the responsible utility officer and/or the Energy Division to inform them of the possible violation of the affiliate rules. If the potential complainant seeks an information meeting with the utility to discuss the complaint, the utility shall make reasonable efforts to arrange such a meeting. Upon mutual agreement, Energy Division staff and interested parties may attend any such meeting.

VIII.C.6.b. If a potential complainant makes an informal contact with a utility regarding an alleged violation of the affiliate transaction rules, the utility office in charge of affiliate compliance shall respond in writing to the potential complainant within 15 business days. The response would state whether or not the issues raised by the potential complainant require further investigation. (The potential complainant does not have to rely on the responses in deciding whether to file a formal complaint.)

VIII.D. Remedies

VIII.D.1. When enforcing these rules or any order of the Commission regarding these rules, the Commission may do any or all of the following:

VIII.D.1.a. Order a utility to stop doing something that violates these rules;

VIII.D.1.b. Prospectively limit or restrict the amount, percentage, or value of transactions entered into between the utility and its affiliate(s);

VIII.D.1.c. Assess fines or other penalties;

VIII.D.1.d. Prohibit the utility from allowing its affiliate(s) to utilize the name and logo of the utility, either on a temporary or a permanent basis;

VIII.D.1.e. Apply any other remedy available to the Commission

VIII.D.2. Any public utility which violates a provision of these rules is subject to a fine of not less than five hundred dollars (\$500), nor more than \$20,000 for each offense. The remainder of this subsection distills the principles that the Commission has historically relied upon in assessing fines and restates them in a manner that will form the analytical foundation for future decisions in which fines are assessed. Before discussing those principles, reparations are distinguished.

VIII.D.2.a. Reparations: Reparations are not fines and conceptually should not be included in setting the amount of a fine. Reparations are refunds of excessive or discriminatory amounts collected by a public utility. PU Code §734. The purpose is to return funds to the victim which were unlawfully collected by the public utility. Accordingly, the statute requires that all reparation amounts are paid to the victims. Unclaimed reparations generally escheat to the state, Code of Civil Procedure §1519.5, unless equitable or other authority directs otherwise, e.g., Public Utilities Code §394.9.

VIII.D.2.b. Fines: The purpose of a fine is to go beyond restitution to the victim and to effectively deter further violations by this perpetrator or others. For this reason, fines are paid to the State of California, rather than to victims.

Effective deterrence creates an incentive for public utilities to avoid violations. Deterrence is particularly important against violations which could result in public harm, and particularly against those where severe consequences could result. To capture these ideas, the two general factors used by the Commission in setting fines are: (1) severity of the offense and (2) conduct of the utility. These help guide the Commission in setting fines which are proportionate to the violation.

Rule VIII – Complaint Procedures and Remedies

VIII.D.2.b.i. Severity of the Offense: The severity of the offense includes several considerations. Economic harm reflects the amount of expense which was imposed upon the victims, as well as any unlawful benefits gained by the public utility. Generally, the greater of these two amounts will be used in establishing the fine. In comparison, violations which caused actual physical harm to people or property are generally considered the most severe, with violations that threatened such harm closely following.

The fact that the economic harm may be difficult to quantify does not itself diminish the severity or the need for sanctions. For example, the Commission has recognized that deprivation of choice of service providers, while not necessarily imposing quantifiable economic harm, diminishes the competitive marketplace such that some form of sanction is warranted.

Many potential penalty cases before the Commission do not involve any harm to consumers but are instead violations of reporting or compliance requirements. In these cases, the harm may not be to consumers but rather to the integrity of the regulatory processes. For example, compliance with Commission directives is required of all California Public Utilities:

“Every public utility shall obey and comply with every order, decision, direction, or rule made or prescribed by the Commission in the matters specified in this part, or any other matter in any way relating to or affecting its business as a public utility, and shall do everything necessary or proper to secure compliance therewith by all of its officers, agents, and employees.” Public Utilities Code §702.

Such compliance is absolutely necessary to the proper functioning of the regulatory process. For this reason, disregarding a statutory or Commission directive, regardless of the effects on the public, will be accorded a high level of severity.

The number of the violations is a factor in determining the severity. A series of temporally distinct violations can suggest an on-going compliance deficiency which the public utility should have addressed after the first instance. Similarly, a widespread violation which affects a large number of consumers is a more severe offense than one which is limited in scope. For a “continuing offense,” PU Code §2108 counts each day as a separate offense.

VIII.D.2.b.ii. Conduct of the Utility: This factor recognizes the important role of the public utility’s conduct in (1) preventing the violation, (2) detecting the violation, and (3) disclosing and rectifying the violation. The public utility is responsible for the acts of all its officers, agents, and employees:

“In construing and enforcing the provisions of this part relating to penalties, the act, omission, or failure of any officer, agent or employee of any public utility, acting within the scope of his [or her] official duties or employment, shall in every case be the act, omission, or failure of such public utility.” Public Utilities Code §2109.

VIII.D.2.b.ii.(1) The Utility’s Actions to Prevent a Violation: Prior to a violation occurring, prudent practice requires that all public utilities take reasonable steps to ensure compliance with Commission directives. This includes becoming familiar with applicable laws and regulations, and most critically, the utility regularly reviewing its own operations to ensure full compliance. In evaluating the utility’s advance efforts to ensure compliance, the Commission will consider the utility’s past record of compliance with Commission directives.

VIII.D.2.b.ii.(2) The Utility’s Actions to Detect a Violation: The Commission expects public utilities to monitor diligently their activities. Where utilities have for whatever reason failed to meet this standard, the Commission will continue to hold the utility responsible for its actions. Deliberate as opposed to inadvertent wrong-doing will be considered an aggravating factor. The Commission will also look at the management’s conduct during the period in which the violation occurred to ascertain particularly the level and extent of involvement in or tolerance of the offense by management personnel. The Commission will closely scrutinize any attempts by management to attribute wrong-doing to rogue employees. Managers will be considered, absent clear evidence to the contrary, to have condoned day-to-day actions by employees and agents under their supervision.

VIII.D.2.b.ii.(3) The Utility’s Actions to Disclose and Rectify a Violation: When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes “prompt” will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.

Rule VIII – Complaint Procedures and Remedies

Prompt reporting of violations furthers the public interest by allowing for expeditious correction. For this reason, steps taken by a public utility to promptly and cooperatively report and correct violations may be considered in assessing any penalty.

VIII.D.2.b.iii. Financial Resources of the Utility: Effective deterrence also requires that the Commission recognize the financial resources of the public utility in setting a fine which balances the need for deterrence with the constitutional limitations on excessive fines. Some California utilities are among the largest corporations in the United States and others are extremely modest, one-person operations. What is accounting rounding error to one company is annual revenue to another. The Commission intends to adjust fine levels to achieve the objective of deterrence, without becoming excessive, based on each utility's financial resources.

VIII.D.2.b.iv. Totality of the Circumstances in Furtherance of the Public Interest: Setting a fine at a level which effectively deters further unlawful conduct by the subject utility and others requires that the Commission specifically tailor the package of sanctions, including any fine, to the unique facts of the case. The Commission will review facts which tend to mitigate the degree of wrongdoing as well as any facts which exacerbate the wrongdoing. In all cases, the harm will be evaluated from the perspective of the public interest.

VIII.D.2.b.v. The Role of Precedent: The Commission adjudicates a wide range of cases which involve sanctions, many of which are cases of first impression. As such, the outcomes of cases are not usually directly comparable. In future decisions which impose sanctions the parties and, in turn, the Commission will be expected to explicitly address those previously issued decisions which involve the most reasonably comparable factual circumstances and explain any substantial differences in outcome.

Audit Criteria

- SCE has a process for handling ATR-related complaints that meets the requirements of Rule VIII.C and it is well documented
- Complaints filed in 2003 were properly managed
- Violations of ATR are promptly investigated and reported to the CPUC

Audit Steps

- Review SCE's complaint resolution process
- Evaluate how SCE resolved 2003 ATR-related complaints
- Evaluate how SCE responded to 2003 ATR-related violations

Conclusions

SCE is in compliance with Rule VIII.

There were no ATR-related complaints filed against SCE in 2003. (DR 60)

SCE's Affiliates Officer is responsible for compliance with the ATR, including the preparation of SCE's compliance plans. The Affiliates Officer is also responsible for receiving, investigating and attempting to resolve ATR-related complaints. (DR 5)

The ATR Manual describes the process by which complaints will be received, investigated and reported upon. In accordance with Rule VIII.C.4, SCE gives itself four weeks from the time a complaint is received to meet with the complainant, investigate the complaint and present a report to the CPUC on its findings. (DR 5)

Appendices

**2003 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
1	11/3/03	James Kelly Vice President, Reg Policy & Affairs	<ul style="list-style-type: none"> Major changes in affiliate transaction rules, regulatory changes since last audit
2	11/4/03	Gianpiero (Bill) Doeblner Manager, Reg. Policy & Affairs Debra Kuroda Project Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> Overview of any changes in affiliate transactions and SCE's compliance program/process
3	11/4/03	Yvonne Chacon Project Manager, Corporate Real Estate	<ul style="list-style-type: none"> Separation of the SCE and EME offices in Washington DC facility V.C
4	11/5/02	Lyle Geiger Affiliate Controller, Controllers Mary Eckman Financial Compliance Accountant, Controllers Desiree Villalobos Corporate Financial Accountant, Controllers	<ul style="list-style-type: none"> Overview of SCE's accounting and financial reporting system/process Allocation of corporate support services, controls/monitoring of affiliate transactions V.B, V.E, V.H
5	11/5/03	Steve Brown Manager, Security Ops., Corporate Security David Lover Tech Specialist., Security Ops., Corporate Security	<ul style="list-style-type: none"> Access to SCE's General Office V.C
6	11/6/03	Jill Horswell Manager, Power Contracts Energy Supply & Management	<ul style="list-style-type: none"> ATR compliance All ATRs
7	11/6/03	Doug Parker Mgr. of Energy Operations, Energy Supply & Management Tom Watson Mgr. of Day-Ahead Operations, Energy Supply & Management	<ul style="list-style-type: none"> Wholesale tariffs; unused capacity/supply offered to affiliates & reporting to market (3B reports); discounts offered to affiliates & reporting (3F reports); non-customer specific non-public information provided to affiliates & reporting to market (4B reports); sharing of non-affiliate information; joint purchasing with affiliates of electric energy, transmission, etc. III.B, III.B.1, III.B.2, III.E.4, III.F, IV.B, IV.F, IV.G, V.D,
8	12/8/03	David Van Iderstine Affiliates General Counsel	<ul style="list-style-type: none"> ATR compliance All ATRs
9	12/9/03	Edith Baltierrez Consultant, Workforce Mobility, HR Susan Johnson Manager, Staffing Division, HR	<ul style="list-style-type: none"> Movement of SCE employees to affiliates and affiliate employees to SCE V.G.2
10	12/9/03	John Minnicucci Project Mgr. Research, Development & Demonstration	<ul style="list-style-type: none"> R&D and advanced technology research projects; R&D funding, possible cost sharing; acquisition of R&D info; and use by/ availability to affiliates III.E.3, III.E.4, V.F.5
11	12/10/03	Desiree Villalobos Corporate Financial Accountant, Controllers Mary Eckman Financial Compliance Accountant, Controllers	<ul style="list-style-type: none"> Intercompany billing process, allocation factors V.B

**2003 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
12	12/10/03	Louise Watkins Program Manager, Procurement & Materials Management Dan Walker Manager, Procurement & Materials Management John Minnicucci, Project Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> Joint purchase process; supplier information handling; competitive bidding requirements; record-keeping; joint procurement notification forms usage. III.B, IV.D, IV.G, V.D
13	12/11/03	Dana Kracke Director, Risk Control (corporate) Michael Carter Credit Manager, Risk Control (corporate)	<ul style="list-style-type: none"> Assurance that counterparty lists do not include SCE Class A affiliates Joint purchase limitations III.B, V.D
14	12/11/03	Linda Sagen Operations Mgr., Customer Comm. Edwin Lanfranco QA Supervisor, Customer Comm.	<ul style="list-style-type: none"> Call Center compliance with ATR III.A, III.B.2, III.B.3, III.B.4, III.C, III.D, III.E.2, III.E.6, III.E.7, IV.C., IV.E., V.F.1, V.F.2, V.F.4
15		Roxanne Patmor Manager, Strategic Comm. Dept.	<ul style="list-style-type: none"> Preferential treatment; tying of services; disclaimers/logos; advertising space usage; joint advertising/marketing/etc. III.A, III.C, V.F.1, V.F.2, V.F.3, V.F.4
16	1/12/04	Joanne Gonzales Risk Management Analyst	<ul style="list-style-type: none"> SCE/EIX insurance
17	1/13/04	Robert Schuur Manager., Corporate Real Estate Tom Hampton Director, Corporate Real Estate	<ul style="list-style-type: none"> Separation of SCE offices from affiliates in the General Office, allocation of General Office space costs V.C, V.E
18	1/13/04	Marc Ulrich ES&M Risk Management Manager	<ul style="list-style-type: none"> Transaction review—"OK to Trade List" III.B
19	1/13/04	Susanne Wagner Dir of Procurement & Materials Management & VP, Edison Material Supply LLC	<ul style="list-style-type: none"> Joint purchase process; supplier information handling; competitive bidding requirements; record-keeping; joint procurement notification forms usage. III.B, IV.D, IV.G, V.D
20	1/14/04	Linda Luft Major Account Manager, Major Customer Division	<ul style="list-style-type: none"> Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance. III.A, III.C, III.D, III.E, IV.C, IV.E
21	1/14/04	Harry Hutchison VP, Customer Services Operations	<ul style="list-style-type: none"> Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance. III.A, III.C, III.D, III.E, IV.C, IV.E
22	1/14/04	Tom Fillmore Project Manager, Energy Planning Div.	<ul style="list-style-type: none"> Power Procurement Plan quarterly compliance reports III.B
23	1/15/04	Fred Nandy Audit Manager Warren Doty Audit Manager	<ul style="list-style-type: none"> Audit planning, results of affiliate transaction-related audits completed in 2002 Audits of NTP&S reporting; trading with affiliates Various ATR
24	1/15/04	Dan Ceballos Project Manager, SSID/ESI Administration	<ul style="list-style-type: none"> ESI proposal development and billing process III.A, VII.C

**2003 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
25	1/15/04	Kristina Falkner, Proj/Prod Mgr., Major Customer Division John Solomon System Anal., Major Customer Division	<ul style="list-style-type: none"> ▪ Acct Trak and AMIS transaction review ▪ Diary notes of account managers/execs ▪ Presentations to major customers ▪ III.A, III.C, III.E, IV.C, IV.E, V.F.4
26	1/28/04	Jeanette Yamamoto Supervisor., IT Security Administration Peter Winne IT Business Services	<ul style="list-style-type: none"> ▪ Access to SCE's IT infrastructure, IMMS process ▪ V.C
27	1/29/04	Bill Bryan VP, Major Customer Division	<ul style="list-style-type: none"> ▪ Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance; trade shows, joint sales calls, joint communications ▪ III.A, III.C, III.D, III.E, IV.C, IV.E, V.F.4
28	2/10/04	John Helvin Manager, Plant Accounting	<ul style="list-style-type: none"> ▪ 2003 Transfers of assets from affiliates to SCE ▪ V.H
29	2/11/04	Gianpiero (Bill) Doeblner Manager, Reg. Policy & Affairs Debra Kuroda Project Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Review several open questions ▪ V.F.1
30	2/11/04	Joseph Llorens Project Mgr., Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Internal Service Request (ISR) process ▪ V.G
31	3/5/04	Randy Lisbin Manager of Regulatory Compliance, Reg. Policy & Affairs Zack Buhler Financial Analyst, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Non-tariffed products and services ▪ VII (all subrules)
32	3/30/04	Al Fohrer Chairman & CEO, SCE Robert Foster President & COO, SCE	<ul style="list-style-type: none"> ▪ Briefing on audit results ▪ All Rules

**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item						
1	All compliance plans filed with the CPUC beginning with the original dated December 31, 1997						
2	Annual Reports of affiliated Company Transactions (CPUC D.93-02-019) for 1999, 2000, 2001, 2002 and 2003						
3	CPUC decisions/rulings/orders related to affiliate transactions that are currently in effect						
4	List/description of SCE's 2003 CPUC proceedings relating to affiliate transactions						
5	SCE's Affiliate Transaction Rule Manual						
6	2002 revenues for each affiliate entities (Class A and B)						
7	2002 number of employees for each affiliate entities (Class A and B)						
8	2003 business locations for Edison, SCE and affiliates (Class A and B)						
9	Organization charts for Edison, SCE and affiliates (Class A and B)						
10	Service agreements or contracts between SCE and affiliates that were in force at any time during 2003						
11	SCE's disposition of recommendations from Baryenbruch & Co 2002 Affiliate Transactions Audit Report (note: put this in the same format as shown in 2002 Audit Report, Exhibit 4 on pages 96 and 97)						
12	SCE and Edison annual reports and 10Ks (2000, 2001 and 2002)						
13	List of internal audits conducted (i.e., started or completed) in 2002 and 2003. Please provide copies of audit reports completed in 2002 and 2003.						
14	Public Utilities Code Section 851						
15	Analysis of directors and officers of Edison, SCE and affiliates (for positions held during 2003) e.g., <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Entity</th> <th>Name</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Entity	Name	Position			
Entity	Name	Position					
16	Advice letters 1286-E, 1286-E-A, and any subsequent updates, including attachments						
17	Update Affiliate Transactions Overview presentation for 2003 activities						
18	Update SCE Information Technology Infrastructure presentation for 2003 activities						
19	Advice letters 1342-E; 1342-E-A; 1342-E-B; 1450-E; 1491-E; 1491-E-A; 1491-E-B; 1491-E-C; and 1491-E-D; including any subsequent updates, as well as a list of other affiliate-related advice letters						
20	Copy of 2003 "Service Provider Lists" web-page and any subordinate web-pages (please provide in landscape format and specify URL addresses)						
21	List of Registered Service Providers from CPUC website (please provide printout of primary and subordinate pages in landscape format and specify URL addresses)						
22	Update for 2003 the handout from 10/30/02 presentation by Thielman, et al						
23	FETCH system "site map" web-pages for 2003 (please provide in landscape format and specify URL address)						
24	All references to any ATR-related matters from the upcoming rate case decision						
25	CPUC/ORCA audit reports completed in 2003 (portion pertaining to ATR)						
26	2003 ATR-related articles in the EIX News and any other company publications						
27	Access to MyEdison.net to view ATR-related materials						
28	SCE and affiliate radio and TV ads, and print (newspaper, magazine, billboard) ads						
29	SCE presentation materials to large industrial customers						
30	2003 SCE billing inserts						
31	Access to affiliate websites List and URLs of SCE's affiliate websites						
32	Information regarding prohibition of preferential treatment to affiliates in Direct Access transactions by CPUC decisions in the electric restructuring proceeding (pertinent portions of D.97-05-040 and any subsequent related info)						
33	CPUC ruling eliminating new direct access after 9/1/02 The CPUC eliminated new direct access after 9/1/02. Provide copies of subsequent decisions related to direct access for 2003.						
34	List of instances during 2003 in which SCE tied its products/services of customer's use of affiliate products/services						
35	List of SCE customers assigned to affiliates during 2003						
36	List of instances where SCE provided affiliates with assistance on business development, market assessments or marketing services or information						
37	Policies covering the release of customer information (including the CISR process)						
38	2003 CISR summary report						
39	Copy of 2003 "Notice of Release of Customer Information to Affiliates" web-page and any subordinate web-pages (please provide in landscape format and specify URL addresses) Printout of the CISR website						
40	Description of all non-customer, non-public information that has been made available to affiliates during 2003 and copy of 2003 "Non-Customer Specific, Non-Public Information Offered to Affiliates" web-page (4B reports) and any subordinate web-pages (please provide in landscape format and specify URL addresses)						
41	List all instances in 2003 where non-public information and data from unaffiliated suppliers was provided by SCE to affiliates or non-affiliates. For all cases, provide (1) copies of all written affirmative authorizations of such suppliers, and (2) cross reference to purchase order number or requisition number						

**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item																																			
42	Analysis of Call Center calls: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">2002</td> <td style="text-align: center;">2003</td> </tr> <tr> <td>Direct Access Call</td> <td></td> <td></td> </tr> <tr> <td>Total Calls</td> <td></td> <td></td> </tr> </table>		2002	2003	Direct Access Call			Total Calls																												
	2002	2003																																		
Direct Access Call																																				
Total Calls																																				
43	Analysis of number of customers: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td colspan="2" style="text-align: center;">2002</td> <td colspan="2" style="text-align: center;">2003</td> </tr> <tr> <td style="text-align: center;">Service Class</td> <td style="text-align: center;">Direct Access</td> <td style="text-align: center;">Total</td> <td style="text-align: center;">Direct Access</td> <td style="text-align: center;">Total</td> </tr> <tr> <td>Residential</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Commercial</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Industrial</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Other</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td></td> <td></td> <td></td> <td></td> </tr> </table>		2002		2003		Service Class	Direct Access	Total	Direct Access	Total	Residential					Commercial					Industrial					Other					Total				
	2002		2003																																	
Service Class	Direct Access	Total	Direct Access	Total																																
Residential																																				
Commercial																																				
Industrial																																				
Other																																				
Total																																				
44	List of instances during 2003 in which SCE has been requested to provide affiliate transaction information within 72 hours																																			
45	List of 2003 bids and access to bid documents for work between SCE and affiliates.																																			
46	Notices to the CPUC of new affiliates																																			
47	Incorporation papers for active first, second and third tier corporate entities																																			
48	2004 internal audit plans																																			
49	List all non-corporate support related instances in 2003 where SCE shares its office space, equipment, services or systems with affiliates																																			
50	List all instances in 2003 where affiliate employees accessed SCE information systems except where it relates to corporate support activities																																			
51	Copies of all 2003 ISRs																																			
52	List of employees who have transferred companies to/from SCE in 2003, as shown below: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td colspan="2" style="text-align: center;">From</td> <td colspan="2" style="text-align: center;">To</td> </tr> <tr> <td style="text-align: center;">Employee</td> <td style="text-align: center;">Company</td> <td style="text-align: center;">Area</td> <td style="text-align: center;">Company</td> <td style="text-align: center;">Area</td> </tr> <tr> <td style="text-align: center;">--list--</td> <td></td> <td></td> <td></td> <td></td> </tr> </table>		From		To		Employee	Company	Area	Company	Area	--list--																								
	From		To																																	
Employee	Company	Area	Company	Area																																
--list--																																				
53	List all instances in 2003 where officers or directors of SCE were also officers or directors of affiliates																																			
54	List of 2003 asset transfers between SCE and affiliates																																			
55	Printout of website reporting the creation of new affiliates in 2003																																			
56	List all instances in 2003 where affiliate officers and employees were not available to testify before the CPUC without subpoena																																			
57	Listing of new products and service SCE offered in 2003																																			
58	Section 851 Applications filed during 2003																																			
59	Identify instances where non-tariffed products and services were offered to affiliates during 2003																																			
60	Listing of all ATR-related complaints filed, under investigation, or resolved in 2003																																			
61	Month of May 2003 schedules relating to SCE's inter-company billings to affiliates. Includes: (a) SCE invoice to EME with supporting detail, (b) DPB2075 Subsidiary Ledger, and (c) JE#009 to reverse affiliate A/R and set up EIX A/R.																																			
62	2002 Affiliate Audit Report																																			
63	2003 Multifactor Summary																																			
64	Copies of all Joint Procurement Notification Forms approved by, or pending before, RP&A in 2001 and 2002 and 2003 (Re: ATR pg. 4-16)																																			
65	Summary of all joint purchasing arrangements, including a listing of all joint purchases during 2002-2003, between SCE and its affiliates																																			
66	List all instances during 2003 in which an affiliate of SCE submitted a bid to SCE but was not awarded a contract, including requisition, or other identifying numbers																																			
67	IMM unit rates for products/services provided to affiliates during 2001-2002-2003																																			
68	Employee termination package checklist																																			
69	Research Balancing Account, Budget, & Co-Funding Summary for 2003 including brief descriptions of the projects																																			
70	Summary of SCE's 2002-2003 "Target" Purchases from EPRI, including purchase amounts (\$) and a list of all available EPRI "targets"																																			
71	List of all merchant entities with which SCE conducted wholesale transactions for the sale or purchase of electric energy, capacity, or ancillary services during 2003, indicating: (1) the type of services purchased/sold (e.g., "E" or "C/A"); (2) those, if any, that were Class A affiliates; and (3) for energy transactions, the cumulative megawatt-hours of 2003 purchases, and of 2003 sales, for each entity.																																			

**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item															
72	For two sample days (2/12/2003 and 8/25/2003), please provide table showing, for the aggregate 24-hour period, the following: (1) total MWH scheduled or provided by SCE, broken down as to source, e.g., SCE plant name, DWR, merchant suppliers, QF suppliers (in aggregate), etc.; and (2) total MWH sold to others by SCE, broken down as to purchaser/recipient.															
73	List of all QF entities with which SCE sold or purchased electric energy, capacity, or ancillary services during 2003, indicating: (1) the type of services purchased/sold (e.g., "E" or "C/A"); (2) those, if any, that were Class A affiliates; and (3) for energy transactions, the cumulative megawatt-hours of 2003 purchases, and of 2003 sales, for each entity.															
74	List of affiliate (other than EIX) personnel (employees, contractors or consultants) that visited the Rosemead GO Buildings #1-2-3-4 during the month of September 2003. <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Affiliate</th> <th>Visitor</th> <th>Date</th> <th>SCE Escort</th> <th>Reason for Visit</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Affiliate	Visitor	Date	SCE Escort	Reason for Visit										
Affiliate	Visitor	Date	SCE Escort	Reason for Visit												
75	ISSM form and description															

**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item									
76	Update the following table from the 2002 Audit Report (page 62) showing analysis of affiliate personnel with access to SCE applications									
		EIX	EME	Mission O&M	EME Homer City	Edison Mission M&T	Mission Land	Midwest Gen	Midwest Gen LLC	EO&MS
	A & I (Approval & Inquiry) - Automated system that routes employee job data changes. For affiliates, any job data changes must be made directly in the PeopleSoft application.	7	9	2	3	3	-	7	14	2
	ATSLAN (Distributed Time Keeping) - Required for processing employee time sheets.	12	3	7	6	3	2	8	63	2
	ATSSD002 (ATSLAN System Test) - Test region for ATSLAN	-	-	-	-	-	-	2	28	1
	CICS Online - An extension to the operating system of IBM mainframe computers. An ID created for each person accessing the mainframe computer. This does not mean that the ID owner has access to SCE customer data.	14	4	6	6	3	1	5	19	-
	APS ALL (Accounts Payable) - Application used by the Accounts Payable department.	2	-	-	-	-	-	-	-	-
	CRD ALL (Credit Card Recon) - Application used for reconciling credit card data.	3	-	-	-	-	-	-	-	-
	DRS ALL (R/DARs) - Required for viewing the RDARS reports on the host system. This application allows payroll personnel to view payroll information, i.e., time sheet errors, paycheck data, etc.	2	4	6	6	3	1	5	28	-
	FAR ALL - Financial Reporting	10	-	-	-	-	-	-	-	-
	FAS ALL - Corporate Accounting	10	-	-	-	-	-	-	-	-
	MTS ALL - Material Management	6	-	-	-	-	-	-	-	-
	DSS HR (Decision Support Sys HR) - Dynamic system which allows users to generate reports on a range of data, limited by access privileges, that includes time keeping, payroll, and demographic tables.	2	9	6	6	3	1	10	22	1
	PAS (Payroll Adjustment Sys) - Required to adjust past payroll information to reflect time or rate changes.	3	3	6	6	3	1	5	28	1
	PSOFT (Peoplesoft) - Required to maintain and update a variety of personnel information including: benefit; in. service dates; emergency contacts; job history; vacation and sick. time balances; and education level.	4	6	6	6	3	1	10	20	1
	Landial -									
	Netware -									
	Nontsog -									
	SCE-NT - SCE's NT domain									
	Sybak002 - Sybase server for Atslan									
	TPX7 -									
	TPXR -									
	TSOD - TSO on System D									
	VPN-Chckpt - network access vial Checkpoint									
	www.SCE									
	Source: DR 76									

(Note: I have dropped the 2003 numbers into the template above for applications)

**2003 Affiliate Transaction Audit
Data Requests**

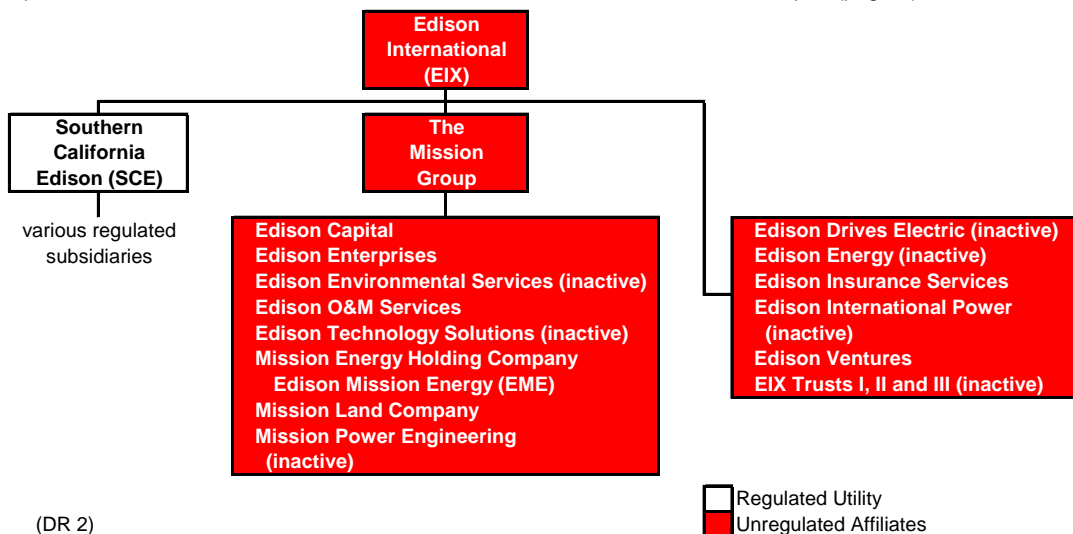
2003#	Item																											
77	<p>Analysis of 2003 Affiliate Personnel Help Desk Activity (total number of calls handled by type) (note: include a description of system acronyms)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="5">Tier 1</th> <th colspan="2">Tier 2</th> <th colspan="2">Tier 3</th> </tr> <tr> <th>Time Rptg</th> <th>PR</th> <th>PS HR</th> <th>Acctg</th> <th>Etc...</th> <th>Etc..</th> <th></th> <th>Etc..</th> <th></th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Tier 1					Tier 2		Tier 3		Time Rptg	PR	PS HR	Acctg	Etc...	Etc..		Etc..										
Tier 1					Tier 2		Tier 3																					
Time Rptg	PR	PS HR	Acctg	Etc...	Etc..		Etc..																					
78	Description of the ESI facilities and products/services																											
79	<p>Analysis of 2003 ESI billings to affiliates including the following information and supporting backup for each charge:</p> <ul style="list-style-type: none"> - The 2003 published rate sheet - Service agreement with each affiliate - The type of work performed for each job (so I can associate the types of overheads that apply) - Cost estimate for each job – show each cost element; for labor, show the direct labor rate and labor overheads; also show the other applicable overheads and profit - Invoice for each job (indicate the date the funds were received from the affiliate) - Sales Journal (or equivalent) that shows the recording of revenues from each job - ESI's income statements that shows monthly revenues from the sales journal (or equivalent) - A. Standard terms and conditions - B. Copies of emails from RP&A approving affiliate work for the following projects: 39265, 40023, 40575, 40725, 40762 - C. Copies of affiliate checks paying invoices associated with the following projects: 39265, 40023, 40575, 40725, 40762 																											
80	Access to minutes of meetings held in 2003 by SCE Board of Directors, EIX Board of Directors and EIX Audit Committee																											
81	List and access to all corporate policy manuals. Identify policies that pertain to affiliate transactions																											
82	Flowchart/documentation showing how affiliate charges are identified, accumulated, assigned and allocated. System flowcharts for all application systems, including time reporting, transaction flow analysis and related documentation. Description of the approached taken to maintain contemporaneous records documenting affiliate transactions.																											
83	Copy of SCE/EIX General Ledger Summary Trial Balance (DPB 2003) as of 9/30/03																											
84	Names and job titles of personnel who are jointly employed by SCE and an affiliate																											
85	<p>Analysis of 2003 payments to SCE for employees transferred to affiliates, including the following information:</p> <ol style="list-style-type: none"> 1. Employee Name 2. Job Title 3. SCE AOR 4. Transfer Date 5. Hiring Affiliate 6. Affiliate Class 7. Compensation 8. Benefits 9. Transfer Fee <p>Include in this DR, a description of how the fee is calculated and accounted for</p>																											
86	Description of SCE's IT infrastructure																											
87	Description of SCE's IT security roles and responsibilities, policies and procedures																											
88	Copy of 2003 professional ethics letters, memorandums or affidavits to management employees. Include the number of employees that received the annual ethics letter and related website link and the number of management and professional employees required to complete a Management Certificate in 2003																											
89	Loaned Labor Report for December 2003																											
90	List and description of all Expense Project Numbers																											
91	<p>List of affiliate employees with offices during 2003 in SCE facilities, including the following information.</p> <ol style="list-style-type: none"> 1. Affiliate Employee Name 2. Job Title 3. AOR 4. SCE Work Location (e.g., General Office) 																											
92	<p>List of SCE employees with offices during 2003 in affiliate facilities, including the following information:</p> <ol style="list-style-type: none"> 1. Affiliate Employee Name 2. Job Title 3. AOR 4. Affiliate Work Location (e.g., Washington DC) 																											

**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item																			
93	Copy of all 2003 notifications to the CPUC of changes in shared directors and officers among utility and affiliates, as required by Rule V.G.1.																			
94	Description of how the cost of the Affiliate Transaction Audit for 2003 was recorded by EIX. Indicate which function and income statement account is charged.																			
95	Criteria and evaluative process used to determine who is an "employee involved in marketing" that are prohibited from temporary assignments with affiliates																			
96	Listing, showing hierarchy, of all EIX entities defined as energy marketing affiliates																			
97	Copy of all NTP&S filings and advice letters submitted to the CPUC during 2003. Include a copy of the annual report on NTP&S filed in March 2004.																			
98	Copy of all feedback from the CPUC regarding NTP&S reports and any protests filed during 2003																			
99	Copy of Corporate Support Authorization forms, including any guidelines pertaining to form preparation.																			
100	Floor plan for the Washington DC office showing facilities occupied by SCE and affiliates during 2003; include analysis of square feet occupied																			
101	Basis for allocating Washington DC office expenses, in the following format: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th rowspan="2">Office Cost</th> <th colspan="4">Percent Allocation</th> </tr> <tr> <th>SCE</th> <th>EME</th> <th>RWE</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Lease, insurance, maintenance, etc.</td> <td></td> <td></td> <td></td> <td>100%</td> </tr> <tr> <td>Common expenses (e.g., receptionist)</td> <td></td> <td></td> <td></td> <td>100%</td> </tr> </tbody> </table>	Office Cost	Percent Allocation				SCE	EME	RWE	Total	Lease, insurance, maintenance, etc.				100%	Common expenses (e.g., receptionist)				100%
Office Cost	Percent Allocation																			
	SCE	EME	RWE	Total																
Lease, insurance, maintenance, etc.				100%																
Common expenses (e.g., receptionist)				100%																
102	ESRs created in 2003																			
103	Identify any pricing concessions, discounts or waivers offered to affiliates by SCE during 2003.																			
104	Copy of 2003 "Discounts Offered to Affiliates" web-page (3F Reports) and any subordinate web-pages (please provide in landscape format and specify URL addresses)																			
105	Identify any known occurrence in 2003 in which SCE participated in joint advertising or joint marketing with its affiliates																			
106	Describe how SCE in 2003 offered or provided customer advice or assistance with regard to its affiliates or other service providers																			
107	List all trade shows, conferences, other information or marketing events held in California that in 2003 were attended by representatives of SCE and one or more of SCE's Class A affiliates. In each of these cases, please describe how SCE participation was separated from affiliate participation																			
108	Identify any R&D projects active in 2003 that were jointly funded by SCE and one or more of its Class A affiliates.																			
109	Identify any R&D projects active in 2003 for which end products and results are recognized as beneficial to one or more of SCE's affiliates.																			
110	Identify any R&D projects active in 2003 that, regardless of initial funding, have demonstrated commercial viability to SCE's affiliates.																			
111	Identify any instances during 2003 in which SCE and one or more of its affiliates shared or subsidized costs, fees, or payments for research and development activities, or investment in advanced technology research.																			
112	Provide samples of year 2003 Customer Information Service Request Forms and access to all 2003 forms.																			
113	Make available for review the 2003 presentations and documents stored in the Account Manager Information System (AMIS).																			
114	Make available for inspection the 2003 calendar and journal information contained in the Major Customers Division contact management system, "AccountTrak".																			
115	Identify RFPs/RFQs that were issued by major SCE customers for energy services and products in 2003 and please identify those for which SCE issued a proposal in 2003. Please provide an executive summary of each of these proposals and indicate if any Class A affiliates were parties in those proposals.																			
116	Refer to SCE's response to DR # 65. For each of the joint purchase contracts listed under the categories "Joint Contracts" and "Single Party Contracts – Joint Use", please provide a table showing the cumulative dollar amount of 2003 payments made by SCE and each of the Class A affiliates that were parties to the contract. And, for each contract, please describe the method(s) by which these payment amounts were allocated between SCE and affiliates.																			
117	Provide details of instances in 2003 in which SCE provided utility information, services, or unused supply/capacity to one or more of its affiliates and copy of 2003 "Supply / Capacity / Service / Info Offered to Affiliates" web-page and any subordinate web-pages (3B Reports) (please provide in landscape format and specify URL addresses)																			
118	List of affiliate employees with access to SCE's IT infrastructure/business applications																			
119	Access to documentation supporting the calculation of charges (compensation, benefits and fees) to affiliates for directly requested services (ISR). (selection: EME for April and May 2003)																			
120	EO&MS price lists in effect during 2003 for SCE and third party customers (re: ESRs)																			
121	All 2003 invoices from EO&MS for ESRs																			
122	The first six (6) EO&MS third party customer invoices in 2003. This sample should include invoices with as many line items as possible. (re: ESRs)																			

**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item																				
123	Provide a list of instances in 2003 in which (a) SCE gave any appearance that it speaks on behalf of one or more of its affiliates (re: Rule III.E.6), or (b) SCE gave any appearance that one or more of its affiliates speaks on behalf of SCE (re: Rule III.E.7)																				
124	Provide access to monitor call center calls both at the residential and the commercial gates																				
125	Provide a list of all contracts for the purchase or sale of natural gas or gas transportation that include an SCE affiliate as a party in 2003. Please indicate the name of the parties to the contract and approximate cumulative volume of gas, or gas transported, in terms of MCF (decatherms). And please make these contracts available for inspection.																				
126	Provide a list of all contracts for the purchase or sale of coal or coal transportation that include an SCE affiliate as a party in 2003. Please indicate the name of the parties to the contract and approximate cumulative volume of coal, or coal transported, in terms of tons. And please make these contracts available for inspection.																				
127	Provide a list of all contracts for the purchase or sale of transmission rights or ancillary services that include an SCE affiliate as a party in 2003. Please indicate the name of the parties to the contract. And please make these contracts available for inspection.																				
128	Update the following table from the 2002 Audit Report (page 69) showing corporate support charges as either directly charged or allocated:																				
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">2000</th> <th style="text-align: right;">2001</th> <th style="text-align: right;">2002</th> <th style="text-align: right;">2003</th> </tr> </thead> <tbody> <tr> <td>Directly Charged Services</td> <td style="text-align: right;">\$ 10,272,781</td> <td style="text-align: right;">\$ 6,269,838</td> <td style="text-align: right;">\$ 8,034,851</td> <td></td> </tr> <tr> <td>Allocated Corporate Support (A)</td> <td style="text-align: right;">\$ 11,178,436</td> <td style="text-align: right;">\$ 9,853,471</td> <td style="text-align: right;">\$ 6,403,777</td> <td></td> </tr> <tr> <td style="text-align: center;">Total</td> <td style="text-align: right;">\$ 21,451,217</td> <td style="text-align: right;">\$ 16,123,309</td> <td style="text-align: right;">\$ 14,438,628</td> <td style="text-align: right;">\$ -</td> </tr> </tbody> </table>		2000	2001	2002	2003	Directly Charged Services	\$ 10,272,781	\$ 6,269,838	\$ 8,034,851		Allocated Corporate Support (A)	\$ 11,178,436	\$ 9,853,471	\$ 6,403,777		Total	\$ 21,451,217	\$ 16,123,309	\$ 14,438,628	\$ -
	2000	2001	2002	2003																	
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129	SCE rehire dates for affiliate employees transferring to SCE during 2003																				
130	Analysis of Corporate Real Estate's charges to affiliates (2002 and 2003) (note: put in the same format as DR 157)																				
131	Samples of all promotional materials provided by Class A affiliates to their California customers during 2003																				
132	Self-reporting letters to CPUC in 2003 concerning: (a) use of disclaimer in advertising and (b) promotional items																				
133	Sample intercompany invoice from SCE to an affiliate which includes charges for directly requested services, directly charged corporate support and allocated corporate support and relevant supporting documents																				
134	2003 Analysis of Generation Business Unit's Non-tariffed products and services charges to affiliates.																				
135	Analysis of 2003 Carrier Solutions Business Unit's Non-tariffed products and services charges to affiliates																				
136	List instances in 2003 where SCE (1) provided leads to or solicited business on behalf of its affiliates, (2) acquired information on behalf of or to provide to its affiliates, (3) shared proprietary or non-publicly available reports with its affiliates, or (4) requested authorization from its customers to pass information exclusively to its affiliates, as described in Rules III.E.1 through III.E.5.																				
137	List any EPRI deliverables which were shared with, or available to, personnel from Class A affiliates in 2003																				
138	List any instances in 2003 where SCE (1) applied discretionary tariffs differently for affiliates than for other market participants, and/or (2) did not strictly enforce non-discretionary tariffs, as described in Rules III.B.3 and III.B.4.																				
139	Affiliate rules training, presentations, instructions, etc. provided to employees of SCE and its affiliates																				
140	All Entity Lists prepared in 2003																				
141	Update with 2003 information Edison International structure from the 2002 Audit Report (page &)																				



**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item																																																																								
142	<p>Update with 2003 information the summary (see below) on page 6 of the 2002 Audit Report for 2003 affiliate transactions</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">(\$ in thousands)</th> <th style="text-align: right;">1999</th> <th style="text-align: right;">2000</th> <th style="text-align: right;">2001</th> <th style="text-align: right;">2002</th> <th style="text-align: right;">2003</th> </tr> </thead> <tbody> <tr> <td>SCE's Provision of Goods and Services to Affiliates (A)</td> <td style="text-align: right;">\$ 25,455</td> <td style="text-align: right;">\$ 35,395</td> <td style="text-align: right;">\$ 30,441</td> <td style="text-align: right;">\$ 16,565</td> <td></td> </tr> <tr> <td>Affiliates' Provision of Goods and Services to SCE</td> <td style="text-align: right;">\$ 202</td> <td style="text-align: right;">\$ 9,281</td> <td style="text-align: right;">\$ 3,619</td> <td style="text-align: right;">\$ 14,215</td> <td></td> </tr> <tr> <td>Transfers of Tangible Assets</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ 1,830</td> <td style="text-align: right;">\$ 3,916</td> <td style="text-align: right;">\$ -</td> <td></td> </tr> <tr> <td>Transfers of Intangible and Intellectual Property</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ 205</td> <td style="text-align: right;">\$ -</td> <td></td> </tr> </tbody> </table> <p>Note A: excludes charges to accounts (146, 236 and 438) not directly related to the provision of goods and services</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th></th> <th style="text-align: right;">1999</th> <th style="text-align: right;">2000</th> <th style="text-align: right;">2001</th> <th style="text-align: right;">2002</th> <th style="text-align: right;">2002</th> </tr> </thead> <tbody> <tr> <td>Total Goods and Services from SCE to Affiliates</td> <td style="text-align: right;">\$ (906,464)</td> <td style="text-align: right;">\$ (315,519)</td> <td style="text-align: right;">\$ 504,054</td> <td style="text-align: right;">\$ (808,299)</td> <td></td> </tr> <tr> <td>Less:</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Accts Receivable from Affiliates (acct 146)</td> <td style="text-align: right;">\$ (150,341)</td> <td style="text-align: right;">\$ (302,054)</td> <td style="text-align: right;">\$ (473,613)</td> <td style="text-align: right;">\$ (254,123)</td> <td></td> </tr> <tr> <td>Taxes Accrued (acct 236)</td> <td style="text-align: right;">\$ 418,978</td> <td style="text-align: right;">\$ 280,700</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ 1,078,987</td> <td></td> </tr> <tr> <td>Dividends Declared (acct 438)</td> <td style="text-align: right;">\$ 663,282</td> <td style="text-align: right;">\$ 372,268</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ -</td> <td></td> </tr> <tr> <td style="text-align: right;">Net Goods and Services</td> <td style="text-align: right;">\$ 25,455</td> <td style="text-align: right;">\$ 35,395</td> <td style="text-align: right;">\$ 30,441</td> <td style="text-align: right;">\$ 16,565</td> <td style="text-align: right;">\$ -</td> </tr> </tbody> </table>	(\$ in thousands)	1999	2000	2001	2002	2003	SCE's Provision of Goods and Services to Affiliates (A)	\$ 25,455	\$ 35,395	\$ 30,441	\$ 16,565		Affiliates' Provision of Goods and Services to SCE	\$ 202	\$ 9,281	\$ 3,619	\$ 14,215		Transfers of Tangible Assets	\$ -	\$ 1,830	\$ 3,916	\$ -		Transfers of Intangible and Intellectual Property	\$ -	\$ -	\$ 205	\$ -			1999	2000	2001	2002	2002	Total Goods and Services from SCE to Affiliates	\$ (906,464)	\$ (315,519)	\$ 504,054	\$ (808,299)		Less:						Accts Receivable from Affiliates (acct 146)	\$ (150,341)	\$ (302,054)	\$ (473,613)	\$ (254,123)		Taxes Accrued (acct 236)	\$ 418,978	\$ 280,700	\$ -	\$ 1,078,987		Dividends Declared (acct 438)	\$ 663,282	\$ 372,268	\$ -	\$ -		Net Goods and Services	\$ 25,455	\$ 35,395	\$ 30,441	\$ 16,565	\$ -
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148	<p>Confirm the 2003 accuracy of the following table from the 2002 Audit Report (page 70) summarizing the accounting for expense projects:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: red; color: white;"> <th style="text-align: center;">Time/Expense Reporting</th> <th style="text-align: center;">Charged To</th> <th style="text-align: center;">Cost Assignment</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Directly Charged</td> <td style="text-align: center;">Affiliate Expense Projects</td> <td style="text-align: center;">Accumulated costs are charged directly to the benefiting affiliate (no allocation involved)</td> </tr> <tr> <td style="text-align: center;">Time-Identified</td> <td style="text-align: center;">Expense Project 098.902 Expense Project 098.999 (Shared Officers)</td> <td style="text-align: center;">Multi-Factor Allocation</td> </tr> <tr> <td style="text-align: center;">Automatically Allocated</td> <td style="text-align: center;">Normal Functions That Are 100% Allocated</td> <td style="text-align: center;">Multi-Factor Allocation Equity Investment and Advances Allocation, or Number of Employees Allocation</td> </tr> </tbody> </table>	Time/Expense Reporting	Charged To	Cost Assignment	Directly Charged	Affiliate Expense Projects	Accumulated costs are charged directly to the benefiting affiliate (no allocation involved)	Time-Identified	Expense Project 098.902 Expense Project 098.999 (Shared Officers)	Multi-Factor Allocation	Automatically Allocated	Normal Functions That Are 100% Allocated	Multi-Factor Allocation Equity Investment and Advances Allocation, or Number of Employees Allocation																																																								
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158	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by any <u>Class A Affiliate organizations</u> in 2003 to help assure the organization's compliance the affiliate transaction rules. (Note that DR 139 covers company wide training materials).												
159	Copy of: (1) D.02-10-062 and (2) Decision related to Petition for Modification to item 1, D.03-06-076												
160	SCE Power "Okay to Trade" checklists from 11-06-2003 interview with Mgr of Power Contracts												
161	"Contracts Group Operating Guide", dated June 3, 2003 (from Nov 6, 2003 interview with Mgr of Power Contracts): Provide only copy of Cover Sheet and Table of Contents but make manual available for inspection												
162	Quarterly Procurement Plan Compliance Reports (from Nov 6, 2003 interview with Mgr of Power Contracts): Provide only copy of quarterly 2003 transmittal letters but make reports available for inspection												
163	Testimony of James Kelly regarding SCE proposal to acquire the Mountainview Power Company LLC: (1) Prefiled testimony dated July 21, 2003 and (2) cross examination transcript dated October 16, 2003												
164	CPUC draft decision on Mountainview												
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166	<p>Confirm the accuracy of the following table from the 2002 ATR Audit Report (page 25) The table below shows who in SCE is responsible for billing affiliates for these transactions.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Allowed Affiliate Transactions</th> <th>Who Bills Affiliates</th> </tr> </thead> <tbody> <tr> <td>Tariffed products and services</td> <td>SCE Customer Services Business Unit</td> </tr> <tr> <td>Goods/services available to open market/third parties</td> <td>SCE department performing the work</td> </tr> <tr> <td>Joint purchases</td> <td>Controller's Department</td> </tr> <tr> <td>Shared corporate support (A)</td> <td>Controller's Department</td> </tr> <tr> <td>Non-tariffed products and services</td> <td>SCE business unit performing the work</td> </tr> </tbody> </table> <p>Note A: these make up the majority of SCE's affiliate charges</p>	Allowed Affiliate Transactions	Who Bills Affiliates	Tariffed products and services	SCE Customer Services Business Unit	Goods/services available to open market/third parties	SCE department performing the work	Joint purchases	Controller's Department	Shared corporate support (A)	Controller's Department	Non-tariffed products and services	SCE business unit performing the work
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167	SCE Risk Control's "OK-To-Trade" checklist used to enable counter-parties												
168	Property insurance premium invoices from Marsh to SCE and EMS for the year ended June 1, 2004. Include the schedule that shows asset values being insured for SCE and EME (this is a schedule prepared by Joanne that was discussed during the interview)												
169	<p>Details on the Fullerton office/service center lease:</p> <ul style="list-style-type: none"> • EO&MS lease document • SCE lease document • Amount of the EO&MS lease termination fee (show calculation) • List of office equipment purchased by SCE from EO&MS; include the following for each item: (a) brief description, (b) when purchased by EO&MS, (c) net book value at the time of SCE's purchase • Herman Miller's market value estimate for EO&MS office equipment purchased by SCE • List of leasehold improvements purchased by SCE from EO&MS; include the following for each item: (a) brief description, (b) when installed by EO&MS, (c) net book value at the time of SCE's purchase (the NBVs of this list should total to the amount of SCE's purchase price) 												
170	Referring to 2003 DR 65 and the list of arrangements entitled "Joint Negotiations Resulting in Separate Contracts", please provide a table with the following information for each of the listed arrangements: (1) supplier name; (2) SCE purchase order number and date; (3) affiliate(s) purchase order number(s) and date(s); (4) SCE/EIC/EIX proposal request (PR) number and date ; (5) brief description of the goods / services / deliverables to be provided.												
171	Referring to 2003 DR 113 and DR 29, please provide a copy of the presentation entitled "External Presentations / Electric Forklift 2002" from the Account Manager Information System (AMIS)												

**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item
172	<p>Please refer to 2003 DR 65 and the arrangements listed under the category "Joint Negotiations – Separate Contracts". For the following arrangements, please provide copies of 2003 invoices sent to both SCE and to affiliate(s). Please also include supporting "unit price" detail if it is available:</p> <ul style="list-style-type: none"> • Software Spectrum (E1043987) -- All invoices dated 2003 • IBM/Lotus (J1099903) -- All invoices dated 2003 • CISCO Systems (E5040901) -- Invoices dated <u>January 2003 only</u>. • Factiva (E2070901) -- All invoices dated 2003 • SHERPA (E1110930) -- All invoices dated 2003 • DSS (E5060904) -- Invoices dated <u>March 2003 only</u> • Dell (E5110902) -- Invoices dated <u>February 2003 only</u> • Wolftech (E2121903) -- All invoices dated 2003 • Cingular Interactive (E2121914) -- Invoices dated <u>October 2003 only</u> • Telecom 611 (E2082902) -- All invoices dated 2003 • Ivara (E1053988) -- All invoices dated 2003 • Ivara (E5082911) -- All invoices dated 2003 • Microsoft (E1033984) -- All invoices dated 2003

**2003 Affiliate Transaction Audit
Data Requests**

173	Information for sample of affiliate employees with access to SCE IT applications/network (see table below)
-----	--

Affiliate Employee	Application
DANNER, BRYANT C	Approval & Inquiry CICS Online Domino Mail Materials Management
SMITH, DONNA ROBERTS	Approval & Inquiry CICS Online Corporate Accounting Decision Support System HR Distributed Time Keeping Domino Mail Financial Reporting Materials Management Payroll Adjustment System Peoplesoft
SULLIVAN, LINDA G	CICS Online Corporate Accounting Domino Mail Financial Reporting
WINN, BRIAN E	CICS Online Corporate Accounting Credit Card Reconciliation Distributed Time Keeping Domino Mail Financial Reporting
HIGGINS, MARGARET M	Approval & Inquiry CICS Online Decision Support System HR Distributed Time Keeping Payroll Adjustment System Peoplesoft R/DARs
WILSON, JENENE J.	Approval & Inquiry Decision Support System HR Peoplesoft
PRITCHARD, CLARENCE L	Approval & Inquiry CICS Online Decision Support System HR Distributed Time Keeping Payroll Adjustment System Peoplesoft R/DARs
MARTINEZ, AMALIA	Approval & Inquiry Decision Support System HR Distributed Time Keeping Payroll Adjustment System Peoplesoft
MOODY, WESLEY C	Approval & Inquiry
HEATON, CARY L.	CICS Online Decision Support System HR Distributed Time Keeping Payroll Adjustment System Peoplesoft R/DARs
MUNDORF, TODD K	CICS Online Decision Support System HR Distributed Time Keeping Payroll Adjustment System Peoplesoft R/DARs
SIEGMAN, ALAN	Approval & Inquiry Decision Support System HR Peoplesoft
ELLIS, DANIEL	Approval & Inquiry CICS Online Decision Support System HR Distributed Time Keeping Payroll Adjustment System Peoplesoft R/DARs
LAMB, DELENE L	CICS Online Distributed Time Keeping Payroll Adjustment System Peoplesoft R/DARs
WILLIAMS, GLORIA J	CICS Online Decision Support System HR Distributed Time Keeping Payroll Adjustment System R/DARs

**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item																																													
174	Please provide a copy of the CSBU/Major Customer Division presentation entitled "Affiliate Transaction Rules" mentioned in the response to DR 152.																																													
175	Referring to DR-152, please provide more detail about the "annual audit" that CSBU employees are required to sign each year stating that they will abide by the affiliate transaction rules.																																													
176	Documents from the 2/10/04 interview with John Helvin regarding transfers of assets from EO&MS to SCE (includes emails and spreadsheets discussed in this meeting)																																													
177	<p>Provide backup for tracing charges associated with the ISRs below. For each SCE employee, you may select any <u>one</u> month's charges so we can perform the following audit steps:</p> <ol style="list-style-type: none"> 1. Find employee on applicable month's "Holding Co Exp Project Detail Report" 2. Determined the employee's payroll expense (payments plus accrual) 3. Determined that payroll overheads were properly applied (payroll taxes & benefits) 4. Determined that the appropriate markup and facilities charge was applied. 5. Tie employee charges to the affiliate invoice <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2">ISR</th> <th colspan="2">Requesting</th> <th>2003</th> </tr> <tr> <th>#</th> <th>Date</th> <th>SCE Employee</th> <th>Affiliate</th> <th>Hours</th> </tr> </thead> <tbody> <tr> <td>03-001</td> <td>12/19/02</td> <td>Ballance, John</td> <td>EME-MW Gen</td> <td>44</td> </tr> <tr> <td>03-048</td> <td>6/10/03</td> <td>Carter, Mark</td> <td>EOMS</td> <td>316</td> </tr> <tr> <td>03-027</td> <td>3/3/03</td> <td>Gault, Polly</td> <td>ED CAP</td> <td>21</td> </tr> <tr> <td>03-047</td> <td>5/15/03</td> <td>Huson, Spencer</td> <td>EOMS</td> <td>623</td> </tr> <tr> <td>03-030</td> <td>3/4/03</td> <td>Kurimoto, Christine</td> <td>EIX</td> <td>191.2</td> </tr> <tr> <td>03-043</td> <td>3/12/03</td> <td>Sadeghi, Saeed</td> <td>EOMS</td> <td>185</td> </tr> <tr> <td>03-013</td> <td>2/6/03</td> <td>Turner, Patricia</td> <td>EIX</td> <td>65.5</td> </tr> </tbody> </table>	ISR		Requesting		2003	#	Date	SCE Employee	Affiliate	Hours	03-001	12/19/02	Ballance, John	EME-MW Gen	44	03-048	6/10/03	Carter, Mark	EOMS	316	03-027	3/3/03	Gault, Polly	ED CAP	21	03-047	5/15/03	Huson, Spencer	EOMS	623	03-030	3/4/03	Kurimoto, Christine	EIX	191.2	03-043	3/12/03	Sadeghi, Saeed	EOMS	185	03-013	2/6/03	Turner, Patricia	EIX	65.5
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178	NTP&S report (produced by Accounting) for 2003 (same as DR#164 from 2002)																																													
179	Brief history of SCE's involvement in the Carl Moyer Program as described in DR-171 including information regarding the purpose and distribution of the DR-171 powerpoint presentation during 2003.																																													
180	A 2/25/2003 letter from SCE to the CPUC concerning "Edison O&M Services 'Give-Away' Items" (re: DR-161 from 2002 audit) indicates that (1) "EIX has updated its manual addressing logo placement standards to illustrate and emphasize the wording and placement of disclaimers" and that (2) these "revised standards will be communicated to employees of all other Class A affiliates ...". Provide more information about the timing and nature of this update to the EIX manual and the communiqués to employees. Note that the EIX Corporate Identity Standards intranet web pages which apply to disclaimers seem to have been most recently revised on 3/5/2001.																																													
181	Regarding DR-41, provide a copy of the signed Rule IV.D vendor consent letter from Software Spectrum, Inc. (PO # E1043987) authorizing SCE to share bid information with its affiliates. If the Rule IV.D vendor consent letter from Microsoft Corporation dated 3/11/2003 and signed 3/17/2003 (PO # E1033984) represents such authorization, as has been suggested, please provide explanation.																																													

**2003 Affiliate Transaction Audit
Data Requests**

2003#	Item																																																												
182	<p>Complete the following table of information summarizing data received in DRs 28 and 131.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 45%;">Description of Advertisement or Promotional Item</th> <th style="width: 20%;">Type of Ad or Promotion: Radio; Television; Billboard; Newspaper; Magazine; Product Spec Sheet; Giveaway</th> <th style="width: 20%;">How Item Was Distributed</th> <th style="width: 15%;">How Copy for Review Is Provided (Key / Location / Filename / Path)</th> </tr> </thead> <tbody> <tr> <td colspan="4"><u>SOUTHERN CALIFORNIA EDISON</u></td> </tr> <tr> <td colspan="4">Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by Southern California Edison: <Begin List or Enter "None"></td> </tr> <tr> <td colspan="4"><u>EDISON SOURCE - NORVIK</u></td> </tr> <tr> <td colspan="4">A. Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by Edison Source - Norvik <Begin List or Enter "None"></td> </tr> <tr> <td colspan="4">B. Following is a list of all promotional giveaways in 2003 in CA by Edison Source - Norvik (e.g., caps, jackets, coffee cups, pens, gadgets, etc.) <Begin List or Enter "None"></td> </tr> <tr> <td colspan="4"><u>EDISON O&M SERVICES</u></td> </tr> <tr> <td colspan="4">A. Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by Edison O&M Services <Begin List or Enter "None"></td> </tr> <tr> <td colspan="4">B. Following is a list of all promotional giveaways in 2003 in CA by Edison O&M Services (e.g., caps, jackets, coffee cups, pens, gadgets, etc.) <Begin List or Enter "None"></td> </tr> <tr> <td colspan="4"><u>EDISON MISSION ENERGY (EME) AND ITS SUBSIDIARIES</u></td> </tr> <tr> <td colspan="4">A. Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by EME and/or its subsidiaries <Begin List or Enter "None"></td> </tr> <tr> <td colspan="4">B. Following is a list of all promotional giveaways in 2003 in CA by EME and/or its subsidiaries (e.g., caps, jackets, coffee cups, pens, gadgets, etc.) <Begin List or Enter "None"></td> </tr> <tr> <td colspan="4"><u>EDISON CAPITAL'S "CLASS A" SUBSIDIARIES (Storm Lake Partners, Lakota Ridge, Shaokatan Hills, Woodstock Hills, Cade, Electropaz, Elfeo, and Edeser)</u></td> </tr> <tr> <td colspan="4">A. Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by Edison Capital's Class A subsidiaries <Begin List or Enter "None"></td> </tr> <tr> <td colspan="4">B. Following is a list of all promotional giveaways in 2003 in CA by Edison Capital's Class A subsidiaries (e.g., caps, jackets, coffee cups, pens, gadgets, etc.) <Begin List or Enter "None"></td> </tr> </tbody> </table>	Description of Advertisement or Promotional Item	Type of Ad or Promotion: Radio; Television; Billboard; Newspaper; Magazine; Product Spec Sheet; Giveaway	How Item Was Distributed	How Copy for Review Is Provided (Key / Location / Filename / Path)	<u>SOUTHERN CALIFORNIA EDISON</u>				Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by Southern California Edison: <Begin List or Enter "None">				<u>EDISON SOURCE - NORVIK</u>				A. Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by Edison Source - Norvik <Begin List or Enter "None">				B. Following is a list of all promotional giveaways in 2003 in CA by Edison Source - Norvik (e.g., caps, jackets, coffee cups, pens, gadgets, etc.) <Begin List or Enter "None">				<u>EDISON O&M SERVICES</u>				A. Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by Edison O&M Services <Begin List or Enter "None">				B. Following is a list of all promotional giveaways in 2003 in CA by Edison O&M Services (e.g., caps, jackets, coffee cups, pens, gadgets, etc.) <Begin List or Enter "None">				<u>EDISON MISSION ENERGY (EME) AND ITS SUBSIDIARIES</u>				A. Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by EME and/or its subsidiaries <Begin List or Enter "None">				B. Following is a list of all promotional giveaways in 2003 in CA by EME and/or its subsidiaries (e.g., caps, jackets, coffee cups, pens, gadgets, etc.) <Begin List or Enter "None">				<u>EDISON CAPITAL'S "CLASS A" SUBSIDIARIES (Storm Lake Partners, Lakota Ridge, Shaokatan Hills, Woodstock Hills, Cade, Electropaz, Elfeo, and Edeser)</u>				A. Following is a list of all advertisements published, distributed, or broadcast in 2003 in CA by Edison Capital's Class A subsidiaries <Begin List or Enter "None">				B. Following is a list of all promotional giveaways in 2003 in CA by Edison Capital's Class A subsidiaries (e.g., caps, jackets, coffee cups, pens, gadgets, etc.) <Begin List or Enter "None">			
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183	Instances where SCE construed the ATR as modifying FERC accounting or reporting rules (see ATR IV.H)																																																												
184	<p>Questions concerning CSR 03-006:</p> <p>a. When was the work associated with this CSR performed:</p> <p>b. Was EO&MS charged for the time incurred by the two Power Production employees performing the work?</p>																																																												

**AUDIT OF 2004 AFFILIATE TRANSACTIONS BETWEEN
SOUTHERN CALIFORNIA EDISON COMPANY AND
CERTAIN OF ITS AFFILIATES**

April 2005

**AUDIT OF 2004 AFFILIATE TRANSACTIONS BETWEEN
SOUTHERN CALIFORNIA EDISON COMPANY AND
CERTAIN OF ITS AFFILIATES**

TABLE OF CONTENTS

Executive Summary	1
Background	5
Rule I – Definitions	12
Rule II – Applicability	15
Rule III – Non-Discrimination	21
Rule IV – Disclosure and Information	49
Rule V – Separation	65
Rule VI – Regulatory Oversight	99
Rule VII – Utility Products and Services	109
Rule VIII – Complaint Procedures and Remedies	122
Appendices	
A – Interview List	127
B – Data Request List	131

Executive Summary

Audit Results

In our opinion, SCE's 2004 affiliate transactions were in compliance with the CPUC's rules and SCE's own compliance plans. Exhibit 1 summarizes our conclusions by rule. In 38 of 41 rule/sub-rules audited, we noted full compliance. For the remaining 3 sub-rules, SCE was found to be in partial compliance. One incident caused us to determine partial compliance with both Rules III.E and IV.E. We noted during the course of our audit an instance where an SCE account executive provided an SCE industrial customer with the name and website address of Edison Source Norvik Company, a Class A affiliate. Rules III.E and IV.E prohibit such referrals. Because this was the only such incident noted in the course of our audit work, we concluded SCE was in partial compliance rather than non-compliance.

We also concluded SCE was in partial compliance with Rule IV.C. In this case, the Company discovered a flyer had been created by SCE's Agricultural Technology Application Center (AgTAC) acknowledging a list of 60 businesses donating products/services to an AgTAC project. None of these businesses were SCE affiliates. This list had not been filed with the CPUC as required by Rule IV.C. Here too, the isolated nature of this event caused us to conclude SCE was in partial compliance rather than non-compliance with Rule IV.C.

Neither of these incidents were serious violations nor did they result in disadvantage to utility ratepayers or unfair benefit to the affiliates. As required by the Affiliate Transaction Rules, SCE promptly reported both instances of non-compliance in self-reporting letters to the CPUC.

Baryenbruch & Company conducted the 2002 and 2003 audits of SCE's affiliate transactions. During the 2004 audit, we continued to be impressed with SCE's overall compliance program. SCE remains serious about adhering to the affiliate rules.

Notable was the level of understanding of the affiliate transaction rules among the managers and staff we interviewed. Clearly, a considerable effort has gone into educating SCE and affiliate personnel and sustaining their commitment to compliance with the affiliate rules. We also found SCE's compliance organization consists of experienced and conscientious professionals committed to ensuring compliance.

Compliance policies and procedures are well-documented and readily available to utility and affiliate personnel. Employees are encouraged to contact SCE's compliance organization with questions or for advice on implementing the rules.

Finally, we found internal controls to be effective at ensuring compliance. Among these are various monitoring activities by the compliance organization and the significant role played by SCE's Audit Services Department.

As shown in Exhibit 1, we had 8 recommendations directed at further improving SCE's compliance process.

Exhibit 1

Southern California Edison Company
2004 Affiliate Transactions Audit
Summary of SCE's Compliance With CPUC Affiliate Transactions Rules

Rule	Sub-Rule	Was SCE In Compliance?	Recommendations
I. Definitions	A through G – Definitions	Yes	
II. Applicability	A through I – Applicability	Yes	1 (pg. 20)
III. Non-Discrimination	A – Preferential treatment	Yes	2 (pg. 30) 3, 4 (pg. 33)
	B – Affiliate transactions	Yes	
	C – Tying of services	Yes	5 (pg. 46)
	D – Assignment of customers	Yes	
	E – Bus development & customer relations	Partial	
	F – Affiliate discount report	Yes	
IV. Disclosure and Information	A – Customer information	Yes	6 (pg. 57)
	B – Non-customer, non-public information	Yes	
	C – Service provider information	Partial	
	D – Supplier information	Yes	
	E – Affiliate-related advice or assistance	Partial	
	F – Recordkeeping	Yes	
	G – Maintenance of Affiliate Contracts and Related Bids	Yes	
	H – FERC reporting requirements	Yes	
V. Separation	A – Corporate entities	Yes	7 (pg. 84)
	B – Books and records	Yes	
	C – Sharing of plant, facilities, equipment or costs	Yes	
	D – Joint purchases	Yes	
	E – Corporate support	Yes	
	F – Corporate identification and advertising	Yes	
	G – Employees	Yes	
	H – Transfer of goods and services	Yes	
VI. Regulatory Oversight	A – Compliance plans	Yes	
	B – New affiliate compliance plans	Yes	
	C – Affiliate audit	Yes	
	D – Witness availability	Yes	
VII. Utility Products and Services	A – General rule	Yes	8 (pg. 116)
	B – Definitions	Yes	
	C – Utility products and services that may be offered	Yes	
	D – Conditions precedent to offering utility products and services	Yes	
	E – Requirements to file an advice letter	Yes	
	F – Existing offerings	Yes	
	G – Section 851 application	Yes	
	H – Periodic reporting of non-tariffed products and services	Yes	
	I – Offering of non-tariffed products and services to affiliates	Yes	
VIII. Complaint Procedures and Remedies	A – Enforcement of CPUC rules	Yes	
	B – Standing	Yes	
	C – Procedures	Yes	
	D – Remedies	Yes	

Executive Summary

Audit Objective

The objective of Baryenbruch & Company's evaluation was to express an opinion on the extent to which Southern California Edison (SCE) was in compliance during 2004 with the California Public Utilities Commission's (CPUC or Commission) affiliate transaction rules and its own compliance plans. Rule VI.C requires that affiliate transactions be subjected to an annual audit by an independent firm.

This is the seventh annual Affiliate Transactions Audit since the CPUC established its latest affiliate transaction rules in 1997. These rules were created contemplating the competitive world of Assembly Bill (AB) 1890, not today's market structure. (DR 3, D02-10-062, p. 49) In spite of the changed market situation, SCE continues to be subject to the affiliate transaction rules, most of which are still relevant to ensuring that utility ratepayers remain indifferent to the existence of non-utility affiliates and that the utility is not used for the unfair benefit of such affiliates.

Audit Approach

Baryenbruch & Company conducted its work in accordance with the auditing standards published in the Generally Accepted Government Auditing Standards ("Yellow Book"). These standards provide comprehensive guidance in compliance auditing and cover such issues as audit planning, evidence and report contents.

One of our first steps was to develop evaluative criteria against which we would judge SCE's performance. These criteria represent conditions we would expect to exist if SCE were in compliance with the affiliate transaction rules. Our criteria can be found in the body of this report preceding our conclusions.

We gathered the evidence from the following sources:

- Interviews with over 30 SCE officers, managers and staff members involved in compliance with the affiliate transaction rules
- Analysis of data from over 180 information requests pertaining to 2004 affiliate transactions
- Tests of various affiliate-related transactions (see Exhibit 2 for an analysis of the transactions we tested)

We developed our conclusions by comparing SCE's evidence of compliance against the evaluative criteria. Where SCE was not in full compliance or where the compliance process could be enhanced, we offered recommendations for improvement.

**Southern California Edison Company
2004 Affiliate Transactions Audit
Analysis Of Transaction Tests**

Transactions Reviewed	Sample Size	Data Request Numbers	Applicable Subrule
Account manager's journal notes	10 - 15 %	99	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, IV.E,V.F.1, V.F.2, V.F.4
ATR-related complaints	100%	51	VIII.C
Bill Inserts	All	22	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, V.F.1, V.F.2, V.F.3, V.F.4
Board of Directors minutes	All	68	V.G
Corporate Support Requests (CSRs)	All	84	V.E
Customer Calls (residential & commercial/industrial gates)	95 Calls	108	III.A, III.B.2, III.B.3, III.B.4, III.C, III.E.2, III.E.6, III.E.7, IV.C, IV.E,
Customer Information Service Requests (CISRs) processing times and samples of CISR forms	All (List) and 3-5 % of Forms	29, 97	III.A, III.B.1, III.B.5, IV.A
Direct Access Service Requests (DASRs)	All, if any	24	III.A, III.B.5
Edison News company newsletters	All	18	III.E.3, III.E.4
SCE employee transfers to affiliates (fee calculation, non-marketing personnel, property transfers, fees)	All	43	V.G
Affiliate employee transfers to SCE (residency reqmts, SCE affiliates officer approval)	All	43	V.G.2.b
Employees of SCE in affiliate offices	All	77	V.C
Employees of affiliates in SCE offices	All	76	V.C
ESI billings to affiliates	All	67	V.H, VII.C, VII.H, VII.I
External Service Requests (ESRs)	All	87	V.H
Facilities tour (for separation)	Review DC office floor plan	85, 86 (DC office)	V.C
File retention review for service agreements and contracts; joint purchases; bulk power purchases & sales; transmission rights & capacity; fuel & fuel transportation	10% of agreements/contracts from last three year's DRs	8, 35, 36, 53, 54, 59, 60, 61, 109, 110, 111	IV.F, IV.G
General Office Access	All visiting affiliate employees during August 2004	62	V.C
Generation Business Unit billings to affiliates	All	118	VII.I
Carrier Solutions billings to affiliates	All	119	VII.I
Incorporation papers	All major entities	38	V.A
Intercompany/affiliate billings - SCE billings to EME	Month of July	117	III.B, IV.F, V.B, V.E, V.H
Intercompany/affiliate billings - EIX billings to SCE	Month of April	146	V.H
Internal Audit reports and workpapers	All pertaining to affiliate-related audits	11, 39	V.B, VII.D
Internal Service Requests (ISRs)	All forms; verified charges for 17% of ISRs	42	V.G
IT Security Access	14%	149	V.C, V.E
Joint purchases	All	32, 52, 53, 54, 101, 148, 168	IV.D, V.D
Marketing/advertising/promotion/branded merchandise	All	20, 115, 152, 182	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, V.F.1, V.F.2, V.F.4
Mountainview Charges	All acquisition costs; 10 construction-related charges (\$48.8 million)	171, 172	IV.F, IV.G, V.H,
New affiliate advice letters to the CPUC	All	37	VI.B
Nontariffed products and services	All ESI billings to affiliates	67	V.H, VII.A, VII.C, VII.D
Officer/Directors (no inappropriate sharing)	All	12	V.G
Presentations to major customers	All	21, 98	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, IV.C.2, IV.E, V.F.1, V.F.2,
Property transfers to/from SCE	All	45	V.H
Proposals responding to major customer RFPs	All	100	III.A, III.C, III.E.2, III.E.6, V.F.4
R&D projects and EPRI targets	All	57, 58, 93-96	III.E.3, III.E.4, V.F.5
Power purchases and sales between SCE and Affiliates (incl	All entities and 2 sample days	59, 60, 61	III.B, III.B.1, V.D
Power and gas "Okay to Trade" counterparty lists	All entities and 2 sample days	143	III.B, III.B.1, V.D
Power procurement plan quarterly compliance reports	All (roll-up analysis)	145	III.B, III.B.1, V.D
Fuel & fuel transportation purchases/sales with Affiliates	All	109, 110	III.B, V.D
Transmission purchases/sales with Affiliates	All	111	III.B, V.D
Regulatory Info Center / Affiliate Notice Website Postings: "CISRs", "3B" Reports, "3F" Reports, & "4B" Reports	All	30, 31, 88, 89, 102	III.A, III.B.1, III.B.2, III.B.5, III.E.4, III.F, IV.A, IV.B, IV.F
Section 851 applications	50%	49	VII.G.
Service agreements and contracts between SCE and affiliates	All	8, 36, 54, 59-61, 109-111	III.A, III.B, V.D
Trade shows, conferences & marketing events	All	92	V.F.4
Websites of Affiliates	All	23	III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, V.F.1, V.F.2, V.F.4

Background

California Affiliate Transaction Regulation

On December 16, 1997, the CPUC issued Decision No. 97-12-088 establishing a new set of rules governing how transactions may be conducted between California's gas and electric utilities and their affiliates. This decision was the culmination of the CPUC's Affiliate Transaction Rulemaking and Investigation, thus the rules are referred to as the "ATR." (DR 2)

The ATR were adopted primarily to prevent California's regulated utilities from using their resources to provide an unfair competitive advantage to their unregulated affiliates, with principal emphasis on the then-anticipated competitive market for the electric commodity and related products and services. Essentially, they cover dealings between a utility and its unregulated affiliates with respect to:

- Transactions
- Sharing of information and assets (tangible and intangible)
- Employee moves and temporary use of utility employees by affiliates

SCE must file a compliance plan with the CPUC demonstrating how it ensures adherence to the ATR. SCE's latest annual update is called the Compliance Plan – 2004 Interim Update (CP04-I) and is dated February 20, 2004. (DR 1) The CP04-I, taken together with the Compliance Plan Update for 2003 (CP03), Compliance Plan Update for 2002 (CP02) and the Modified Compliance Plan (MCP) filed in December 2001, constitute SCE's compliance plan for all of the ATR established by D.97-12-088.

SCE's Compliance Program

The major elements of SCE's ATR compliance program are described below.

- **Affiliate Compliance Management Oversight** – SCE's Affiliates Oversight Team is responsible for ensuring that SCE and its affiliates comply with affiliate transaction rules adopted by the CPUC and other agencies. The team includes the Affiliates Officer, Designated Affiliates Counsel, and Designated Affiliates Controller. They are supported by professional-level employees reporting to the Affiliates Officer. In addition, personnel in every department and business unit of SCE and its affiliates have been deemed responsible for facilitating compliance with affiliate transaction rules related to their business and business practices. (DR 1)
- **Affiliate Transaction Rule (ATR) Manual** – This manual is SCE's definitive compliance reference tool for employees. The ATR Manual covers the body of rules pertaining to affiliate transactions and provides examples of how CPUC and FERC rules should be implemented. It is available to all utility and affiliate employees on-line via EIX's corporate intranet. (DR 5)
- **Employee Education and Training** – SCE employs regular training and communications programs to educate utility and affiliate employees about the affiliate transaction rules. Notable aspects include:

Background

- Articles in corporate-wide publications
- Electronic and hard-copy letters to all employees on affiliate-related issues
- Presentations customized for specific employee groups
- SCE and EIX publications describing standards of conduct and business policies
- Responses to individual employees’ questions by SCE’s Affiliates Oversight Team and Affiliate Compliance Organization (e.g., affiliate information hotline, e-mail address) (DR 1, DR 18)
- **Compliance Reporting Process** – SCE maintains a system of internal accounting controls to ensure that affiliate transactions are recorded and reported in compliance with applicable guidelines. In addition, SCE is required by the Rules previously adopted by the CPUC to provide the Commission with an Annual Report of Affiliate Company Transactions by May 1 each year. (DR 1)
- **Periodic Compliance Reviews** – Annual audits are conducted by an independent consulting firm. In addition, periodic internal reviews of selected affiliate transactions are conducted by SCE staff and the Audit Services Department. A list of these reviews is submitted as part of the Annual Report of Affiliate Company Transactions to the CPUC. (DR 1, DR 11)

Overview of SCE’s Affiliate Transactions

While the ATR themselves do not define the term “transaction,” the interim reporting requirements adopted by the CPUC in 1992 define an affiliate transaction as: the provision of any good, property, service, privilege or act between any two parties for which compensation normally would be provided if each party was independent of the other and acting in its best financial interest. (D.93-02-019, Rule I.G.m, DR 5) According to ATR III.B, transactions between a utility and its affiliates are limited to:

- Tariffed products and services
- The sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process
- Joint purchases, as provided for in ATR V.D
- Corporate oversight, governance and support services, as provided for in ATR V.E
- Non-tariffed products and services, as provided for in ATR VII (DR 5)

A summary of affiliate transactions during the past several years is shown below.

(\$ in thousands)	2000	2001	2002	2003	2004
SCE’s Provision of Goods and Services to Affiliates (A)	\$ 35,395	\$ 30,441	\$ 16,565	\$ 18,260	\$ 17,604
Affiliates Provision of Goods and Services to SCE (B)	\$ 9,281	\$ 3,619	\$ 14,215	\$ 32,430	\$ 32,117
Transfers of Tangible Assets	\$ 1,830	\$ 3,916	\$ -	\$ (1,120)	\$ -
Transfers of Intangible and Intellectual Property	\$ -	\$ 205	\$ -	\$ -	\$ -

Note A: Excludes charges to accounts (146, 236 and 438) not directly related to the provision of goods and services

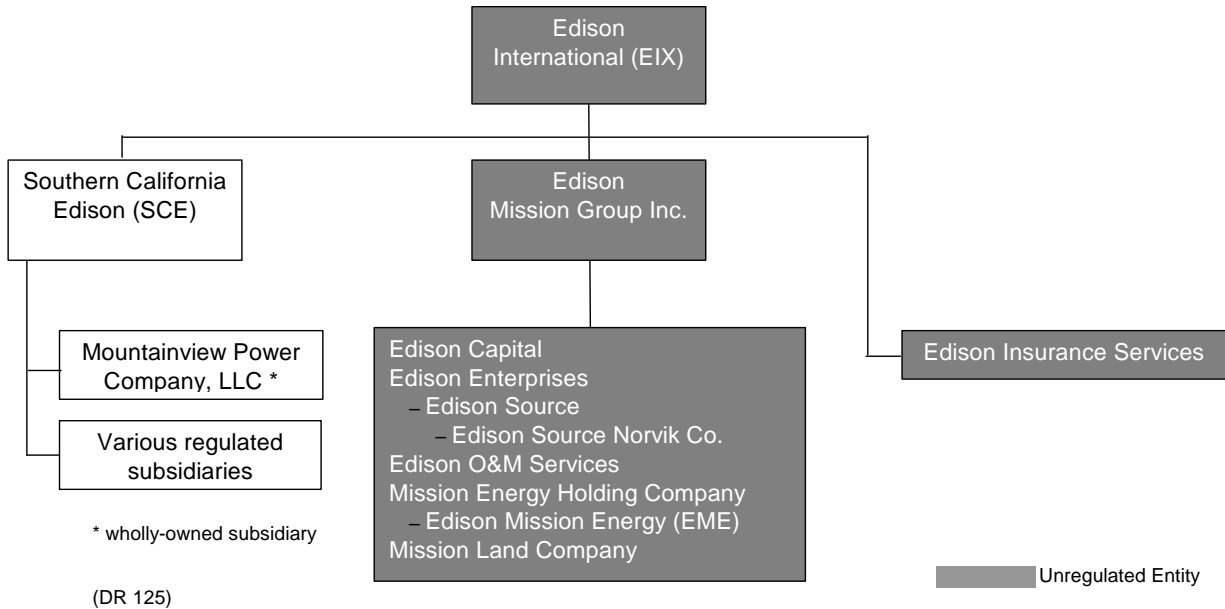
Note B: Excludes dividends paid (438) and investment in subs (123.1)

(DR 126)

Background

Structure of Edison International

The principal active unregulated affiliates of SCE are shown below. The holding company arrangement was first established in 1988 (pursuant to CPUC decision D.88-01-063) to protect utility ratepayers from the corporation's venture into unregulated business activities.



ATR-Related Events During 2004

During 2004, there were no changes in California's affiliate transaction rules or the CPUC's interpretation of those rules with respect to SCE. Affiliate transaction-related events that have occurred since the 2003 Affiliate Transactions Audit Report are described below.

Annual Compliance Plan

On February 20, 2004, SCE filed its annual compliance plan update (Compliance Plan - 2004 Interim Update, or CP04-I). It made a minor change in SCE's compliance statements.

Lifting of the Moratorium on Affiliate Procurement Transactions

In docket D.02-10-062, the CPUC established a moratorium on electric procurement transactions with affiliates until the earlier of January 1, 2005 or closure of Reopener docket. Since the time of this order, SCE did not trade energy with any affiliates. (DR 14)

On December 20, 2004, the CPUC issued Decision 04-12-048 that adopted SCE's Long Term Procurement plan and provided direction to utilities on the procurement of the identified resources. With this decision, the CPUC withdrew its ban on certain procurement transactions between utilities and their non-regulated affiliates:

Background

Therefore, by this decision we lift the ban on long-term affiliate transactions for transactions entered into through an open and transparent solicitation process. However, we maintain the ban on short-term transactions because the short-term market moves too fast and there is too great of a potential for abusive self-dealing, with little or no possibility for Commission oversight of these transactions. (DR 157)

At the time of this report, SCE had not entered into any procurement contracts with any affiliates other than Mountainview.

Reorganization of Edison Mission Energy and Edison Capital Personnel

In a March 9, 2005 email to all employees, EIX Chairman John Bryson announced the reorganization of EME (Class A affiliate) and Edison Capital (Class B affiliate). Essentially, the management and staff of the two affiliates are being combined in a single virtual organization. The personnel will remain as employees of their respective companies but will be directed by a single management team. (INT 32)

Sales of International Assets

In 2004, EIX carried through on its planned sales of the following international power plant assets, which had been owned by EME:

- MEC International – owner of 10 electric generating projects or companies located in Europe, Asia, Australia and Puerto Rico.
- Contact Energy – EME's 51% interest in this New Zealand electric company was sold following a competitive bidding process. (DR 10)

These sales eliminated several Class A affiliates.

Mountainview Project Regulatory Approval, Acquisition and Construction

The Mountainview Plant is located in Redlands, California, 60 miles east of Los Angeles and within SCE's load center. The plant consists of two gas-fired units with a total of 1,054 MW of net electrical output. In 2003, SCE purchased an option to buy Mountainview Power Company, LLC (Mountainview), a wholly owned subsidiary of Sequoia Generating Company, LLC (Sequoia), a subsidiary of InterGen (a joint venture of Shell and Bechtel).

In its order dated December 18, 2003, the CPUC authorized SCE to purchase Mountainview Power Company, LLC (Mountainview) and operate it as a wholly-owned subsidiary. SCE was authorized to enter into a power purchase agreement (PPA) with Mountainview, which is prohibited from selling power to any third party (i.e., all power sales must be to SCE). The CPUC's order was contingent on the receipt of a FERC decision approving the Mountainview PPA, without modification, or making a modification with no potential rate impacts. The FERC, which has regulatory jurisdiction over this purchased power transaction, issued an order approving the PPA on February 25, 2004.

Background

SCE exercised its option to purchase Mountainview on March 12, 2004 and commenced work on finishing the plant. Mountainview has no employees of its own so SCE personnel manage the project and all of its contractors. SCE expects Mountainview to go into commercial operation in late 2005.

Since Mountainview is to be operated by SCE as a subsidiary, a major issue in the CPUC hearings was the applicability of the affiliate transaction rules. The CPUC eventually ruled the ATRs do apply, although Mountainview's transactions with SCE were given a one-time exemption from the following rules:

- Rule III.B Affiliate Transactions
- Rule III.E Business Development and Customer Relations
- Rule IV.B Non-Customer Specific Non-Public Information
- Rule V.C Separation of Facilities and System
- Rule V.D Joint Purchases
- Rule V.E. Corporate Support
- Rule V.F Corporate Identification and Advertising
- Rule V.G.1 Sharing of Employees
- Rule V.G.2 Movement of Employees
- Rule V.H.5 Transfer of Goods and Services (DR 155)

Exhibit 3 shows the scope of Baryenbruch & Company's 2004 audit work for those ATR rules from which Mountainview was not exempted. In 2004, Mountainview was under construction and not operational. Thus, much of the Mountainview audit work involved a review of the acquisition costs and subsequent construction expenditures. The construction project is structured where SCE pays all Mountainview costs and then charges Mountainview Power Company, LLC. As shown below, Baryenbruch & Company verified a sample of 59% of the Mountainview project's total basis as of December 31, 2004. (INT 12, DR 170, 171)

	Balance	Costs Reviewed	
	At 12/31/04	Amount	Percent
Acquisition Costs	\$ 321,243,212	\$ 268,441,459	84%
Post-Acquisition Costs	\$ 213,790,024	\$ 48,774,058	23%
Total Basis (A)	\$ 535,033,236	\$ 317,215,517	59%

Note A: This represents the ratemaking basis for Mountainview.

(DR 171)

The expenditures reviewed were found to properly relate to the Mountainview plant.

Southern California Edison Company
2004 Affiliate Transactions Audit
2004 Affiliate Transaction Audit Work For Mountainview Project

Rule	Sub-Rule	Impact On 2004 ATR Audit Work Scope
I. Definitions	A through G – Definitions	No additional work required.
II. Applicability	A through I – Applicability	No additional work required.
III. Non-Discrimination	A – Preferential treatment	No additional work required. Mountainview is not operational and when it goes into service, it is contractually obligated to sell power to only SCE. When the plant goes into commercial operation, it will be necessary to confirm SCE is the only customer.
	C – Tying of services	
	D – Assignment of customers	
	F – Affiliate discount report	
IV. Disclosure and Information	A – Customer information	No additional work required. Mountainview's only customer is SCE so there are no retail customers to be influenced through information and advice covered by these rules.
	C – Service provider information	
	D – Supplier information	
	E – Affiliate-related advice or assistance	
	F – Recordkeeping	Confirm that records are being kept of all transactions between SCE and Mountainview. (DR 171)
	G – Maintenance of Affiliate Contracts and Related Bids	Confirm that a record is kept of all contracts and related bids associated with products and services between SCE and Mountainview. (DR 8)
H – FERC reporting requirements	Review the FERC order approving the PPA to determine what must be reported. Confirm that information has been or will be reported in the future. (DR 156)	
V. Separation	A – Corporate entities	Confirm that Mountainview is a separate corporate entity. (DR 38)
	B – Books and records	Confirm that Mountainview has separate financial records. (DR 158, 170, 171) (INT 23)
	H – Transfer of goods and services (all sections except .5)	V.H.1: Confirm on a sample basis that goods and services offered on the open market (e.g., ESI services) that are provided by SCE to Mountainview are priced at fair market value (the same price as that offered to unaffiliated customers). V.H.2: Not applicable since Mountainview did not provide SCE with any goods and services during 2004 V.H.3: Confirm that tariffed products and services provided by SCE to Mountainview are priced at the regulated rates. V.H.4: Confirm through interviews that SCE goods and services offered on the open market are provided to Mountainview and unaffiliated customers on a non-discriminatory basis. V.H.5. Mountainview is exempt from this rule which would otherwise require SCE to charge Mountainview with a premium of 5% direct labor for work performed for Mountainview. In spite of this exemption, a sample of SCE labor charges (and possibly material transfers to Mountainview) will be reviewed to determine that SCE's typical capitalization guidelines are being followed (e.g., the addition of labor and other non-labor overheads to salaries charged to Mountainview). (DR 171) V.H.6: No additional work required since Mountainview offers no goods and services "not produced, purchased or developed for sale."

Southern California Edison Company
2004 Affiliate Transactions Audit
2004 Affiliate Transaction Audit Work For Mountainview Project

Rule	Sub-Rule	Impact On 2004 ATR Audit Work Scope
VI. Regulatory Oversight	A – Compliance plans	No additional work required.
	B – New affiliate compliance plans	Confirm that the CPUC was notified by Advice Letter within 60 days of the creation of Mountainview (DR 37)
	C – Affiliate audit	No additional work required.
	D – Witness availability	No additional work required.
VII. Utility Products and Services	A – General rule	No additional work required.
	B – Definitions	No additional work required.
	C – Utility products and services that may be offered	No additional work required.
	D – Conditions precedent to offering utility products and services	No additional work required.
	E – Requirements to file an advice letter	No additional work required.
	F – Existing offerings	No additional work required.
	G – Section 851 application	No additional work required.
	H – Periodic reporting of non-tariffed products and services	No additional work required.
	I – Offering of non-tariffed products and services to affiliates	Confirm on a sample basis that non-tariffed products provided by SCE (e.g., ESI) to Mountainview are priced at the market rates (same testing work as V.H.3). (DR 134, 151) (INT 31)
VIII. Complaint Procedures and Remedies	A – Enforcement of CPUC rules	No additional work required.
	B – Standing	No additional work required.
	C – Procedures	No additional work required.
	D – Remedies	No additional work required.

Rule I – Definitions

CPUC Rule

Unless the context otherwise requires, the following definitions govern the construction of these Rules:

I.A. “Affiliate” means any person, corporation, utility, partnership, or other entity 5 per cent or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly either by a utility or any of its subsidiaries, or by that utility’s controlling corporation and/or any of its subsidiaries as well as any company in which the utility, its controlling corporation, or any of the utility’s affiliates exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership. For purposes of these Rules, “substantial control” includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of 5% or more by the utility in an entity’s company creates a rebuttable presumption of control.

For purposes of this Rule, “affiliate” shall include the utility’s parent or holding company, or any company which directly or indirectly owns, controls, or holds that power to vote 10% or more of the outstanding voting securities of a utility (holding company) to the extent the holding company is engaged in the provision of products or services as set out in Rule II.B. However, in its compliance plan filed pursuant to Rule VI, the utility shall demonstrate both the specific mechanism and procedures that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding company or another utility affiliate not covered by these Rules as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules, (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as conduit to circumvent any of these Rules.

Regulated subsidiaries of a utility, defined as subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate. However, these Rules apply to all interactions any regulated subsidiary has with other affiliated entities covered by these rules.

I.B. “Commission” means the California Public Utilities Commission or its succeeding state regulatory body.

I.C. “Customer” means any person or corporation, as defined in Sections 204, 205 and 206 of the California Public Utilities Code, that is the ultimate consumer of goods and services.

I.D. “Customer Information” means non-public information and data specific to a utility customer which the utility acquired or develop in the course of its provision of utility services.

I.E. “FERC” means the Federal Energy Regulatory Commission.

I.F. “Fully Loaded Cost” means the direct cost of good or service plus all applicable indirect charges and overheads.

I.G. “Utility” means any public utility named as a respondent to Rulemaking 97-04-011/Investigation 97-04-012, and any other public utility subject to the jurisdiction of the Commission as an Electric Corporation or Gas Corporation, as defined in California Public Utilities Code Sections 218 and 222, which the Commission by subsequent decision or order requires to comply with these Rules.

Audit Criteria

- SCE properly interprets ATR definitions
- Information on affiliate transaction rules is widely distributed, easily accessible and continuously communicated throughout SCE and its affiliates

Rule I – Definitions

Audit Steps

- Verify that SCE has properly interpreted Rule I definitions
- Determine that these definitions have been adequately publicized among those involved in affiliate transactions

Conclusions

SCE is in compliance with Rule I.

The terms defined in Rule I are restated verbatim in SCE’s Modified Compliance Plan (MCP) and Affiliate Transaction Rule (ATR) Manual. In addition, SCE defines the key terms, listed in the table below, in Chapter 2 of the ATR.

Affiliate	Controlling Corporation	Intangible Asset	Sale of Property
Affiliate QF Contract	Corporate Governance	Labor	Securities
Affiliated Investees	Corporate Support	Leads	Service Providers
Affiliates Compliance Manager	Corporation	Merchant Function	Significant Unaffiliated Third Party
Affiliates Officer	Cost of Sales	Net Book Value	SCE
Affiliate Third Party	Cross Subsidy	Parent Company	Subsidiaries
Affiliate Transaction	Customer	Parent Holding Company	Tariffed Service
Rulemaking/ Investigation (ATRI)	Designated Controller	Permissible Shared Support	Transaction
Allocated Cost	Designated Counsel	Person	Transfer Price
ATRs	Directly Requested Services	PGACT	Transfer of Goods and Services
ATR Manual	Energy Marketing Affiliate	PGACT 88	Type 1-2-3 Rules
Commission	Fair Market Value	Policy	Utility
Company	FERC	PROACT	Utility Investee
Contracts	Fully Loaded Cost	Property	Utility Third Parties

DR 5

We found the ATR Manual’s definitions of these terms to be consistent with the CPUC’s ATR. Our audit work also showed that in the course of implementing the ATR, SCE has been careful to consider the broad intent of the rules.

SCE maintains an appropriate level of awareness of Affiliate Transaction Rules through a variety of reference and training materials, including:

- ATR Manual, in which SCE documents its policies and procedures developed to implement the ATR
- Training presentations developed by RP&A and delivered to business units and work groups
- Intranet availability of the ATR Manual and training materials, accessed through MyEdison.net by SCE and affiliate employees
- Periodic communications with employees.
- “Employee Self Test,” available on MyEdison.net
- Members of the Regulatory Compliance staff act as ATR Subject Matter Experts, available to SCE and affiliate personnel to answer questions and provide advice
- Telephone and email information hotlines available for affiliate compliance questions

Rule I – Definitions

- Articles and information developed by individual business units for inclusion in their hard-copy and electronic communications (DR 123)

As specified by Rule I.A, the MCP contains a letter from SCE's Affiliates Officer and the EIX Vice President and Controller verifying that "the specific mechanisms and procedures described in SCE's Modified Compliance Plan are believed to be sufficient to ensure that Southern California Edison is not using its holding company or any of its affiliates not covered by the Rules as a conduit to circumvent any of the Rules." (DR 5 Appendix B)

Under the "5 percent" threshold established by Rule I.A, there are several hundred entities worldwide that must be considered affiliates of SCE. It became evident in the course of our review, however, that SCE conducts transactions with only a handful of those entities. Most affiliates are subsidiaries of Edison Mission Energy and Edison Capital, and many affiliates have a very specific, limited purpose.

Rule II – Applicability

CPUC Rule

- II.A.** These Rules shall apply to California public utility gas corporations and California public utility electrical corporations identified in Rule I.G.
- II.B.** For purposes of a combined gas and electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted below. For purposes of an electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity.
- For purpose of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or the provision of services that relate to the use of gas.
- II.C.** These Rules apply to transactions between a Commission-regulated utility and another affiliated utility, unless specifically modified by the Commission in addressing a separate application to merge or otherwise conduct joint ventures related to regulated services.
- II.D.** These Rules do not apply to the exchange of operating information, including the disclosure of customer information to its FERC-regulated affiliate to the extent such information is required by the affiliate to schedule and confirm nominations for the interstate transportation of natural gas, between a utility and its FERC-regulated affiliate, to the extent that the affiliate operates an interstate natural gas pipeline.
- II.E. Existing Rules:** Existing Commission rules for each utility and its parent holding company shall continue to apply except to the extent they conflict with these Rules. In such cases, these Rules shall supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent holding company from adopting other utility-specific guidelines, with advance Commission approval.
- II.F. Civil Relief:** These Rules shall not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.
- II.G. Exemption (Advice Letter):** A Commission-jurisdictional utility may be exempted from these Rules if it files an advice letter with the Commission requesting exemption. The utility shall file the advice letter within 30 days after the effective date of this decision adopting these Rules and shall serve it on all parties to this proceeding. In the advice letter filing, the utility shall:
- II.G.1.** Attest that no affiliate of the utility provides services as defined by Rule II B above, and
- II.G.2.** Attest that if an affiliate is subsequently created which provides services as defined by Rule II B above, then the utility shall:
- II.G.2.a.** Notify the Commission, at least 30 days before the affiliate begins to provide services as defined by Rule II B above, that such an affiliate has been created; notification shall be accomplished by means of a letter to the Executive Director, served on all parties to this proceeding; and
- II.G.2.b.** Agree in this notice to comply with the Rules in their entirety.
- II.H. Limited Exemptions (Application):** A California utility which is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application, served on all parties to this proceeding, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates. The applicant has the burden of proof.
- II.I.** These Rules should be interpreted broadly, to effectuate our stated objectives of fostering competition and protecting consumer interests. If any provision of these Rules, or the application thereof to any person, company, or circumstance, is held invalid, the remainder of the Rules, or the application of such provision to other persons, companies, or circumstances, shall not be affected thereby.

Rule II – Applicability

Audit Criteria

- A proper determination has been made as to whether affiliates are involved in “the provision of a product that uses electricity or provision of services that relate to the use of electricity” (this designation determines the applicability of ATR)

Audit Steps

- Determine if SCE’s designation of affiliates as either Class A or B comports with Rule II
- Assess how broadly SCE has interpreted the ATR in term of fostering competition and protecting customer interests

Conclusions

SCE is in compliance with Rule II.

SCE has established a classification process to determine which affiliates are subject to ATR. The ATR Manual describes the two classes as follows:

- Class A – Those affiliates of SCE subject to the ATR. They engage in the provision of a product that uses electricity or the provision of services that relate to the use of electricity.
- Class B – Those affiliates of SCE not subject to the ATR (DR 5)

The MCP, Compliance Plan Update for 2002 (CP02) and Compliance Plan Update for 2003 (CP03) summarize the Class A and B affiliates. (DR 1) A complete list of all Edison International entities is provided in the Annual Report of Affiliated Company Transactions. (DR 2)

Rule II – Applicability

SCE’s principal active affiliates and their class status are shown in the table below.

		Affiliate Class
Edison International (EIX) (parent holding company)		B
Southern California Edison (SCE)		na
Regulated Subsidiaries of SCE (e.g., ESI)		na
Mountainview Power Company LLC		B
Edison Insurance Services		B
Edison Mission Group		B
Edison Capital		B
Entities (20) generating power from wind		A
Elfeo, a Bolivian electric distribution company		A
All other subsidiaries of Edison Capital		B
Edison Enterprises		B
Edison Source		A
Edison Source Norvik		A
Edison O&M Services (Note A)		A
Mission Energy Holding Company		B
Edison Mission Energy (EME)		A
Midwest Generation		A
Edison Mission Marketing & Trading		A
Other Subsidiaries of EME		A&B
Mission Land Company		B
Subsidiaries of Mission Land Company		B

Note A: EO&MS was changed to Class B on March 28, 2005
(DR 129)

During 2004, the following changes occurred with respect to SCE’s principle affiliates:

- Edison Ventures and its subsidiary Edison TransEnergy, both Class B affiliates, were dissolved due to inactivity.
- EIX Trust I and EIX Trust II, both Class B Affiliates, were cancelled as part of the redemption of QUIPS A & B.
- Edison O&M Services, a Class A affiliate, ceased operations on November 26, 2003. (DR 104) Its only remaining activity involves the resolution of an employee claim against it. (DR 187) Since it is no longer involved in the provision of goods and services that involve electricity, it should be reclassified as a Class B affiliate.
- Mountainview Power Company, LLC was acquired and classified as a Class B affiliate. This designation will be changed to Class A once the Mountainview Plant goes into commercial operation (planned for late 2005). At that time, Mountainview will revert from a construction project to an operating company involved in the provision of electric-related products and services. (DR 128)
- Several Class A affiliates were eliminated when EME sold a number of international power plant assets.

Applying the requirements set forth in D.97-12-088, SCE has categorized its affiliates as either covered (“Class A”) or not covered (“Class B”) by the ATR. The Class A affiliates,

Rule II – Applicability

which provide products that use electricity or services that relate to the use of electricity are shown in Exhibit 4. Class B affiliates are subject to transaction rules set out in D.88-01-063. (DR 5)

As part of the audit, we reviewed the business activities of affiliates and found no instances where a Class B affiliate provides a product that uses electricity or services that relate to the use of electricity. (DR 2)

During 2004, the following Class A affiliates were created to hold Edison Capital's investments in wind power properties in the Midwest:

- DanMar Transmission, LLC (formed July 30, 2004)
- Windcurrent Farms, LLC (formed July 30, 2004)
- Bisson Windfarm, LLC (formed July 30, 2004)
- Boeve Windfarm, LLC (formed July 30, 2004)
- K-Brink Windfarm, LLC (formed July 30, 2004)
- TG Windfarm, LLC (formed July 30, 2004)
- Westridge Windfarm, LLC (formed July 30, 2004)
- Tofteland Windfarm, LLC (formed July 30, 2004)
- Fey Windfarm, LLC (formed July 30, 2004)
- CG Windfarm, LLC (formed July 30, 2004)
- Carstensen Wind, LLC (formed December 23, 2004)
- Greenback Energy, LLC (formed December 23, 2004)
- Lucky Wind, LLC (formed December 23, 2004)
- Northern Lights Wind, LLC (formed December 23, 2004)
- Stahl Wind Energy, LLC (formed December 23, 2004)
- West Pipestone Transmission, LLC (formed December 23, 2004) (DR 37)

On November 24, 2004, Mission Energy Singapore Pte. Ltd. was created as a Class A affiliate. The purpose of this subsidiary of EME is to be an assignee of an Offshore Services Agreement related to the Tri Energy Project. The agreement allows for the provision of various administrative services such as management, banking and finance, legal, tax and accounting. At some point in the future, it may provide construction management and O&M services. (DR 127)

Southern California Edison Company
2004 Affiliate Transactions Audit
Analysis Of Class A Affiliates

Edison Capital subsidiaries:

Bisson Windfarm, LLC
Boeve Windfarm, LLC
Cade, Edeser, Electropaz, and Empresa de Luz y Fuerza Electrica de Oruro S.A.
Carstensen Wind, LLC
CG Windfarm, LLC
DanMar Transmission, LLC
Fey Windfarm, LLC
Greenback Energy, LLC
K-Brink Windfarm, LLC
Lakota Ridge LLC
Lucky Wind, LLC
Northern Lights Wind, LLC
Shaokatan Hills LLC
Stahl Wind Energy, LLC
Storm Lake Power Partners I LLC
TG Windfarm, LLC
Tofteland Windfarm, LLC
West Pipestone Transmission, LLC
Westridge Windfarm, LLC
Windcurrent Windfarms, LLC
Woodstock Hills LLC

Edison Enterprises subsidiary Edison Source and its subsidiary:

Edison Source Norvik Company

Edison O&M Services

Edison Mission Energy (EME) and subsidiaries:

CBK Power Company Limited
Chestnut Ridge Energy Company
CL Power Sales 1,2,7,8,9,10, and CP Power Sales 12 and 17, LLCs
Edison First Power Limited
Edison Mission Energy Fuel Services, LLC
Edison Mission Energy Services, Inc.
Edison Mission Marketing & Trading, Inc.
Edison Mission Operation & Maintenance Services B.V.
EME Homer City Generation L.P.
EMOM Services, Inc.
Kalayaan Power Management Corporation
Midwest Generation, LLC
Mission Energy Singapore Pte. Ltd.
Mission Energy Westside, Inc.
Sunrise Power Company LLC
Tri Energy Company Limited

(DR 127)

Rule II – Applicability

The following Class B affiliates were established in 2004:

- FHH (Guernsey) Limited (formed March 29, 2004) – Holding company owned by EME that was established to hold future assets.
- VGL (Guernsey) Limited (formed March 29, 2004) – Holding company owned by EME that was established to hold future assets.
- Midwest Finance Corporation (formed April 22, 2004) – A financing vehicle and co-issuer of bonds. It is owned by EME.
- Mission Minnesota Wind LLC (formed June 24, 2004) – Holds interests in various LLCs which own and operate wind generating turbines in Minnesota. This affiliate was given a Class B designation because it is a holding company and will not provide any products or services that relate to the use of electricity.
- EME Investments II, LLC (formed September 15, 2004) – Holds shares of Mission Energy Universal Holdings.
- Beheer-en Beleggingsmaatschappij Plogema B.V. – Holds shares of Beheer- en Beleggingsmaatschappij Kameka B.V. (formed November 1, 2004). This entity is owned by Mission Energy Holdings International, Inc.
- Beheer-en Beleggingsmaatschappij Kameka B.V. (formed November 2, 2004) – Holds shares of Edison Mission Millennium B.V. and Edison Mission Operation and Maintenance Services B.V..
- Beheer-en Beleggingsmaatschappij Pego B.V. (acquired December 16, 2004) – Intended as holding company to facilitate the transfer EME's interest in a project to IPM Eagle LLP; currently inactive.
- Pego Limited (acquired December 2004) – Intermediate holding company to facilitate the transfer of MEC Esenyurt B.V. to IPM Eagle LLP; currently inactive.
- Mountainview Power Company, LLC (formed March 12, 2004) – Holds the assets of a partially completed gas-fired power plant that SCE intends to complete. Mountainview is 100% owned by Southern California Edison Company, which will take 100% of the plant's output under a power purchase agreement. The plant is expected to go into commercial operation in late 2005 at which time it will be classified as a Class A affiliate. Until then, SCE has chosen to designate Mountainview as a Class B affiliate. (DR 37)

We concur with the Class B designations given to these new affiliates.

Recommendation

1. Reclassify Edison O&M Services – EO&MS is no longer operational. For this reason, its designation should be changed from Class A to Class B. SCE made this change on March 28, 2005 and notified the CPUC accordingly.

Rule III – Nondiscrimination

CPUC Rule

III.A. No Preferential Treatment Regarding Services Provided by the Utility: Unless otherwise authorized by the Commission or the FERC, or permitted by these Rules, a utility shall not:

III.A.1. represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers; or

III.A.2. provide its affiliates, or customers of its affiliates, any preference (including but not limited to terms and conditions, pricing, or timing) over non-affiliated suppliers or their customers in the provision of services provided by the utility.

Audit Criteria

- SCE does not represent that it will provide preferential treatment to affiliates or affiliates' customers compared to treatment provided to non-affiliates or their customers
- Terms, conditions, and pricing offered by SCE to affiliates or affiliate customers are comparable (non-preferential) to those available to non-affiliates or their customers

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Monitor actual customer conversations with SCE Customer Call Center representatives, both residential and commercial & industrial, to determine if affiliates or customers of affiliates are being provided preference over other customers. Also monitor calls to determine that the representatives are not promoting affiliates' business relationships with SCE.
- Review billing inserts to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Review marketing/advertising materials targeted or sent to SCE customers to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Sample SCE presentations to large commercial and industrial customers to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Sample account manager/account executive journal entries to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Review SCE proposals responding to requests for proposal (RFPs) from major customers to assure there is no preferential treatment being offered for any such customer who also purchases services from an affiliate of SCE

Rule III – Nondiscrimination

- Review Customer Information Service Requests (CISR) processing times to assure no preferential treatment was given to affiliates or affiliates' customers and sample actual CISRs to assure processing times have been accurately reflected
- Review SCE's process for handling Direct Access Service Requests (DASR) to affirm that no DASRs were processed in 2004. If there are DASRs, assure no preferential treatment was given to affiliates or affiliates' customers.
- Where applicable, compare terms, conditions, pricing, and timing for services provided to a sample of affiliate customers to ensure they are the same as those offered to non-affiliates' customers
- Review all non-tariffed service agreements and contracts between SCE and affiliates and compare terms, conditions, pricing and timing for services provided to ensure they are the same as those offered to non-affiliates
- Review Edison ESI's (ESI) billing practices to assure that neither affiliates nor their customers are provided preferential treatment. ESI is a regulated subsidiary of SCE

Conclusions

SCE is in compliance with Rule III.A.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with this Rule confirmed SCE's compliance.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the requirements of Rule III.A. (DR 1, DR 5).

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 10), Corporate Communications (INT 8), Customer Services Operations (INT 28) and the Major Customer Division (INT 14, INT 15, INT 27) affirmed for us that their organizations were in compliance with Rule III.A throughout 2004.

In evaluating SCE's compliance with Rule III.A, we reviewed the key informational channels by which SCE communicates with its customers. The results of this assessment are described below:

Customer Call Centers. We listened in on a large sample of residential and commercial customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls to SCE's Customer Call Centers did we note preferential treatment related to SCE's affiliates being discussed or provided. (DR 108)

Billing Inserts, Advertisements & Websites. We reviewed all billing inserts mailed to both commercial and residential customers during 2004. (DR 22). We examined all mass market advertisements sponsored by SCE during 2004. (DR 20, DR 152, DR 182). The SCE advertisements included approximately 150 print ads, 35 radio spots, 8

Rule III – Nondiscrimination

TV ads, 1 cash register strip ad, and 5 outdoor ads. In none of the inserts or advertisements did we see evidence of preferential treatment related to SCE's affiliates was offered or provided.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2004. (DR 21, DR 98)

We also sampled the online diary notes of Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 99). These notes document meetings held with large customers in 2004. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2004.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2004, and to indicate which, if any, resulted in an SCE proposal. SCE received three such RFPs in 2004 and responded to all three. We reviewed the three proposals, all of which related to possible privatization of government-owned electric systems. (DR 100)

Nothing in the presentations to large customers, the sample of diary notes or the SCE proposals for privatization indicated SCE would provide preferential treatment to affiliates or affiliates' customers. However, we were concerned about another aspect of the AccountTrak diary note system. Those issues are addressed later in this report under Rule III.E.

We saw no evidence that terms, conditions and pricing offered affiliates or their customers were better or different than those offered to others.

DASRs and CISRs. A second area of inquiry for preferential treatment was the processing of requests for information and services. Specifically, we determined if there were any preferences given affiliates in SCE's handling of Direct Access Service Requests (DASRs) and Customer Information Service Requests (CISRs).

DASRs are the communication tool that would be used by an Electric Service Provider (ESP) to notify SCE of a customer's request to initiate, cancel, or modify their Direct Access account. Essentially, Rule III.A says that SCE may not provide preferential treatment to any customer that is obtaining direct access from an SCE affiliate. Such preferential treatment, if it existed, might show up in quicker turnaround times for DASRs sent to SCE by its affiliates compared to other ESPs.

SCE measures the number of days to process the DASR and compares turnaround times for affiliate customers and other customers. While this procedure is still in place at SCE, it has not been used since 2001, when the Direct Access program in California was suspended by the Commission. (DR 24)

Rule III – Nondiscrimination

CISRs are the communication tool used to obtain/approve release of customer information to a third party. For example, if a customer retains an energy management firm to help identify opportunities for energy cost reduction, the customer might use a CISR to ask SCE to release data about their energy usage amounts and patterns to the third party energy management firm.

Under Rule III.A, SCE cannot process such requests more quickly for affiliates or affiliates’ customers than for others. SCE’s procedure for handling CISRs includes the measurement of the number of days to process them. Comparisons of turnaround times would possibly show whether any preference was being given to affiliates/affiliates’ customers. The table below shows the results of our analysis of 2004 CISR processing times. SCE processed 688 CISRs during 2004 affecting over 13,000 customer accounts. The average processing time for these CISRs was 2.76 days. (DR 29, DR 97)

CISR Statistics and Processing Times Table

Quarter	Total CISR Request	Total CISR Accounts	Average Processing (Days)	CISR Requests Involving Affiliates	Average Processing Affiliate Requests (Days)
1 st	153	3,950	2.63	0	NA
2 nd	223	3,306	3.00	0	NA
3 rd	182	2,960	2.64	0	NA
4 th	130	2,933	2.67	0	NA
All Year	688	13,149	2.76	0	NA

There were no CISR forms relating to affiliates processed in 2004. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 30). Based on this analysis, we conclude that no preferential treatment was given to affiliates through the expedited processing of CISRs during 2004.

Service Agreements and Contracts, Including Edison ESI (ESI) We also reviewed all of the service agreements and contracts in effect during 2004 between SCE and its affiliates. (DR 8). A summary of these agreements is provided in Rule III.B below. In none of the non-tariffed service agreements or contracts did we identify preferential treatment extended to affiliate entities.

No affiliates submitted any bids to SCE during 2004. (DR 54) Also, SCE entered into no agreements contracts to provide or purchase power, capacity, transmission capacity, ancillary services, or generation fuels to/from its affiliates during 2004. (DR 59, DR 60, DR 61, DR 109, DR 110, DR 111)

Rule III – Nondiscrimination

We reviewed all 2004 affiliate work performed by ESI, a regulated subsidiary of SCE that performs various services for affiliates and non-affiliate third parties. ESI's 2004 affiliate work consisted of maintenance work for the Watson Cogeneration Plant. Each invoice for this work was reviewed and found to be priced out at rates found in ESI's standard price list, which is also used to price out non-affiliate third party customers. Thus, we can conclude there was no discrimination in favor of affiliates. (INT 13, DR 67)

CPUC Rule

III.B. Affiliate Transactions: Transactions between a utility and its affiliates shall be limited to tariffed products and services, the sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, or as provided for in Sections V.D and V.E (joint purchases and corporate support) and Section VII (new products and services) below, provided the transactions provided for in Section VII comply with all of the other adopted rules.

Audit Criteria

- Affiliate transactions are limited to: (1) tariffed products and services, (2) the sale or purchase of goods, property, products, or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, (3) joint purchases or corporate support as defined by Sections V.D. and V.E. of the Rules or (4) new products and services as defined by Section VII of the Rules.

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Evaluate SCE's procurement practices to determine that competitive bidding is used where goods, services, property or products are procured from affiliates. Assess the monitoring and control processes of SCE's Procurement and Materials Management Department that ensure compliance with this provision.
- Review all service agreements and contracts between SCE and affiliates to determine if the competitive bidding requirements of this Rule have been followed and that the tariff limitations have been followed
- Review list of parties to wholesale power agreements and sample wholesale power transactions to assure requirements of this rule have been followed
- Review any gas and coal contracts between SCE and affiliates to assure requirements of this rule have been followed
- Review any transmission contracts between SCE and affiliates to assure requirements of this rule have been followed
- Review joint purchases to assure that no transactions were made other than those allowed under Rule V.D
- Review a sample of SCE transactions (including intercompany billings) with affiliates and affiliate customers to determine they were limited to the type allowed in this ATR
- Review property sales between SCE and affiliates to assure the sales were the result of a competitive bidding process

Rule III – Nondiscrimination

Conclusions

SCE is in compliance with Rule III.B.

Nature of SCE's Affiliate Transactions

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transaction Compliance Plan – 2002 Update (CP02) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the competitive bidding requirements imposed by this rule. (DR 1, DR 5) SCE purchases from affiliates (except those made under Rules V.D, V.E and VII, as permitted) are required to be made through an open, competitive bidding process.

As the energy market in California continues to evolve, the number of potential entities with which SCE could transact energy increases. To make sure that an open, competitively bid process is always applied to any dealings with affiliates, we asked SCE to describe the process used to assure that energy contracts personnel were kept aware of a potential or existing counterparty's affiliate status.

SCE told us that the approval of a new entity to their "SCE Power Counterparty Status Report" or their "SCE Gas Counterparty Status Report" only resulted from successful completion of a checklist of tasks. One of these tasks is to check against the EIX Affiliated Entity List (AEL) periodically distributed by SCE's Law Department to determine if the entity is an affiliate. Other tasks involve determining the credit worthiness of the entity.

Once on the Power (or Gas) Counterparty Status Report, SCE continually monitors the ongoing credit worthiness of an entity through reports received from credit houses such as S&P and Moody's. Financial data pertaining to the entities are periodically updated and reviewed. Any change to the affiliate/not an affiliate status of a particular counterparty would show up on such reports (e.g., if a subsidiary of Edison Mission Energy should purchase an ownership interest of greater than 5% in an existing counterparty).

We believe this affiliate/not an affiliate monitoring process can be improved by including the credit group within SCE Risk Control on RP&A's internal distribution list for Notification Letters to the CPUC acknowledging the formation of new affiliates. The ATR Manual states that SCE will notify the CPUC within 3 business days of the creation of an affiliate. (DR 5) This notification to SCE's Risk Control Department will help assure the Power (or Gas) Counterparty Status Report is current.

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Energy Supply and Management (INT 20, INT 24), Risk Control (INT 21, INT 22), QF Resources (INT 5), and Procurement and Materials Management (INT 2, INT 29)

Rule III – Nondiscrimination

affirmed for us that their organizations were in compliance with Rule III.B throughout 2004.

In evaluating SCE's compliance with the broad requirements of Rule III.B, we first defined and then reviewed the full range of SCE's transactions with affiliates in 2004. The Commission's definition of an affiliate transaction is "the provision of any good, property, service, privilege, or act between any two parties for which compensation normally would be provided if each party was independent of the other and acting in its best financial interests" (DR 14). Using this definition, the Rules, and various Commission decisions, rulings and orders, we developed the following table of allowable categories of affiliate transactions.

<p>A. SCE Tariffed Products and Services to Affiliates (e.g., distribution services to affiliate end-users; energy and capacity to affiliate end-users without Direct Access; wholesale power to/from an affiliate, including Qualifying Facilities; QF related services to an affiliate subject to transmission owner tariffs; transmission and/or ancillary services to/from an affiliate, etc.)</p> <p>B. SCE Non-tariffed Products and Services to Affiliates (1) Rule VII.F allows SCE to continue offering those non-tariffed products and services in effect prior to 12/16/97, the date the new affiliate rules were established, to affiliates so long as the terms, conditions, prices, etc. do not favor the affiliate over others and the conditions in Rule VII.C and VII.D are met. Such products and services might include: use of communications and computing systems; secondary use of office space; operation and maintenance of generation, transmission, and distribution related facilities and equipment, etc. See ATR Manual, pp.17-11 to 17-20 (DR 5) and Advice Letters 1286-E and 1286-E-A (DR 13) (2) Any new non-tariffed products and services offered by SCE must meet the conditions of Rules VII.C and VII.D and be approved by the Commission</p> <p>C. Affiliate Products and Services to SCE Products & services by affiliates to SCE only through an open, competitive bidding process including long-term contracts for wholesale energy and capacity. (DR 157) See also Affiliate Transactions Compliance Plan CP02 (DR 1) and Affiliate Transaction Rule Manual (DR 5).</p> <p>D. Joint Purchases by SCE and Affiliates Covered also by Rule V.D (e.g., Joint Contracts such as database software; Single Party – Joint Use Contracts, such as national energy data; Joint Negotiation – Separate Contracts, such as office supplies; etc.)</p> <p>E. Shared Corporate Support Shared corporate oversight, governance, support systems and personnel. Covered also by rule V.E</p> <p>F. Sales of Assets The transfer of tangible and intangible assets between SCE and affiliates.</p> <p>G. Mountainview Power Company LLC Related Contracts Power purchase and service agreements between SCE and its Mountainview Power Company, LLC affiliate</p>
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Using this basic framework, we reviewed or sampled affiliate transactions from calendar year 2004, and the agreements/contracts/tariffs under which they were authorized or prescribed.

We reviewed service agreements and contracts with affiliates. (DR 8, DR 36, DR 50). As a result of that review, we verified that during 2004, all of SCE's agreements and

Rule III – Nondiscrimination

contracts with Class A affiliates fell under one of the allowable transaction categories shown in the table above. Making up this list are:

- Four SCE power supply contracts with affiliated Qualifying Facilities (QFs) which pre-date the Rules (Category A)
- One SCE contract with an affiliated QF for services other than power supply, pursuant to transmission owner tariffs (Category A)
- One ITCC indemnity agreement between SCE and a Qualifying Facility (Category A)
- Four non-tariffed general service agreements and nine underlying project agreements for Edison ESI to provide services such as inspection and testing to affiliates (Category B)
- One tax-sharing agreement between Edison International, SCE and the Mission Group (Category E)
- One office-space lease between SCE and Mission Energy (Category E).
- One interconnection facilities agreement between SCE and Mountainview Power Company LLC (Category G)

SCE provides Category A tariffed products and services to affiliates on the same terms it offers to outside customers. Two tariffs, available to all customers regardless of affiliation, provide Category A services: Schedule GS-1 (General Service – Non-Demand) and Schedule GS-2 (General Service – Demand). (DR 13)

As to other Category A tariffed services, during 2004 we found four allowable QF contracts (DR 61).

Of the four contracts for Category B non-tariffed products & services in effect during the year (DR 8), nine underlying projects were new in 2004. (DR 36, DR 50) The nine new projects applied to SCE affiliate Watson Cogeneration Company. The remaining three contracts were with affiliates Kern River Cogeneration, Sycamore Cogeneration, and Edison Mission Energy. (DR 8, DR 50) All of these contracts are allowable under the ATRI Rules.

There were no short or long term Category C wholesale power agreements / contracts between SCE and any of their Class A affiliates during 2004. (DR 59, DR 60, DR 143, DR 145).

On December 16, 2004, the CPUC ordered in D.04-12-048 that the ban on power procurement from its affiliates be partially rescinded to allow long-term, but not short-term, arrangements so long as they were conducted “through an open and transparent solicitation process.” (DR 157) The original ban had been in effect since January 1, 2003 in connection with the CPUC’s decision D.02-10-062. (DR 142) The ban on short-term procurement of power from affiliates continues.

Rule III – Nondiscrimination

There were no Category B non-tariffed products and services contracts between SCE and any affiliates. (DR 8, DR 111)

During 2004, no fuel (e.g., natural gas, coal or nuclear) or fuel transportation or storage contracts were in existence between SCE and an affiliate (DR 8), nor were there any joint fuel purchases or sales. (DR 109, DR 110)

In 2004, there were several Category D contracts in place pertaining to joint purchasing arrangements between SCE and affiliates. All were allowable under Rule V.D. This is discussed further in Section V.D, below. (DR 53)

There was one Category E tax-sharing agreement between EIX, SCE and Edison Mission Group in 2004. (DR 8)

SCE also has the following office lease arrangements with its affiliates that are appropriate as Category E Shared Corporate Support.

1. SCE with EIX: EIX leases around 21,000sf of office space in the GO 1 building. (INT 3, DR 131)
2. EIX with SCE: SCE subleases office space from EIX in its Washington DC office where SCE has 8 employees. (INT 7, DR 40, DR 77)
3. EME with SCE: Members of SCE’s audit staff occupy space in EME’s office in Irvine. (DR 77)

<<there were no asset sales between SCE and affiliates, DR 45>>

Finally, there are two Category G agreements between SCE and Mountainview Power Company, LLC, an affiliate acquired in 2004 and the owner of a partially completed power plant. As discussed earlier in this report, Mountainview is a subsidiary of SCE. The first Category G agreement is the Power Purchase Agreement (PPA) between SCE and Mountainview. The PPA was approved by both the CPUC and FERC and calls for SCE to take all of the plant’s output. (DR 173) The second agreement is an interconnection facilities agreement between SCE and Mountainview. (DR 8) This agreement was originally established with the previous owners of Mountainview and was among the assets SCE acquired when it purchased Mountainview in 2004.

Billing and Reporting Affiliate Transactions

The table below shows who in SCE is responsible for billing affiliates for these transactions.

Allowed Affiliate Transactions	Who Bills Affiliates
Tariffed products and services	SCE Customer Services Business Unit
Goods/services available to open market/third parties	SCE department performing the work
Joint purchases	Controller’s Department
Shared corporate support (A)	Controller’s Department
Non-tariffed products and services	SCE business unit performing the work

Rule III – Nondiscrimination

Note A: these make up the majority of SCE’s affiliate charges
DR 147

For joint purchases and shared corporate support, the Controller’s Department charges the affiliates shown in the table below.

Edison Mission Group	Edison Enterprises
Edison Mission Energy	Edison Insurance Services
Edison Capital	Edison Technology Solutions
Mission Land	EO&MS
EIX	Mission Energy Holding Company
Edison Source	Mountainview Power Company, LLC
Edison Ventures	

DR 130

The Controller’s Department maintains the “Intercompany Transactions with Nonutility Affiliates” report which shows charge detail by month for shared corporate support and joint purchases for each of these affiliates. (DR 117) In response to a 2002 Affiliate Transaction Audit recommendation, SCE began preparing a summary of affiliate transactions as of June 30. This report includes year-to-date total transactions by principal affiliates and by type of transaction and is distributed to the SCE Affiliates Officer and the SCE Affiliates Controller. This report provides a preview of affiliate transactions that can be analyzed before the end of the year. (DR 189)

SCE is obligated by D.93-02-019 to provide the CPUC with an Annual Report of Affiliate Company Transactions. SCE charges to affiliates and affiliate charges to SCE are summarized and shown by affiliate and FERC account in Volume III of the Annual Report of Affiliate Company Transactions. (DR 2)

Recommendation

2. Add the Credit Group of SCE Risk Control to the Internal Distribution List for New Affiliate Notification Letters to the CPUC – The addition of this organization to the distribution list should provide an earlier awareness of the changing affiliate status of an existing counterparty on the Power (or Gas) Counterparty Report.

CPUC Rule

III.B.1. Provision of Supply, Capacity, Services or Information: Except as provided for in Sections V.D, V.E, and VII, provided the transactions provided for in Section VII comply with all of the other adopted Rules, a utility shall provide access to utility information, services and unused capacity or supply on the same terms for all similarly situated market participants. If a utility provides supply, capacity, services, or information to its affiliate(s), it shall contemporaneously make the offering available to all similarly situated market participants, which include all competitors serving the same market as the utility’s affiliates.

Audit Criteria

- SCE provides access to information, services and unused capacity or supply on the same terms for all similarly situated market participants

Rule III – Nondiscrimination

- If SCE provides supply, capacity, services, or information to its affiliate(s), it contemporaneously makes the offering available to all similarly situated market participants

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review instances where unused SCE supply or capacity, information, or services were made available to affiliate(s)
- Determine, in such instances, if offerings were on the same terms for all market participants and if it made the offerings available to all market participants

Conclusions

SCE is in compliance with Rule III.B.1.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Furthermore, during our transaction reviews, we determined there were no instances in which SCE provided affiliates discriminatory access to information, services, or unused capacity or supply. (DR 102)

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all employees, describe the requirements of Rule III.B.1. (DR 1, DR 5) Both documents clearly lay out the requirement that any information, goods or services subject to this rule and offered to affiliates would be priced at fair market value and would be offered to non-affiliates on the same terms.

Notice of any such offerings to affiliates would be given to the market in which the affiliate operates by posting an "Affiliate Transaction Compliance Notice for Provision of Supply, Capacity, Services or Information (3B Report)" on SCE's Affiliate Notices website entitled "Supply / Capacity / Services / Info Offered to Affiliates" ([www.sce.com / About SCE / Regulatory / affiliatenotices / supplycapacity.htm](http://www.sce.com/About%20SCE/Regulatory/affiliatenotices/supplycapacity.htm)) (DR 102) and by providing notice in at least one trade magazine serving that market. This approach is supported by Commission Resolution E-3539, Finding 27. (DR 3)

The website locations (i.e., web addresses) specified for 3B Reports have changed since the 2003 audit, but two key SCE affiliate guidance documents have not been updated for these changes. Specifically, the Affiliate Transactions Compliance Plan and the Affiliate Transaction Rules Manual should be updated for the new website addresses.

The ATR Manual and CPUC Resolution E-3539, Finding 31, confirm that Rule III.B does not apply to tariffed services. (DR 5, DR 3)

The non-discriminatory release of customer data is a requirement of this Rule. One way SCE ensures compliance is through its Customer Service Business Unit's policies and

Rule III – Nondiscrimination

procedures for handling requests for information by outside parties, including affiliates. (DR 28)

Under these procedures, the turnaround times for handling Customer Information Service Requests (CISRs) are tracked in order to assure that no preference is inappropriately given to affiliates. (DR 29, DR 97) CISRs requested by affiliates are posted to SCE's Affiliate Notices website entitled "Notice of Release of Customer Information to Affiliates – List of Customer Information Service Requests" (<http://www.sce.com / About SCE / Regulatory / affiliate notices / notice of release.htm>). (DR 30) The specified location of these notices has also been changed.

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Services Business Unit (INT 27, INT 28), Energy Supply and Management (INT 20, INT 24), and QF Resources (INT 5) affirmed for us that their organizations were in compliance with Rule III.B.1 throughout 2004.

We performed a number of transaction reviews to determine that SCE was in compliance with Rule III.B.1. The outcome of these reviews is summarized below.

- Unused capacity / supply. We found no instances in 2004 where SCE made unused capacity or supply available to affiliates. (DR 102). And we verified that SCE sold no wholesale energy or capacity to affiliates during 2004. (DR 59, DR 60, DR 61 DR 143, DR 145) Any retail energy or capacity sold to affiliates during 2004 was made available under approved tariffs and is not subject to this rule.
- Services. Similarly, none of the services provided to affiliates by SCE in 2004 are applicable because of exclusions written into this Rule. Non-tariffed services fall under the Rule VII exclusion. Joint purchases fall under the Rule V.D exclusion. And shared corporate governance and support services fall under the Rule V.E exclusion.
- Information. We verified that no CISRs and no 3B Reports were posted to the SCE Affiliate Notices website in 2004. (DR 29, DR 30, DR 97, DR 102) The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001.

On December 16, 2004, in D.04-12-048, the CPUC reiterated its desire that affiliates not be given preferential access to system planning information. That decision lifted a two year ban on long-term power procurement from a utility's affiliates so long as the procurement process was open and transparent.

In conjunction with the relaxation of the ban the CPUC also cautioned that "utilities, and in particular their respective risk management committees, must maintain complete procurement planning independence from their affiliates." SCE has until March 25, 2005 to develop and incorporate into its procurement plans the changes and modifications required by the decision. (DR 157)

Power procurement planning involves the integration of non-public information such as load growth forecasting, market segmentation modeling, wholesale pricing and

Rule III – Nondiscrimination

economic forecasting. Several Rules, including this one, deal with the proper handling of such information with regard to affiliates. In this regard, elements of D.04-12-048 are pertinent to the affiliate transaction rules. Guidance provided by SCE to its employees related to the Rules should be updated to address D.04-12-048 (specifically, the Affiliate Transactions Compliance Plan and the Affiliate Transactions Rule Manual (ATR) Manual).

Recommendations

3. Update Affiliate Notices Website References to Reflect New Website Location – The web address of SCE’s affiliate notices changed along with the redesign of SCE’s main website. Formerly located at five locations under the umbrella address “*www.sce.com / affiliatebb / index.shtml*,” the new affiliate notices are now found in five locations under the umbrella address of “*www.sce.com / AboutSCE / Regulatory / affiliatenotices*.” Outdated references exist in the prevailing Affiliate Transaction Compliance Plan sections for Rules III.B.1, III.F, IV.B (Advice 1278-E-F and Advice 1278-E-I), IV.C, and the Affiliate Transactions Rules Manual. Outdated references may also exist in other RP&A training materials. This affects CISR Notices, 3B Reports, 3F Reports, 4B Reports, and Service Provider Lists. SCE should update all related materials.
4. Update the Affiliate Transactions Compliance Plan and the Affiliate Transaction Rules (ATR) Manual to Reflect Affiliate Related Portions of CPUC D.04-12-048 – This decision modifies the two year old ban on power procurement by lifting prohibitions against long-term procurement from affiliates. In conjunction with the lifting of the ban, the CPUC cautioned that “utilities, and in particular their risk management committees, must maintain complete procurement planning independence from their affiliates”.

Likewise, Rules III.B.1, III.E.4, and IV.B either prohibit or prescribe close management of situations where an affiliate might gain unfair advantage from the transfer of information from SCE to the affiliate. Consequently, we believe the guidance provided to SCE employees and managers relative to these three rules should be expanded to address the requirements of D.04-12-048 as it applies to the conduct of power procurement activities. The Affiliate Transaction Compliance Plan and relevant portions of the Affiliate Transaction Rule Manual should also be updated. For the ATR Manual, this includes the topics in Chapter 4 entitled “Information – Non-Customer Specific, Non-Public”, “Information – Non-Customer Specific, Non-Public – Modeling Data”, and “Information – Non-Customer Specific, Non-Public – Proprietary Information” and the topic in Chapter 5 entitled “Nondiscrimination – Types of Transactions Permitted.”

Rule III – Nondiscrimination

CPUC Rule

III.B.2. Offering of Discounts: Except when made generally available by the utility through an open, competitive bidding process, if a utility offers a discount or waives all or any part of any other charge or fee to its affiliates, or offers a discount or waiver for a transaction in which its affiliates are involved, the utility shall contemporaneously make such discount or waiver available to all similarly situated market participants. The utilities should not use the “similarly situated” qualification to create such a unique discount arrangement with their affiliates such that no competitor could be considered similarly situated. All competitors serving the same market as the utility’s affiliates should be offered the same discount as the discount received by the affiliates. A utility shall document the cost differential underlying the discount to its affiliates in the affiliate discount report described in Rule III.F.7 below.

Audit Criteria

- If it offered a discount or waiver to its affiliates, SCE made the discounts or waivers available to all similarly situated market participants

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Review instances where discounts or waivers were offered to affiliates
- Determine, in such instances, if similar offerings were made available to non-affiliate customers
- Monitor a sample of Customer Call Center customer calls, both residential and commercial, to determine that the tariffs, discounts, or waivers offered to affiliates or affiliates’ customers are the same as those offered to non-affiliate customers

Conclusions

SCE is in compliance with Rule III.B.2.

SCE’s process to comply with the requirements of this Rule is well documented and widely communicated. During our transaction reviews, we determined there were no instances during 2004 in which SCE provided affiliates with waivers or discounts.

SCE’s Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all employees, describe the requirements of Rule III.B.2 and assign responsibilities for its application. The Finance Division of the SCE Customer Services Business Unit is responsible for reviewing any proposed pricing for offerings, including any proposed discounts and fee waivers. Any pricing plans that might include a discount or waiver to tariffed products and services are reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs (RP&A) and are subject to approval by the Commission. Any discounted pricing proposed for non-tariffed products and services would be subject to Rule III.B criteria discussed above.

Management personnel representing RP&A (INT 1), and Customer Services Business Unit (INT 10, INT 27, INT 28) affirmed for us that their organizations were in compliance with Rule III.B.2 throughout 2004.

Rule III – Nondiscrimination

We determined that during 2004, no discounts or waivers were offered to affiliates. (DR 88)

In addition, we listened to a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE’s Customer Call Centers, did we note any discounts or waivers being discussed or offered. (DR 108)

If any discounts or waivers had been offered, they would have been documented by the posting of “Affiliate Discount Reports (3F Reports)” on SCE’s Affiliate Notices website . No such reports were posted. (DR 89). See Rule III.F later in this report for more information on “3F Reports”.

CPUC Rule

- III.B.3. Tariff Discretion:** If a tariff provision allows for discretion in its application, a utility shall apply that tariff provision in the same manner to its affiliates and other market participants and their respective customers.
- III.B.4. No Tariff Discretion:** If a utility has no discretion in the application of a tariff provision, the utility shall strictly enforce that tariff provision.

Audit Criteria

- SCE applies and enforces all tariffs fairly and provides no preferential treatment to its affiliates or its affiliates’ customers

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Monitor a sample of Customer Call Center calls, both residential and commercial & industrial, to determine that the tariffs offered to affiliates and affiliates’ customers are applied in the same way as those offered to non-affiliate customers

Conclusions

SCE is in compliance with Rule III.B.3 and Rule III.B.4.

SCE’s process to comply with the requirements of this Rule is well documented and widely communicated. During our transaction reviews, we sampled Customer Call Center calls to conclude that SCE is complying with the Rule.

SCE’s Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all employees, describe the requirements of Rules III.B.3 and III.B.4. Both documents note that the requirements of these two rules were in effect, and were being carried out, for some time prior to the Commission’s issuance of the Rules in D.97-12-088.

Rule III – Nondiscrimination

Also the documents note that these rules are closely related to other Rules, notably Rule III.A.2, Rule III.B.2 and Rule III.F. CPUC Resolution E-3539, Finding 36 agrees. (DR 3). But Finding 31 also noted that “Rule III.B, which is designed to help prevent discrimination in favor of the affiliates, is inapplicable to tariffed services.”

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 10), Customer Services Operations (INT 28) and Major Customer Division (INT 27) affirmed for us that their organizations were in compliance with Rules III.B.3 and III.B.4 throughout 2004.

SCE confirmed for us that in no instances during 2004 did the company fail to meet the requirements of these Rules. (DR 122)

We listened to a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE’s Customer Call Centers, did we note any preferential treatment in application of tariffs being discussed or provided. (DR 108)

CPUC Rule

III.B.5. Processing Requests for Services Provided by the Utility: A utility shall process requests for similar services provided by the utility in the same manner and within the same time for its affiliates and for all other market participants and their respective customers.

Audit Criteria

- SCE processes service requests from all market participants in the same manner and within the same time frame as it does for its affiliates

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Review Customer Information Service Requests (CISR) processing times to assure no preferential treatment was given to affiliates or affiliates’ customers and sample actual CISRs to assure processing times have been accurately reflected
- Review SCE’s process for handling Direct Access Service Requests (DASR) and determine whether any DASRs were processed. If DASRs were processed, assure no preferential treatment was given to affiliates or affiliates’ customers.

Conclusions

SCE is in compliance with Rule III.B.5.

SCE’s process to comply with the requirements of this Rule is well documented and widely communicated. We agree with SCE’s assessment that this Rule essentially

Rule III – Nondiscrimination

duplicates the requirements of Rule III.A above. Our review and sampling of certain affiliate transactions under Rule III.A, particularly those having to do with service requests, led us to conclude that SCE is complying with the rule.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the requirements of Rule III.B.5. (DR 1, DR 5). Employees are referred to the essentially identical Rule III.A and are reminded that "SCE will neither claim, nor provide preferential treatment to, its affiliates or its affiliates' customers" and "employees may not give preference to its affiliates or its affiliates' customers when providing utility services." This is a key element of RP&A's training efforts.

Another way SCE ensures compliance is through its Customer Service Business Unit's policies and procedures for handling requests for information by outside parties, including affiliates. (DR 28) Under these procedures, the turnaround times for handling Customer Information Service Requests (CISRs) are tracked in order to assure that no preference is inappropriately given to affiliates. (DR 29, DR 97) CISRs requested by affiliates are posted to SCE's Affiliate Notices website entitled "Notice of Release of Customer Information to Affiliates – List of Customer Information Service Requests". See Rule III.B.1 for more information on web postings of CISRs, including a new web address. (DR 30)

Management personnel representing RP&A (INT 1), and Customer Services Business Unit (INT 10, INT 27, INT 28) affirmed for us that their organizations were in compliance with Rule III.B.5 throughout 2004.

In evaluating SCE's compliance with Rule III.B.5 (and Rule III.A), we evaluated SCE's processing of two kinds service/information requests: Direct Access Service Requests (DASRs) and the above mentioned Customer Information Service Requests (CISRs).

DASRs are the communication tool that would be used by an Electric Service Provider (ESP) to notify SCE of a customer's request to initiate, cancel, or modify their Direct Access account. Essentially, Rule III.B.5 (and Rule III.A) says that SCE may not provide preferential treatment to any customer that is obtaining direct access from an SCE affiliate. Such preferential treatment, if it existed, might show up in quicker turnaround times for DASRs sent to SCE by its affiliates compared to other ESPs.

SCE measures the number of days to process the DASR and compares turnaround times for affiliate customers and other customers. While this procedure is still in place at SCE, it has not been used since 2001, when the Direct Access program in California was suspended by the Commission. (DR 24)

CISRs are the communication tool used to obtain/approve release of customer information to a third party. For example, if a customer retains an energy management firm to help identify opportunities for energy cost reduction, the customer might use a CISR to ask SCE to release data about their energy usage amounts and patterns to the third party energy management firm.

Rule III – Nondiscrimination

Under Rule III.B.5 (and Rule III.A and Rule III.B.1), SCE cannot process such requests more quickly for affiliates or affiliates' customers than for others. SCE's procedure for CISR handling also includes the measurement of the number of days to process the CISR. (DR 29, DR 97)

As discussed under Rule III.A above, there were no CISRs involving affiliates in 2004, thus there was no discrimination in favor of affiliates. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 30)

Based on this analysis, we have concluded that no preferential treatment was given to affiliates through the expedited processing of CISRs or DASRs.

CPUC Rule

III.C. Tying of Services Provided by a Utility Prohibited: A utility shall not condition or otherwise tie the provision of any services provided by the utility, nor the availability of discounts of rates or other charges or fees, rebates, or waivers of terms and conditions of any services provided by the utility, to the taking of any goods or services from its affiliates.

Audit Criteria

- The terms, conditions and pricing of SCE services are not conditioned on the use of an affiliate's services

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Monitor actual customer conversations with SCE Customer Call Center representatives, both residential and commercial & industrial, to determine SCE does not condition its service on taking goods or services from affiliates
- Review billing inserts to determine SCE does not condition its service on taking goods or services from affiliates
- Review a sample of marketing/advertising materials targeted or sent to SCE customers to determine SCE does not condition its service on taking goods or services from affiliates
- Sample SCE presentations to large customers to determine SCE does not condition its service on taking goods or services from affiliates
- Sample account manager/account executive journal entries to determine SCE does not condition its service on taking goods or services from affiliates
- Review SCE proposals responding to RFPs from major customers to assure the terms, conditions, and pricing of SCE services are not conditioned on the use of an affiliate's services

Conclusions

SCE is in compliance with Rule III.C.

Rule III – Nondiscrimination

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Through our transaction reviews, we examined and sampled a sufficient number of affiliate transactions to conclude that SCE is complying with the rule.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the requirements of Rule III.C. (DR 1, DR 5)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 10), Corporate Communications (INT 8), Customer Services Operations (INT 28) and the Major Customer Division (INT 14, INT 15, INT 27) affirmed for us that their organizations were in compliance with Rule III.C throughout 2004.

In evaluating SCE's compliance with Rule III.C, we conducted a variety of reviews to affirm that SCE does not condition or tie provision of its services to the taking of goods or services from an affiliate. Included in the review were: Call Center calls, bill inserts, mass market advertisements, presentations to large customers, account manager/executive contacts, and SCE proposals responding to Requests for Proposals (RFP) from major customers.

Customer Call Centers. We listened in on a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we see any evidence of SCE tying terms, conditions, or pricing to the taking of services from an affiliate. (DR 108)

Billing Inserts & Advertisements. We reviewed all billing inserts mailed to both commercial and residential customers during 2004. (DR 22). We examined all mass market advertisements sponsored by SCE during 2004. (DR 20, DR 152, DR 182) The SCE advertisements included approximately 150 print ads, 35 radio spots, 8 TV ads, 1 cash register strip ad, and 5 outdoor ads. In none of the inserts or advertisements did we see any evidence of SCE tying terms, conditions, or pricing to the taking of services from an affiliate.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2004. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2004. (DR 21, DR 98)

We also sampled the online diary notes of Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 99). These notes document meetings held with large customers in 2004. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2004.

Rule III – Nondiscrimination

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2004, and to indicate which, if any, resulted in an SCE proposal. SCE received three such RFPs in 2004 and responded to all three. We reviewed the three proposals, all of which related to possible privatization of government-owned electric systems. (DR 100)

Neither the presentations to large customers nor the sample of diary notes or the SCE proposals for privatization provided any evidence of SCE tying terms, conditions or pricing to the taking of services from an affiliate.

Furthermore, in evaluating SCE's compliance with Rule III.C, we specifically asked SCE to identify for us any instances where SCE tied its products/services to a customer's use of an affiliate's products/services. There were none identified for 2004. (DR 25)

CPUC Rule

III.D. No Assignment of Customers: A utility shall not assign customers to which it currently provides services to any of its affiliates, whether by default, direct assignment, options or by any other means, unless that means is equally available to all competitors.

Audit Criteria

- SCE customers are not directed to be served by an affiliate

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Determine that SCE has not assigned its customers to affiliates

Conclusions

SCE is in compliance with Rule III.D.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. We concluded that SCE has not assigned customers to any provider in 2004.

SCE's Modified Compliance Plan (MCP) and its ATR Manual, both of which are readily available to employees, describe Rule III.D's prohibition of "assigning" customers of SCE to those of an affiliate. (DR 1, DR 5)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 10), Customer Services Operations (INT 28) and the Major Customer Division (INT 27) affirmed for us that their organizations were in compliance with Rule III.D throughout 2004.

In evaluating SCE's compliance with Rule III.D, we could identify no instances in 2004 where SCE assigned its customers to affiliates. (DR 26)

Rule III – Nondiscrimination

CPUC Rule

III.E. Business Development and Customer Relations: Except as otherwise provided by these Rules, a utility shall not:

- III.E.1. provide leads to its affiliates;
- III.E.2. solicit business on behalf of its affiliates;
- III.E.3. acquire information on behalf of or to provide to its affiliates;
- III.E.4. share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates’
- III.E.5. request authorization from its customers to pass on customer information exclusively to its affiliates;
- III.E.6. give the appearance that the utility speaks on behalf of its affiliates or that the customer will receive preferential treatment as a consequence of conducting business with the affiliate; or
- III.E.7. give any appearance that the affiliate speaks on behalf of the utility.

Audit Criteria

- SCE does not provide leads to its affiliates or solicit business on behalf of its affiliates (III.E.1, E.2)
- SCE does not acquire information for affiliates, share proprietary or non-public information with affiliates, or request its customers to authorize release of customer information exclusively to affiliates (III.E.3, E.4, E.5)
- SCE does not give any appearance that the utility speaks on behalf of affiliates or give any appearance that the affiliate speaks on behalf of SCE (III.E.6, III.E.7)

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Sample/monitor Customer Call Center calls from both residential and commercial customers to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review billing inserts to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review marketing/advertising materials of both SCE and affiliates to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Sample SCE presentations to large commercial and industrial customers to determine (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential

Rule III – Nondiscrimination

treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE

- Sample account manager/account executive journal entries contained in Major Customer Division’s contact management system to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review SCE proposals responding to RFPs from major customers to assure business is not being solicited on behalf of affiliates, or that SCE speaks on behalf of affiliates
- Review R&D Projects and EPRI target purchases and usage to assure that proprietary information was not shared with affiliates

Conclusions

SCE is in partial compliance with Rule III.E. During the course of our audit we identified an instance in which an account executive who was assigned to manage the company’s account with a major commercial customer violated Rules III.E.2 and III.E.6 as well as Rule IV.E. (DR 99, DR 180, DR 181) In our review of the other transactions related to Rule III.E we found no other violations.

The violation occurred in April, 2004, when an Account Executive, employed by SCE’s Major Customer Division, Customer Service Business Unit, provided an SCE customer with the name and website address of Class A affiliate. That affiliate is Edison Source Norvik Company, a unit of Edison Source, which is a unit of Edison Enterprises.

Edison Source Norvik Company manufactures and sells battery charging equipment and technologies primarily for use in forklifts. The product line is called Minit-Charger and the affiliate website provided to the SCE customer was www.minit-charger.com .

In an email to two contacts at the SCE customer company, the Account Executive explained that he “came across a news article this morning discussing advancing technologies in forklift charging.” He also noted that “an SCE affiliate company, Edison Source, has been working with a company called Norvik ... to develop this technology” and provided “the website which discusses the program in more detail.” The employee provided this website reference to no other customer.

The provision of an affiliate’s website address to a customer violates three of the Affiliate Transaction Rules. Rule III.E.2 prohibits a utility from soliciting business on behalf of its affiliates. Rule III.E.6 forbids a utility from giving the appearance that the utility speaks on behalf of its affiliates. And Rule IV.E restricts a utility from offering or providing customers advice or assistance with regard to its affiliates.

In follow-up discussions with SCE, we determined that the employee was acting on his own in this referral. No one at SCE had asked him to make the referral, nor had anyone at Norvik requested his help in promoting their product. Importantly, the SCE customer never purchased any of Norvik’s products.

Rule III – Nondiscrimination

SCE reported this incident in a self-reporting Letter to the CPUC on March 18, 2005. (DR 186)

It appears that the event was an isolated incident involving an employee who forgot the affiliate transaction rules. This was not a concerted attempt by SCE to promote Norvik's business. In our sample of other journal entries from the Major Customer Division's AccountTrak system, we found no other instances of this nature. (DR 99)

All of SCE's affiliate rules training materials accentuate the prohibition on the promotion of affiliates. But training in this case was unable to prevent this violation. In light of this incident, SCE indicates it will undertake retraining of MCD employees. We agree that SCE should reinforce their training efforts within the MCD and particularly for these three rules. Furthermore, the key elements of affiliate rules should be expanded in the EIX Business Conduct Guide. (DR 73)

Beyond this issue, we reviewed and sampled a wide range of other affiliate transactions to conclude that, in all other aspects, SCE is complying with Rule III.E.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are readily available to employees, describe the requirements of Rule III.E. (DR 1, DR 5) The ATR Manual is particularly relevant in this regard.

For Rules III.E.1 and III.E.2, SCE reiterates its strict policy prohibiting employees from giving leads to affiliates, providing affiliates' phone numbers/addresses (even when specifically requested by a customer), or encouraging/suggesting that customers consider purchasing goods and services from affiliates. We believe SCE properly interprets Rule III.E.1 in that it does not apply to third parties who are not customers requesting information (e.g., regulatory or governmental agencies).

Similarly, for Rule III.E.3, SCE expresses the appropriate prohibition to employees and notes that this Rule should not apply to the acquisition and exchange of information necessary to perform corporate support functions authorized by Rule V.E.

Rule III.E.4 and Rule IV.B are closely related. SCE implements these rules by generally prohibiting the sharing of market analysis or other types of proprietary or non-publicly available reports. Where the sharing of such information is allowed, the requirements of Rule IV.B prevail. That is, notice must be given to the market that the sharing has occurred. Any such shared information would be posted on SCE's Affiliate Notices website entitled "Non-Customer Specific, Non-Public Information Offered to Affiliates". (DR 31) See Rule IV.B later in this report for more information on "4B Reports".

On December 16, 2004, in D.04-12-048, the CPUC reiterated its desire that affiliates not be given preferential access to system planning information. That decision lifted a two year ban on long-term power procurement from a utility's affiliates so long as the procurement process was open and transparent.

Rule III – Nondiscrimination

In conjunction with the relaxation of the ban the CPUC also cautioned that “utilities, and in particular their respective risk management committees, must maintain complete procurement planning independence from their affiliates.” SCE had until March 25, 2005 to develop and incorporate into its procurement plans the changes and modifications required by the decision. (DR 157)

Power procurement planning involves the integration of non-public information such as load growth forecasting, market segmentation modeling, wholesale pricing, and economic forecasting. Several Rules, including Rule III.E.4, deal with the proper handling of such information with regard to affiliates. So then, elements of D.04-12-048 are pertinent to the affiliate transaction rules. Accordingly, guidance provided by SCE to its employees related to the Rules should be updated to address D.04-12-048 (specifically, the Affiliate Transactions Compliance Plan and the Affiliate Transactions Rule Manual).

Rule III.E.5 is related to Rules V.F.1 and V.F.4, which prohibit SCE from trading upon, promoting, or advertising its affiliates’ relationship with SCE, and which prohibit joint advertising or marketing. The Rule III.E.5 prohibition against asking a customer for permission to pass customer information to affiliates is simply an extension of the other two rules.

For Rules III.E.6 and III.E.7, SCE prohibits all conflicts of interest and the appearance of conflict of interest. SCE employees are specifically instructed to not serve in a representative capacity on behalf of affiliates.

Managers representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 10), Energy Supply and Management (INT 20, INT 24), QF Resources (INT 5), Corporate Communications (INT 8), Research, Development and Demonstration (INT 11), and Customer Services Operations (INT 28) and all affirmed for us that their organizations were in compliance with Rule III.E throughout 2004. Except for the violation noted above, representatives of the Major Customer Division (INT 14, INT 15, INT 27) made the same affirmation.

In evaluating SCE’s compliance with Rule III.E and its sub-parts, we conducted a variety of data reviews to affirm that SCE does not develop business for affiliates, acquire/provide information from its customers or from proprietary sources for its affiliates, or give the appearance that SCE speaks on behalf of affiliates, or vice-versa. Included in the year 2004 data samples were customer calls, bill inserts, mass market advertisements, presentations to large customers, account manager/account executive contacts, SCE proposals responding to Requests for Proposals (RFP) from major customers, and EPRI research products. The results of our review are described below.

Customer Call Centers. We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE’s Customer Call Centers, did we note any business being solicited on behalf of an affiliate, any

Rule III – Nondiscrimination

appearance that SCE was speaking on behalf of affiliates, or any appearance that the an affiliate speaks on behalf of SCE. (DR 108)

Billing Inserts, Advertisements, Promotions & Giveaways. We reviewed all billing inserts mailed to both commercial and residential customers during 2004. (DR 22) We examined all mass market advertisements, promotions, and giveaways sponsored by SCE or affiliates during 2004. (DR 20, DR 115, DR 152, DR 182). The SCE advertisements included approximately 150 print ads, 35 radio spots, 8 TV ads, 1 cash register strip ad, and 5 outdoor ads. Edison Source – Norvik sponsored 3 print ads and 2 brochures. There were no giveaways to customers in California. In none of the inserts or advertisements did we see any evidence that business was being solicited on behalf of affiliates, any appearance that SCE was speaking on behalf of affiliates or any appearance that the an affiliate speaks on behalf of SCE.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we also reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2004. (DR 21, DR 98)

We also sampled the online diary notes of Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 99) These notes document meetings held with large customers in 2004. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2004. It was in this review that we found the rules violation noted above.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2004, and to indicate which, if any, resulted in an SCE proposal. SCE received three such RFPs in 2004 and responded to all three. We reviewed the three proposals, all of which related to possible privatization of government electric systems. (DR 100)

Except for the violation noted above, we found no other evidence in the presentations to large customers, the sample of diary notes, or the SCE proposals for privatization that SCE solicited business on behalf of an affiliate, spoke on behalf of an affiliate or made it appear that an affiliate spoke on behalf of SCE.

Edison News. We reviewed all 2004 issues of Edison News, the newsletter of Edison International, which is distributed to employees of both SCE and affiliates. (DR 18) We found no instance where the newsletter communicated information, market analysis, strategic reports or other prohibited data that would have been in conflict with the Rules.

EPRI and R&D. SCE is a member of the Electric Power Research Institute (EPRI). Through its paid membership, SCE is able to choose access a large amount of EPRI research material. We evaluated the availability of these research information 'deliverables' to affiliates in 2004. Some of the EPRI deliverables describe state-of-the-art approaches to utility operations and maintenance and might contain information

Rule III – Nondiscrimination

valuable for affiliate business development. We confirmed that none of the EPRI research products had been made available for use by affiliates, or acquired on behalf of affiliates. (DR 121, DR 57, DR 58, INT 11). We also concluded there were no R&D projects underway during 2004 which have demonstrated commercial viability to affiliates, or whose end products were recognized as beneficial to affiliates. (DR 94, DR 95)

In our review of 2004 Intercompany Service Requests (ISRs), we noted no instances where SCE employees performed business development-related work for Class A affiliates. (DR 42)

Finally, except for the violation described above, we determined there were no instances where SCE provided leads to affiliates, solicited business for affiliates, acquired information for affiliates, shared proprietary or non-publicly available information with affiliates or requested authorization from its customers to pass information exclusively to affiliates. (DR 120, DR 27). And we verified there were no instances in 2004 where SCE had given any appearance that it spoke for an affiliate, or that one of the affiliates spoke for SCE. (DR 107).

Recommendation

5. Expand Wording of EIX Business Conduct Guide – In 2004 the scope of annual Business Conduct and Ethics Certification was expanded to include all domestic, non-union employees. This expansion provides an ongoing opportunity for SCE to emphasize the importance of affiliate rule compliance to the employees who have the most contact with customers. The paragraph addressing affiliate rules that is found in the EIX Business Conduct Guide under the section Compliance With Laws and Regulations should be expanded to address a few of the most important elements of the Rules. For example, SCE should mention that (1) “SCE employees may not promote affiliates, even at customer request,” (2) “release of SCE customer information requires prior written consent,” (3) “work for affiliates by SCE employees requires consent of Affiliates Officer,” (4) “SCE and affiliates may not participate in joint sales, marketing, or communication to existing or potential customers,” and (5) “SCE transactions with affiliates must be thoroughly documented.”

CPUC Rule

III.F. Affiliate Discount Reports: If a utility provides its affiliates a discount, rebate, or other waiver of any charge or fee associated with services provided by the utility, the utility shall, within 24 hours of the time at which the service provided by the utility is so provided, post a notice on its electronic bulletin board providing the following information:

1. the name of the affiliate involved in the transaction;
2. the rate charged;
3. the maximum rate;
4. the time period for which the discount or waiver applies;
5. the quantities involved in the transaction;
6. the delivery points involved in the transaction;
7. any conditions or requirements applicable to the discount or waiver, and a documentation of the cost differential underlying the discount as required in Rule III B 2 above; and
8. procedures by which a nonaffiliated entity may request a comparable offer.

Rule III – Nondiscrimination

A utility that provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee associated with services provided by the utility shall maintain, for each billing period, the following information:

9. the name of the entity being provided services provided by the utility in the transaction;
10. the affiliate's role in the transaction (i.e., shipper, marketer, supplier, seller);
11. the duration of the discount or waiver;
12. the maximum rate;
13. the rate or fee actually charged during the billing period; and
14. the quantity of products or services scheduled at the discounted rate during the billing period for each delivery point.

All records maintained pursuant to this provision shall also conform to FERC rules where applicable.

Audit Criteria

- If it offered a discount, waiver, or rebate to any of its affiliates, SCE posted notice such within 24 hours and maintained the prescribed billing information for each billing period

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review instances where affiliates were offered discounts, waivers, or rebates
- Determine, in such instances, if notices were posted to SCE's electronic bulletin board

Conclusions

SCE is in compliance with Rule III.F

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. During our transaction reviews, we determined there were no instances during 2004 in which SCE provided affiliates any discounts, waivers, or rebates.

SCE's Modified Compliance Plan (MCP) and its ATR Manual, both of which are available to all employees, clearly describe the requirements of Rule III.F. (DR 1, DR 5) As noted in Rule III.B.2 above, the Finance Division of the SCE Customer Services Business Unit is responsible for reviewing any proposed pricing for offerings, including any proposed discounts and fee waivers. Any pricing plans that might include a discount or waiver to tariffed products and services must be reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs (RP&A) and are subject to approval by the Commission. Any proposals for discounted non-tariffed products and services would be subject first to Rule III.B.2 criteria, and then Rule III.F.

We determined that, during 2004, SCE offered no discounts, waivers or rebates to affiliates. (DR 88).

If any discounts or waivers had been offered, they would have been documented by the posting of Affiliate Discount Reports (3F Reports) on SCE's Affiliate Notices website

Rule III – Nondiscrimination

entitled “SCE Discounts Offered to Affiliates” (<http://www.sce.com> / AboutSCE / Regulatory / affiliatenotices / scediscounts.htm). No reports of this kind were posted in 2004. (DR 89).

The website locations (i.e., web addresses) specified for 3F Reports have changed since the previous audit, but two key SCE affiliate guidance documents have not reflected the change. Outdated references may also exist in other RP&A training materials. Specifically, the Affiliate Transactions Compliance Plan and the Affiliate Transaction Rules Manual should be updated to reflect the changes. This suggestion was covered in Recommendation 3 discussed earlier on page 33.

Rule IV – Disclosure and Information

CPUC Rule

IV.A. Customer Information – A utility shall provide customer information to its affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior affirmative customer written consent.

Audit Criteria

- SCE does not discriminate in providing customer information to affiliates and non-affiliates. Such information is only provided with the customer's written consent

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review SCE's process for authorizing and supplying customer information to affiliates and non-affiliates to determine that affiliates are not given preferences. Determine that: (1) the customer has given written, affirmative consent to the release of information and (2) the information is made available, subject to the customer's authorization, to both affiliates and their competitors.
- Review a sample of Customer Information Service Request (CISR) forms associated with affiliate and non-affiliate customer information requests
- Review CISR postings to determine that notices have been posted to the SCE Affiliate Notices website whenever SCE receives CISR forms authorizing release of customer information to a Class A affiliate

Conclusions

SCE is in compliance with Rule IV.A.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with the Rule confirmed SCE's compliance with this Rule.

Policies and procedures for handling the approval and release of customer information to affiliates and non-affiliates are maintained by the Customer Service Business Unit. These procedures cover the use of the Customer Information Standardized Request (CISR-S) form – the primary mechanism by which third parties request SCE customer information. Customers are required to give written, affirmative consent on a CISR-S form before their information is released. SCE's Customer Services Business Unit – Pricing and Load Management Group – is responsible for administering this process. (DR 28)

The Affiliate Transactions Compliance Plan – 2003 Update (CP03) and Affiliate Transaction Rule (ATR) Manual also describe procedural requirements related to Rule IV.A. (DR 1, DR 5). Both describe the role of the Affiliate Compliance Organization relating to the release of customer information to an affiliate. In such an event, after the receipt of a customer's written authorization, the Affiliate Compliance Organization arranges for the posting of a notice on SCE's Affiliate Notices website, entitled "Notice

Rule IV – Disclosure and Information

of Release of Customer Information to Affiliates – List of Customer Information Service Requests” See Rule III.B.1 above for more information on web postings of CISRs, including a new web address. (DR 30)

As discussed earlier in Sections III.A, III.B.1 and III.B.5, another way SCE ensures there is no preference given to affiliates with regard to customer information is through the tracking of turnaround times for handling CISRs. (DR 29, DR 97)

There were no CISR forms relating to affiliates processed in 2004. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 30)

Management personnel representing RP&A (INT 1), and Customer Services Business Unit (INT 10, INT 27, INT 28) affirmed for us that their organizations were in compliance with Rule IV.A during 2004.

CPUC Rule

IV.B. Non-Customer Specific Non-Public Information – A utility shall make non-customer specific non-public information, including but not limited to information about a utility’s natural gas or electricity purchases, sales, or operations or about the utility’s gas-related goods or services, electricity-related goods or services, available to the utility’s affiliates only if the utility makes that information contemporaneously available to all other service providers on the same terms and conditions, and keeps the information open to public inspection. Unless otherwise provided by these Rules, a utility continues to be bound by all Commission-adopted pricing and reporting guidelines for such transactions. Utilities are also permitted to exchange proprietary information on an exclusive basis with their affiliates, provided the utility follows all Commission-adopted pricing and reporting guidelines for such transactions, and it is necessary to exchange this information in the provision of the corporate support services permitted by Rule V E below. The affiliate’s use of such proprietary information is limited to use in conjunction with the permitted corporate support services, and is not permitted for any other use. Nothing in this Rule precludes the exchange of information pursuant to D.97-10-031.

Audit Criteria

- Non-customer, non-public information is made available to affiliates and non-affiliates on the same terms and conditions. Any such information made available must be open for public inspection

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Review instances where requests for non-customer, non-public information were made available to affiliates, and then determine if equal access was given to non-affiliates
- Determine that notices of the transfer to affiliates of non-customer, non-public information have been posted to SCE’s Affiliate Notices website

Conclusions

SCE is in compliance with Rule IV.B.

Rule IV – Disclosure and Information

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review determined there were no instances during 2004 in which SCE provided affiliates with non-customer, non-public information.

SCE's Affiliate Transactions Compliance Plan Update 2004 (CP04-I) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the procedural requirements of Rule IV.B. (DR 1, DR 5). Both documents clearly note the restrictions on sharing of non-customer specific, non-public information.

Notice of any such offerings is required to be given to the market in which the affiliate operates by posting a Provision of Non-Customer Specific, Non-Public Information (4B Report) on SCE's Affiliate Notices website entitled "Non-Customer Specific, Non-Public Information Offered to Affiliates" (<http://www.sce.com> / AboutSCE / Regulatory / affiliatenotices / noncustomerspecific.htm). (DR 31).

The website locations (i.e., web addresses) specified for 4B Reports have changed since the previous audit, but two key SCE affiliate guidance documents have not reflected the change. Outdated references may also exist in other RP&A training materials. Specifically, the Affiliate Transactions Compliance Plan and the Affiliate Transaction Rules Manual should be updated to reflect the changes. This suggestion was covered in Recommendation 3 discussed earlier on page 33.

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Energy Supply and Management (INT 20, INT 24), and QF Resources (INT 5) affirmed for us that their organizations were in compliance with Rule IV.B throughout 2004.

We found no instances in 2004 where SCE made non-customer specific, non-public information available to affiliates and verified that no "4B Reports" were posted to the SCE Affiliate Notices website. (DR 31)

On December 16, 2004, in D.04-12-048, the CPUC addressed again its intent that affiliates not be given preferential access to system planning information. That decision lifted a two year ban on long-term power procurement from a utility's affiliates so long as the procurement process was open and transparent.

In conjunction with the relaxation of the ban the CPUC also cautioned that "utilities, and in particular their respective risk management committees, must maintain complete procurement planning independence from their affiliates." SCE has until March 25, 2005 to develop and incorporate into its procurement plans the changes and modifications required by the decision. (DR 157)

Power procurement planning involves the integration of non-public information such as load growth forecasting, market segmentation modeling, wholesale pricing, economic forecasting, etc. Several Rules, including Rule IV.B, deal with the proper handling of such information with regard to affiliates. Thus, elements of D.04-12-048 are pertinent to the affiliate transaction rules. Accordingly, guidance provided by SCE to its employees related to the Rules should be updated to address D.04-12-048 (specifically,

Rule IV – Disclosure and Information

the Affiliate Transactions Compliance Plan and the ATR Manual). This suggestion was covered in Recommendation 4 discussed earlier on page 33.

CPUC Rule

IV.C. Service Provider Information:

IV.C.1 Except upon request by a customer or as otherwise authorized by the Commission, or approved by another governmental body, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities. A utility shall submit lists approved by other governmental bodies in the first semi-annual advice letter filing referenced in Rule IV.C.2 following such approval, but may provide customers with such lists pending action on the advice letter.

IV.C.2 If a customer requests information about any affiliated service provider, the utility shall provide a list of all providers of gas-related, electricity-related, or other utility-related goods and services operating in its service territory, including its affiliates. The Commission shall authorize, by semi-annual utility advice letter filing, and either the utility, the Commission, or a Commission-authorized third party provider shall maintain on file with the Commission a copy of the most updated lists of service providers which have been created to disseminate to a customer upon a customer's request. Any service provider may request that it be included on such list, and, barring Commission direction, the utility shall honor such request. Where maintenance of such list would be unduly burdensome due to the number of service providers, subject to Commission approval by advice letter filing, the utility shall direct the customer to a generally available listing of service providers (e.g., Yellow Pages). In such cases, no list shall be provided. If there is no Commission-authorized list available, utilities may refer customers to a generally available listing of service providers (e.g., the Yellow Pages). The list of service providers should make clear that the Commission does not guarantee the financial stability or service quality of the service providers listed by the act of approving this list.

Audit Criteria

- SCE maintains a process by which vendors may request to be added to an SCE-maintained list of service providers
- SCE files a semi-annual advice letter with the Commission which includes the SCE-maintained list of service providers
- When a customer requests information about affiliated service providers, SCE either (1) provides the SCE-maintained list as approved by the Commission or (2) directs the customer to “generally available” lists or to the Internet
- When a customer requests information about non-affiliated service providers, SCE provides only lists that have been approved by the Commission or other government bodies

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Review SCE's process for handling service provider self-nominations for lists to assure that the requirements of Rule IV.C.2 are met
- Note that SCE files semi-annual advice letters related to these Rules
- Review all service provider lists to assure appropriate disclaimers are included
- Determine how SCE resolves customer questions and requests for recommendations for providers of electricity-related or other utility related goods and services, including SCE affiliates

Rule IV – Disclosure and Information

- Monitor actual customer conversations with SCE Customer Call Center representatives to determine that requests for service provider lists are handled appropriately
- Review billing inserts and marketing/advertising materials to determine that requests for service provider lists are handled appropriately
- Review a sample of SCE presentations to major customers and account manager/account executive journal entries documenting meetings with major customers to determine that requests for service provider lists are handled appropriately

Conclusions

SCE was in partial compliance with Rule IV.C during 2004.

On October 18, 2004, SCE notified the CPUC of the discovery of a flyer created by SCE's Agricultural Technology Application Center (AgTAC) at Tulare, CA. The flyer described the opening of AgTAC's "Outdoor Demonstration Grounds," a project to demonstrate various irrigation technologies. The back of the flyer contained a list of approximately 60 businesses donating their products and/or services to the project along with phone numbers of each. This list had not been filed with the CPUC as required by Rule IV.C. The distribution of this list has been discontinued. (DR 161)

SCE explains the list was not meant for promotional purposes, but to recognize the contributors. Only six of the contributors provided products which could be considered to be electrical or electricity-related. None of these companies is an affiliate of SCE. About 100 flyers per year were taken by visitors to AgTAC where the flyer was made available for anyone who wanted one.

The existence of the list was discovered as the direct result of an SCE affiliate rule training session. Subsequent to the discovery of the list, SCE regulatory personnel have met with AgTAC management to reemphasize the affiliate transaction rules and the reasons the flyer fell under the umbrella of the rule. Also, a special presentation was made to Customer Service Business Unit management which included a discussion of the self-reporting letter to the CPUC and reinforcement of the rules. (DR 123 Update, DR 162)

No other similar brochures, flyers, etc., were created by or available from, SCE's Energy Centers, including AgTAC and the Customer Technology Application Center (CTAC). (DR 176)

This incident, we believe, had little if any impact on the marketplace this Rule was designed to protect. However, it can be well used as an excellent example of the kinds of lists which must be avoided during future training efforts within SCE.

The company maintains and communicates appropriate processes for complying with Rule IV.C. Also, our evaluation of specific elements of the Rule and testing of a series

Rule IV – Disclosure and Information

of transactions led us to conclude that, except for the AgTAC incident described above, SCE met the requirement of the Rule in 2004.

SCE maintains a formal process to manage service provider lists. The Affiliate Transactions Compliance Plan – 2003 Update (CP03) and the Affiliate Transaction Rule (ATR) Manual describe the policies, procedures and types of service provider lists SCE uses to meet the requirements of Rule IV.C. (DR 1, DR 5) Also, the requirements of this rule are available online to all employees via the corporate intranet (DR 123) and to Customer Service Business Unit employees via their department’s intranet (DR 135).

Part 2 of the Rule requires SCE to maintain a record of service providers who have requested to be included on a list through a process called self-nomination. Such requests are mailed or transmitted via e-mail to SCE, as described in the Affiliate Notices website “Service Provider Lists” ([http://www.sce.com / AboutSCE / Regulatory / affiliatenotices / serviceproviderlists.htm](http://www.sce.com/AboutSCE/Regulatory/affiliatenotices/serviceproviderlists.htm)). (DR 16). The process for self nomination is well documented on the website and in SCE’s semi-annual advice letter filings.

The website locations (i.e., web addresses) specified for Service Provider Reports have changed since the previous audit, but two key SCE affiliate guidance documents have not reflected the change. Outdated references may also exist in other RP&A training materials. Specifically, the Affiliate Transactions Compliance Plan and the Affiliate Transaction Rules Manual should be updated to reflect the changes. This suggestion was covered in Recommendation 3 discussed earlier on page 33.

SCE is required to follow strict guidelines covering information it gives out to customers who request the name of qualified vendors and service providers. There are several types of lists, including:

For customers requesting information about affiliated service providers:

- Self-nominated service provider list (Internet-Based Service Provider List)
- Generally available service provider list

For customers requesting information about non-affiliated vendors or service providers:

- Focused lists of vendors not related to energy efficiency
- Focused lists of vendors of energy efficiency and self-generation products
- Government approved lists of service providers

Self-Nominated Service Provider List (Internet-Based Service Provider List). Before 2002, no contractors had requested to be included on SCE’s list of service providers. Customers asking for a list were referred to the Generally Available Service Provider Lists discussed below.

In December 2002, SCE’s Semi-Annual Filing Regarding Service Provider Lists (Advice 1491-E-E), notified the CPUC of SCE’s first instance of a self-nomination. Since then the number of providers requesting to be included on the list has expanded to eleven. Because providing this short a list of contractors might create a false impression that the

Rule IV – Disclosure and Information

Company or the CPUC endorses those providers, SCE asked the CPUC in the most current advice letter (Advice 1491-E-I, December 17, 2004) to be allowed to continue the practice of referring customers to the Generally Available Service Provider Lists should a customer ask for such a list. (DR 15) The CPUC approved this approach in January 2005 (DR 188)

Generally Available Service Provider Lists. With so few self-nominated service providers, SCE has opted to follow the part of Rule IV.C that allows it to alternately furnish customers with referrals to “generally-available” lists of providers, like the Yellow Pages, Internet keyword search engines. This practice was authorized by the CPUC in its approval of Advice 1342-E-B in February 2000. (DR 15)

Focused Lists of Non-Affiliated Service Providers (not related to energy efficiency). By approving Advice Letters 1342-E-B and 1450-E, the CPUC authorized SCE to resume distribution of “focused lists” of non-affiliated service providers and “government-approved lists” to customers requesting them. Focused lists cover providers of specific goods (e.g., food service equipment vendors, uninterruptible power suppliers, etc.) and of services (e.g., contractors that perform underground construction and sub-station work). Additional and updated focused lists were re-submitted in their entirety to the Commission for approval in Advice Letters 1491-E, 1491-E-A, 1491-E-B, 1491-E-C, 1491-E-D, 1491-E-E, 1491-E-F, 1491-E-G, 1491-E-H, and 1491-E-I. In January 2005, the CPUC approved the lists for distribution if a customer requests them. (DR 15, DR 188)

Focused Lists of Energy Efficiency and Self-Generation Products. In general, it is SCE’s policy only to distribute focused lists to customers when the Commission gives its approval. During the energy crisis, an exception was made by SCE when focused lists of vendors providing equipment for load reduction and backup generation were given to customers. In every such case going back to Advice 1491-E-A in March 2001, SCE has informed the Commission of its intent to make these distributions. The CPUC had not approved the practice until January 2005 when it approved Advice 1491-E-I. (DR 15, DR 188)

Government-Approved Lists of Service Providers. The three government-approved lists permitted by the CPUC are: (1) Electric Service Providers (ESPs) registered with the CPUC and listed on their website (www.cpuc.ca.gov/published/ESP_Lists/esp_udc.htm), (2) Suppliers of Water-Based Cleaning Materials and/or Equipment as approved by the South Coast Air Quality Management District (no web link provided) and (3) List of Firms Qualified by CEC Staff to participate in the Transitional Incentives Programs, Technical Assistance Incentive. (DR 15, DR 16, DR 17)

We examined all focused lists of non-affiliated suppliers and we reviewed the “list of eleven” self-nominees from the Internet-Based Process provided in the most recent Advice Letter to determine if appropriate disclaimers had been used. In every case, all lists contained appropriate disclaimers. (DR 15)

Rule IV – Disclosure and Information

As required by Rule IV.C.2, SCE submitted the following two Advice Letters regarding lists to the Commission during 2004:

- Advice 1491-E-H, “Semi-Annual Filing Regarding Service Provider Lists Pursuant to Affiliate Transaction Rule IV.C.2”, dated June 17, 2004. (DR 15)
- Advice 1491-E-I, “Semi-Annual Filing Regarding Service Provider Lists Pursuant to Affiliate Transaction Rule IV.C.2”, dated December 17, 2004. (DR 15)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 10), Customer Service Operations (INT 28), Corporate Communications (INT 8), and Major Customer Division (INT 14, INT 15, INT 27) affirmed for us that their organizations were in compliance with Rule IV.C throughout 2004.

We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls did we note any lists being requested or provided to customers. (DR 108).

We reviewed all billing inserts mailed to both commercial and residential customers during 2004. (DR 22). We also examined all mass market advertisements and websites sponsored by either SCE or its affiliates during 2004. (DR 20, DR 23, DR 152, DR 182) In no instance did we see any evidence of lists being provided.

We also reviewed materials relating to major customers. SCE’s Major Customer Division provided us access to all presentations used for customer updates during 2004. (DR 21, DR 98). We sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 99). These notes document meetings held with large customers in 2004. Nothing in the presentations or the sample of diary notes indicated that lists of service providers had been provided to major customers.

Implementation of 2003 Recommendation One. In the 2003 Affiliate Transactions Audit, we recommended that SCE bring up to date a web link provided in its Affiliate Notices—Service Provider Lists website and in its Advice 1491-E series of advice letters. SCE accepted the recommendation and has satisfactorily completed its fix of the issue. Specifically, the old link had at one time pointed to a “List of Firms Qualified by CEC Staff for the Demand Response Transitional Incentives Programs” website. SCE subsequently updated the link on its Affiliate Notices website and included the new link in the next Advice Letter, 1491-E-H (6/17/04). (DR 9) By the end of 2004, SCE opted to simply reproduce the list in Appendix G of Advice 1491-E-I (12/17/04) and ceased at that time providing a hyperlink to the CEC list. The list can still be found on-line at http://www.energy.ca.gov/demandresponse/documents/qualified_firms.html .

Rule IV – Disclosure and Information

Recommendation

6. Utilize the AgTAC Incident in Future Affiliate Rules Training Sessions – Incorporate the incident of the AgTAC flyer as an example of the kinds of lists which must be avoided in order that SCE maintain compliance with Rule IV.C of the ATRs.

CPUC Rule

IV.D. Supplier Information: A utility may provide non-public information and data which has been received from unaffiliated suppliers to its affiliates or non-affiliated entities only if the utility first obtains written affirmative authorization to do so from the supplier. A utility shall not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.

Audit Criteria

- Non-public information SCE receives from unaffiliated suppliers is only provided to affiliates after receiving written authorization from the supplier

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Identify instances where non-public information and data from unaffiliated suppliers was provided by SCE to affiliates or non-affiliates
- In any such instances determine that the supplier provided written authorization for the release of this information

Conclusions

SCE is in compliance with Rule IV.D.

SCE's process to comply with the requirements of this Rule is well documented, widely communicated, and consistently followed. In all instances, we determined that the appropriate authorizations had been received.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, are available to all employees and describe the requirements of Rule IV.D. (DR 1, DR 5). Both documents clearly note the need to obtain a supplier's authorization before releasing that supplier's information to SCE affiliates. The SCE Procurement and Materials Management Department (PAMM) is designated to obtain such authorizations and keep them on file.

PAMM documents this requirement in its Joint Procurement Acquisition Process Guideline, a detailed internal compliance procedure. (DR 136). The requirement is also described in PAMM's manual "Doing Business in Compliance with the Affiliate Transaction Rules". (DR 165)

One key control of PAMM's process involves the completion and approval of a Joint Procurement Notification (JPN) Form prior to release of a Request for Proposal (RFP).

Rule IV – Disclosure and Information

Another key control is a “Consent Form” included in RFP documentation asking potential bidders on joint arrangements to approve in advance SCE’s release of bid information to its affiliates.

Management personnel representing Procurement and Materials Management (INT 2, INT 29) and Regulatory Policy and Affairs (RP&A) (INT 1) affirmed for us their belief that their organizations had followed these processes and were in compliance with Rule IV.D throughout 2004.

One new joint purchasing arrangement was identified by SCE in 2004. It was categorized as a Joint Negotiation with Separate [Affiliate] Contracts. (DR 53) We located the JPN Form associated with these arrangements. (DR 52) We found written supplier authorization (Consent Forms) for the sharing of bid information with affiliates from all vendors. (DR 32)

Implementation of 2003 Recommendation Two. In the 2003 Affiliate Transactions Audit, we recommended that the Procurement and Materials Management Department (PAMM) develop and maintain a Joint Procurements Summary Log. SCE accepted the recommendation and has satisfactorily completed its fix of the issue. (DR 9) PAMM utilized a report generated from the new log application to provide the answer to one of our DRs this year. (DR 148, DR163)

Implementation of 2003 Recommendation Three. In the 2003 Affiliate Transactions Audit, we recommended that SCE improve their Joint Procurement Notification Form by adding spaces to provide the date of the approval signature and to list the Proposal Request Number. We also recommended an expansion of the description of the item(s)/service(s) being proposed. SCE accepted the recommendation and has satisfactorily completed its fix of the issue. (DR 9) The new form was modified to include all of the elements of our recommendation. (DR 164)

CPUC Rule

IV.E. Affiliate-Related Advice or Assistance: Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers.

Audit Criteria

- SCE does not offer or provide advice or assistance to its customers regarding its affiliates or other service providers

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Monitor actual customer conversations with SCE Customer Call Center representatives to determine that SCE does not offer or provide advice or assistance to its customers regarding affiliates or other service providers

Rule IV – Disclosure and Information

- Sample SCE presentations to major customers to assure no advice or assistance was offered or given regarding affiliates or other service providers
- Sample account manager/account executive journal entries to determine that no advice or assistance was offered or given regarding affiliates or other service providers

Conclusions

SCE is in partial compliance with Rule IV.E. During the course of our audit we identified an instance in which an account executive who was assigned to manage the company's account with a major commercial customer violated Rules IV.E as well as Rules III.E.2 and III.E.6. (DR 99, DR 180, DR 181). In our review of the other transactions related to Rule IV.E we found no other violations.

The violation occurred in April, 2004, when an Account Executive, employed by SCE's Major Customer Division, Customer Service Business Unit, provided an SCE customer with the name and website address of a Class A affiliate. The affiliate is Edison Source Norvik Company, a unit of Edison Source, which is a unit of Edison Enterprises.

Edison Source Norvik Company manufactures and sells battery charging equipment and technologies primarily for use in forklifts. The product line is called Minit-Charger and the affiliate website provided to the SCE customer was www.minit-charger.com.

In an email to two contacts at the SCE customer company, the Account Executive explained that he "came across a news article this morning discussing advancing technologies in forklift charging". He also noted that "an SCE affiliate company, Edison Source, has been working with a company called Norvik to develop this technology" and provided "the website which discusses the program in more detail." The employee provided this website reference to no other customer.

The provision of an affiliate's website address to a customer violates three of the Affiliate Transaction Rules. Rule III.E.2 prohibits a utility from soliciting business on behalf of its affiliates. Rule III.E.6 forbids a utility from giving the appearance that the utility speaks on behalf of its affiliates. And Rule IV.E restricts a utility from offering or providing customers advice or assistance with regard to its affiliates.

In follow-up discussions with SCE, we determined that the employee was acting on his own in this referral. No one at SCE had asked him to make the referral, nor had anyone at Norvik requested his help in promoting their product. Importantly, the SCE customer has shown no interest in, nor has purchased, any of Norvik's products.

SCE reported this incident to the CPUC on March 18, 2005. (DR 186)

It appears to us that the event was associated more with a temporary lapse in the employee's recollection of the affiliate transaction rules rather than an overt attempt to promote Norvik's business. In our sample of other journal entries from the Major

Rule IV – Disclosure and Information

Customer Division's AccountTrak system, we found no other instances of this nature. (DR 99)

All of SCE's affiliate rules training materials accentuate the prohibition on the promotion of affiliates. But training in this case was unable to prevent this violation. In light of this incident, SCE indicates it will undertake retraining of MCD employees. We agree that SCE should reinforce their training efforts within the MCD and particularly for these three rules. Furthermore, the key elements of affiliate rules should be expanded in the EIX Business Conduct Guide. (DR 73) This suggestion was covered earlier in Recommendation 5 discussed on page 41.

Beyond this issue, our review concluded there were no other instances during 2004 in which SCE offered or provided advice or assistance to its customers regarding its affiliates or other service providers.

The Modified Compliance Plan (MCP) and the Affiliate Transaction Rule (ATR) Manual describe SCE's prohibition against providing advice and assistance regarding affiliates or other service providers. (DR 1, DR 5) Also, the requirements of this rule are available online to all employees via the corporate intranet (DR 123) and to Customer Service Business Unit employees via their department's intranet. (DR 135)

SCE confirmed its policy against providing advice or assistance regarding specific energy service providers. (DR 91)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 10), Customer Services Operations (INT 28) and the Major Customer Division (INT 14, INT 15, INT 27) affirmed for us that their organizations were in compliance with Rule IV.E throughout 2004.

We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls did we note advice or assistance given regarding affiliates or other service providers. (DR 108)

We also reviewed materials relating to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to presentations used in customer updates during 2004. (DR 21, DR 98).

We sampled the online diary notes of Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 99) These notes document meetings held with large customers in 2004. It was during this review that we found the rules violation noted above.

Except for the violation noted above, nothing else in these presentations or the sample of diary notes indicated that any advice or assistance was given to major customers regarding affiliates or other service providers.

Rule IV – Disclosure and Information

CPUC Rules

IV.F. Record-Keeping: A utility shall maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates, including but not limited to, all waivers of tariff or contract provisions and all discounts. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. The utility shall make such records available for third party review upon 72 hours' notice, or at a time mutually agreeable to the utility and third party.

If D.97-06-110 is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 request for confidentiality within 24 hours of service.

IV.G. Maintenance of Affiliate Contracts and Related Bids: A utility shall maintain a record of all contracts and related bids for the provision of work, products or services to and from the utility to its affiliates for no less than a period of three years, and longer if this Commission or another government agency so requires.

Audit Criteria

- SCE maintains a record of all contracts and bids for work, products and services to/from the utility to affiliates for no less than three years
- SCE maintains contemporaneous records of all tariffed and non-tariffed transactions with affiliates. This information is maintained for at least three years and is kept in such a manner as to be produced quickly

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Sample service agreements, contracts, and bid documents between SCE and affiliates to determine that records are maintained for at least three years
- Review requests for affiliate transaction information to ensure they were fulfilled within the 72-hour deadline
- Sample affiliate transactions to determine that they have been properly recorded in SCE's accounting records

Conclusions

SCE is in compliance with Rules IV.F and IV.G

SCE's process to comply with the requirements of these Rules is well documented and widely communicated. Procedural guidance regarding recordkeeping is readily available. Samples of service agreements, contracts, bids, joint purchases and transaction records resulted in our concluding that SCE maintains such records for three years or more.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to all employees, describe the requirements of Rules IV.F and IV.G. (DR 1, DR 5). Both documents clearly note the document handling and document retention requirements of the Rules.

Rule IV – Disclosure and Information

Business units of SCE that conduct transactions with affiliates must maintain the associated records for three years. They are required to forward such documentation (or summaries of it) to the Affiliate Compliance Organization annually. Requests by third parties for affiliate transaction information which invoke the 72-hour requirements of Rule IV.F are coordinated by the Affiliate Compliance Organization.

Additional procedural guidance for record keeping is provided in manuals of the QF Resources department and the Procurement and Materials Management department (PAMM). (DR 136, DR 138, DR 154, DR 166) And the requirement is described in PAMM's manual "Doing Business in Compliance with the Affiliate Transaction Rules." (DR 165)

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Energy Supply & Management (INT 20, INT 24), Procurement and Materials Management Department (INT 2, INT 29), Controller's (INT 19), QF Resources (INT 5), and Human Resources (INT 17) affirmed for us that their organizations were in compliance with Rules IV.F and IV.G throughout 2004.

The transaction reviews associated with these Rules included sampling for the existence and completeness of various service agreements, contracts, bids, joint purchases and transaction records. Reviews also considered whether SCE had complied with the 72-hour turnaround requirement of Rule IV.F.

To verify that SCE maintains records of contracts and related bids for work between SCE and affiliates, we randomly selected for review several joint purchases, service agreements/contracts and bids listed in responses to document requests from the 2004, 2003, and 2002 Affiliate Transaction Audits. Sample items were selected from the following categories:

- Joint purchasing arrangements (DR 53, 2003 DR 65, 2002 DR 84)
- QF and QF-related service agreements/contracts (DR 8, 2003 DR 10, 2002 DR 10)
- Agreements between ESI and affiliates (DR 8, DR 36, 2003 DR 10, 2002 DR 10, 2002 DR 59)

For each of the selected items, we physically inspected the available records. We found documentation to be complete and we were therefore able to conclude that the 3-year records maintenance requirement of Rule IV.G was met

No affiliates submitted any bids to SCE during 2004. (DR 54) And SCE entered into no contracts for power, capacity, transmission capacity, ancillary services, or generation fuels with affiliates during 2004. (DR 59, DR 60, DR 61, DR 109, DR 110, DR 111)

SCE verified for us that during 2004 there were no requests to provide affiliate transaction information that would be covered under the 72-hour requirements of Rule IV.F. (DR 35).

Rule IV – Disclosure and Information

With regard to record keeping requirements for waivers, discounts, or price concessions offered or given to affiliates, we determined that no such waivers, discounts, or price concessions were offered or given in 2004. Thus, there was no documentation to review. (DR 88, DR 89).

We reviewed a sample of intercompany billings and noted that SCE charges to affiliates for corporate support were ultimately recorded to intercompany receivable and payable accounts, as shown in the general ledger summary trial balance. (INT 19, DR 117) This is an indication of the contemporaneous maintenance of affiliate transaction records.

Implementation of 2003 Recommendation Four. In the 2003 Affiliate Transactions Audit, we recommended that SCE's Procurement and Materials Management Department (PAMM) finalize their "Doing Business in Compliance with the Affiliate Transaction Rules" manual. SCE accepted the recommendation and has satisfactorily issued the final version of the manual. (DR 9, DR 165)

Implementation of 2003 Recommendation Five. In the 2003 Affiliate Transactions Audit, we recommended that SCE conduct a review of ESI contract files to determine which version of a sampled contract was the authorized contract. SCE accepted the recommendation and has satisfactorily completed its fix of the issue. (DR 9) The January 1988 version of the ESI contract is now listed as the contract of record. (DR 8)

CPUC Rule

IV.H. FERC Reporting Requirements: To the extent that reporting rules imposed by the FERC require more detailed information or more expeditious reporting, nothing in these Rules shall be construed as modifying the FERC rules.

Audit Criteria

- SCE has not used the ATR to modify more detailed FERC recordkeeping and reporting requirements
- SCE is in compliance with Mountainview reporting requirements established by FERC in its order approving the SCE/Mountainview power purchase agreement

Audit Steps

- Assess whether SCE has taken appropriate steps to assure that their plan for meeting the ATR does not modify FERC rules
- Review Mountainview's Form 1 filed with the FERC

Conclusions

SCE is in compliance with Rule IV.H.

We found no instances where SCE's implementation of ATR was in conflict with FERC standards for recordkeeping and reporting. SCE has analyzed the requirements of the

Rule IV – Disclosure and Information

ATR and FERC in the development of the ATR Manual. Both sets of rules are listed in the Manual (ATR - Chapter 18, FERC Standards – Chapter 19). The Manual effectively delineates SCE's recordkeeping and reporting requirements. (DR 5, DR 153).

During review of these materials, we discovered no instances in which SCE's procedural response to the ATR modified FERC's requirements. (DR 1, DR 3, DR 5).

In its order dated February 25, 2004, the FERC conditionally accepted the purchase power agreement between SCE and Mountainview. One condition required SCE to follow all FERC reporting requirements, including the annual filing of a Form 1 for Mountainview. This was not necessary for the year 2004 because the plant was not operational. If it goes into commercial operation as expected in 2005, SCE will then have to file a Form 1. (DR 156)

Rule V – Separation

CPUC Rule

V. Separation

V.A. Corporate Entities: A utility and its affiliates shall be separate corporate entities.

Audit Criteria

- SCE and its affiliates are organized as separate corporate entities

Audit Steps

- Examine incorporation papers evidencing that SCE and its affiliate are separate corporate entities

Conclusions

SCE is in compliance with Rule V.A.

Each of SCE's principal affiliates is a separate corporation, limited liability company or trust <<DR 124>>. We determined this by examining the articles of incorporation for SCE and its affiliates, including the following:

- Edison Capital (January 1996)
- Edison Enterprises (June 1997)
- Edison Insurance Services (September 1997)
- Edison Mission Energy (August 2001)
- Edison O&M Services (August 1999)
- EIX (May 1996)
- Mission Energy Holding Company (June 2001)
- Mission Land Company (March 1987)
- Edison Mission Group Inc. (April 2003)
- Mountainview Power Company, LLC (acquired March 2004) (DR 38)

CPUC Rule

V.B. Books and Records: A utility and its affiliates shall keep separate books and records.

V.B.1. Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Principles (GAAP).

V.B.2. The books and records of affiliates shall be open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Section 314.

Audit Criteria

- SCE and its affiliates maintain separate accounting records
- SCE's records are maintained in accordance with applicable Uniform System of Accounts and Generally Accepted Accounting Principles

Rule V – Separation

Audit Steps

- Review accounting records and reports and note that financial information is maintained separately for SCE and its affiliates
- Review Internal Audit reports for evidence that SCE and its affiliates maintain separate books and financial records
- Note that the financial statements of EIX and SCE have been certified as being prepared in accordance with generally accepted accounting principles by an outside auditing firm
- Interview accounting personnel and review accounting transactions to ensure that separate records are maintained by SCE and its affiliates

Conclusions

SCE is in compliance with Rule V.B.

SCE was found to maintain accounting records separate from its affiliates. We were able to develop this conclusion based on evidence discussed below.

First, the ATR Manual states that “Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Procedures [Principles] (GAAP).” (DR 5)

EIX’s 2004 annual report breaks out separate results for its major business units, including SCE, Edison Mission Energy, Mission Energy Holding Company, Edison Capital and EIX parent company and others. Information presented by business unit includes: revenues, earnings(loss), earnings(loss) per share contribution, assets and equity. The ability to produce financial reports by business unit is indicative of a separation of the underlying books and records. EIX financial statements are subject to audit by the public accounting firm of PricewaterhouseCoopers (PwC). In its Report of Independent Registered Public Accounting Firm, PWC reached the following conclusion:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, cash flows and changes in common shareholders’ equity present fairly, in all material respects, the financial position of Edison International and its subsidiaries at December 31, 2004 and 2003, and the results of operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. (DR 10)

We reviewed a sample of intercompany billings and noted that SCE charges to affiliates for corporate support were ultimately recorded to intercompany receivable and payable accounts, as shown in the general ledger summary trail balance. (INT 29, DR 117) This is another indication of separate accounts and records.

Rule V – Separation

SCE appears to ensure that the books and records of affiliates are open to examination by the Commission and its staff. In 2002, the Office of Ratepayer Advocates (ORA) conducted an audit of SCE in connection with the Company's General Rate Case. Among other things, the audit's scope covered affiliate transactions that impact ratepayers. There was no indication in their report that ORA was prohibited from viewing the records of affiliates in connection with this audit. (2002 Affiliate Transactions Audit DR 34)

CPUC Rule

V.C. Sharing of Plant, Facilities, Equipment or Costs: A utility shall not share office space, office equipment, services, and systems with its affiliates, nor shall a utility access the computer or information systems of its affiliates or allow its affiliates to access its computer or information systems, except to the extent appropriate to perform shared corporate support functions permitted under Section V E of these Rules. Physical separation required by this rule shall be accomplished preferably by having office space in a separate building, or, in the alternative, through the use of separate elevator banks and/or security-controlled access. This provision does not preclude a utility from offering a joint service provided this service is authorized by the Commission and is available to all non-affiliated service providers on the same terms and conditions (e.g., joint billing services pursuant to D.97-05-039).

Audit Criteria

- Except as it relates to corporate support functions, SCE does not share office space, equipment, services or systems with affiliates. There is appropriate physical separation. SCE's information systems cannot be accessed by affiliates except where it relates to corporate support functions.

Audit Steps

- Identify the location of SCE and affiliate buildings and facilities
- Examine select SCE facilities to verify appropriate physical separation from affiliates
- Interview IT security personnel to determine how SCE manages access to its business applications and IT infrastructure
- Verify a sample of affiliate personnel to determine if their access to SCE's information systems is controlled and is associated with their shared corporate support-related activities

Conclusions

SCE is in compliance with Rule V.C.

Rule V – Separation

Facilities – Affiliate Sharing

The ATR Manual states that SCE shall not share office space and office equipment with its Class A affiliates except where there is appropriate physical separation. “Shared office space” is defined as facilities that do not have separate security controlled access for utility- and affiliate-occupied space. (DR 5)

SCE occupies 70 non-electric facilities. As shown in the table below, two affiliates occupy a small portion of SCE facilities.

Facility Types	SCE Owned/Leased Facilities Occupied By					
	SCE		EIX		EME	
	Number	Sq. Feet	Number	Sq. Feet	Number	Sq. Feet
Office	7	1,253,676	1	20,484	1	1,820
Service Centers	37	1,458,365				
Computer/Phone Center	4	379,121				
Local Offices	2	7,925				
Other	13	1,223,575				
Leased	7	230,460				
Total	70	4,553,122	1	20,484	1	1,820

Source: DR 131

Until October 2004, SCE leased to EME, a Class A affiliate, space in its Gateway Business Center, an office park in Irwindale. It was used as a backup emergency operations center and contained EME-owned computer and telecommunications equipment. It was a “lights-out” operation, so no EME personnel regularly occupy the space. EME’s space abuts SCE office space but there are floor-to-ceiling walls that separate them and access to both offices is controlled. There were no common or shared areas. SCE charged EME market rental rates for the space. There are other third-party tenants in the Gateway Business Center. EME chose not to renew the lease in October 2004 and has vacated this space. (INT 3, DR 8)

SCE leases space in its Rosemead General Office #1 building to EIX, its parent company, a Class B affiliate. 34 EIX executives and staff maintain their offices here. We inspected this space and noted that there was hard-walled separation between EIX and SCE offices. There were a few adjoining doors, which were kept closed and locked. (DR 40, DR 76)

EIX is the leaseholder of the Washington, D.C. office which is shared by EIX, EME, SCE and one non-affiliate third-party. The office has a common lobby and separate office suites for each entity. The suites are separated by floor-to-ceiling walls. Access to SCE’s office is card controlled, so EIX and EME personnel cannot enter SCE’s suite. (DR 40) We confirmed this arrangement by reviewing the office blueprints. (DR 85) We also evaluated the basis for allocating the Washington, D.C. office and found it to be reasonable. (DR 86) (INT 7)

Rule V – Separation

There was one other instance where SCE personnel are located in affiliate offices. During 2004, SCE's Audit Services Department had 11 auditors and 1 administrative staff located in an Edison Mission Energy building in Irvine. Also, SCE's Vice President and General Auditor and four senior audit managers have office space in the same location. The auditors' activities are allowed under Rule V.E (corporate support). Separate offices and filing systems are maintained for this audit staff to ensure that confidential information is not transferred from SCE to an affiliate. (DR 77) We agree with SCE's interpretation that this arrangement is allowable under Rule V.C.

SCE maintains temporary office space (also known as "hotels") in one room of its Rosemead General Office #1 building. This space is outfitted with desks and PCs and is available only to SCE employees who are visiting the General Office. We inspected this office and noted signs throughout indicating that the space is restricted to SCE personnel. The PCs require a SCE-specific logon ID and password, thus are not accessible by affiliate employees. (INT 3, DR 5)

Facilities – Affiliate Access

The ATR Manual specifies that Class A affiliate personnel are prohibited from visiting SCE facilities except:

- to perform shared corporate oversight, governance and support functions pursuant to Rule V.E (corporate support),
- to attend a meeting pursuant to provision of Rule V.F.4.a (joint meeting requested by a customer), or
- where attendance is open to non-affiliates. (DR 5)

Authorized affiliate personnel visiting the General Office must be accompanied by an SCE employee. Affiliate badges are a different color than those of SCE employees so they can be easily distinguished. (INT 9)

Access to the Rosemead General Office is controlled as described below:

- Buildings #1 and #4 (corporate offices) – These adjoining buildings have four access points, each requiring electronic badge-in for SCE and EIX employees and contractors. Visitors, including affiliate employees, must sign-in with security guards at one of two access points. The other two entrances have revolving doors that are activated by scanning an EIX or SCE identification badge. Video cameras allow security to monitor these revolving door entrances. Affiliate employee identification badges do not permit entry through these doors.
- Building #2 (data center and office space) – Access is limited to SCE employees who work in or are authorized to be in Building #2. Building #2 has revolving doors with badge-in access.
- Building #3 (IT, T&D Engineering, Customer Services Business Unit) – badge-in entry. (INT 9)

Rule V – Separation

We reviewed a sample of 22 affiliate employee visits to the Rosemead General Office Buildings 1-2-3-4 during the month of August 2004. We noted that in all instances, the affiliate employees were escorted to their meetings by an SCE employee or a security guard. (DR 62)

Information Systems and IT Infrastructure

In accordance with Rule V, the ATR Manual specifies that SCE and Class A affiliates are prohibited from accessing each other's computing systems except:

- to perform shared corporate oversight, governance and support functions pursuant to Rule V.E (corporate support), or
- where access is open to non-affiliates. (DR 5)

Access to SCE's systems and IT infrastructure is also managed through the use of standards, security mechanisms, and procedures. (DR 5) IT security procedures are described in SCE's IT Policies, covering the following topics:

- Administrative security
- Applications and data security
- Electronic mail
- General information
- Network security
- Physical security
- Security controls. (DR 72)

Security hardware and software, including firewalls, protect SCE's IT assets from outsider access. With the exception of Class B affiliates, EIX and Edison Capital, the IT assets of all other affiliates reside outside of SCE's network perimeter. SCE's Rosemead data center hosts all of EIX's servers and SCE's Irvine data center hosts three Edison Capital servers. In both instances, affiliate IT personnel only access their servers through a controlled network connection. They are not permitted physical entry into the SCE data centers. If there is the need to touch these servers, SCE's IT personnel perform that work. The server hosting arrangements with EIX and Edison Capital were approved by SCE's Affiliates Officer. SCE is reimbursed for this service via a chargeback arrangement. (INT 16)

Each EIX company maintains a separate communications infrastructure. SCE and some Class A affiliates use Lotus Notes/Domino as their email system. However SCE and Class A affiliates maintain separate mail servers and use different network to route messages to addressees. (DR 5) Thus, it is not possible for any affiliate employee to somehow hack into SCE email in an effort to gain information that is prohibited by the ATR. (INT 16)

In 2004, there were no instances in which affiliate employees had access to SCE business applications other than for Corporate Support purposes as allowed by Rule

Rule V – Separation

V.E. 207 affiliate employees (DR 41) have access to 33 SCE applications and tools (DR 64), as shown in Exhibit 5. After reviewing the list and description of these applications and tools, we found them to be related to shared corporate support.

Requests for network and application access are processed by SCE's IT Security Administration unit using the Information Systems Security Menu (ISSM). (DR 63) An affiliate employee fills in the online ISSM form with personal information and designates which business applications they must access. The employee's supervisor electronically approves the form and sends it on to the affiliate human resources unit who routes it for necessary approvals. An affiliate employee must have approvals from the following to gain access to SCE applications:

- President of the affiliate company
- SCE's Affiliates Officer or his/her designee
- IT Affiliate Compliance Manager. (INT 16)

Once all approvals have been received, the employee's data is entered into the Global Database System, IT Security Administration's central database of all users, their IDs and their application access. IT Security then activates the employee for their approved access to the SCE network and applications. A note is sent to the employee asking them to call IT Security to obtain an ID and a password to enable their access. (INT 16) Once a year, IT Security Administration reviews their files to ensure that all approvals have been obtained for affiliate employees with access to SCE applications. We selected a sample of affiliate employees with access to SCE applications and determined that they had received all necessary approvals. (DR 149)

When an affiliate employee is leaving or no longer requires access, their supervisor notifies the affiliate human resources unit who enters the termination into the Global Database System. The system produces a "Former Report" from which IT Security Administration creates an ISSM form for the employee. The employee access is then suspended and their supervisor is contacted to confirm that the person's access should be terminated. After suspension, the person cannot access SCE's systems. Once confirmation is received from the supervisor, the employee's access is permanently terminated. (INT 16)

Southern California Edison Company
2004 Affiliate Transactions Audit of SCE
Analysis Of Affiliate Personnel Access To SCE Applications

Application	Application or Tool?	EIX	EME	Mission O&M	EME Homer City	Edison Mission M&T	Mission Land	Midwest Gen	Midwest Gen LLC
A & I (Approval & Inquiry) - Automated system that routes employee job data changes. For affiliates, any job data changes must be made directly in the PeopleSoft application.	A	7	10	3	3	4	-	6	15
ATSLAN (Distributed Time Keeping) - Required for processing employee time sheets.	A	14	3	9	7	4	1	8	67
ATSSD002 (ATSLAN System Test) - Test region for ATSLAN	A	-	-	-	-	-	-	2	-
BADGE - Represents access to IT-controlled areas in GO2, GO3 & IOC	T	4	-	-	-	-	-	-	-
CICS - An extension to the operating system of IBM mainframe computers. An ID created for each person accessing the mainframe computer. This does not mean that the ID owner has access to SCE customer data.	A	14	4	5	6	4	-	5	34
APS ALL (Accounts Payable) - Application used by the Accounts Payable department.	A	2	-	-	-	-	-	-	-
CRD ALL (Credit Card Recon) - Application used for reconciling credit card data.	A	4	-	-	-	-	-	-	-
DRS ALL (R/DARs) - Required for viewing the RDARS reports on the host system. This application allows payroll personnel to view payroll information, i.e., time sheet errors, paycheck data, etc.	A	2	4	5	6	4	-	5	34
FAR ALL - Financial Reporting	A	11	-	-	-	-	-	-	-
FAS ALL - Corporate Accounting	A	11	-	-	-	-	-	-	-
MTS ALL - Material Management	A	6	-	-	-	-	-	-	-
DOMINO MAIL - Domino Mail (SCE)	T	35	-	-	-	-	-	-	-
DOMINO - Server where Domino application resides	T	35	-	-	-	-	-	-	-
DSS HR (Decision Support Sys HR) - Dynamic system which allows users to generate reports on a range of data, limited by access privileges, that includes time keeping, payroll, and demographic tables.		2	11	5	6	4	-	10	20
FACTIVA - Dow Jones Interactive: Dow Jones web site; access is tracked in Global database.	T	4	27	-	-	1	-	7	-
INETALIAS 2 - Alias for internet ID	T	1	-	-	-	-	-	-	-

Source: DR 64



Southern California Edison
2003 Affiliate Transactions Audit of SCE
Analysis Of Affiliate Personnel Access To SCE Applications

Application	Application or Tool?	EIX	EME	Mission O&M	EME Homer City	Edison Mission M&T	Mission Land	Midwest Gen	Midwest Gen LLC
LANDIAL - remote access dialup	T	21	-	-	-	-	-	-	-
MEMO1 - Note field in the database for informational notations	T	-	1	-	-	2	-	2	-
NUCLEUS - Energy & Gas Trading subsystem ID (still requires separate ID)	A	1	-	-	-	-	-	-	-
PAS (Payroll Adjustment Sys) - Required to adjust past payroll information to reflect time or rate changes.	A	3	3	9	7	4	-	5	33
PSOFT (Peoplesoft) - Required to maintain and update a variety of personnel information including: benefit; in-service dates; emergency contacts; job history; vacation and sick-time balances; and education level.	A	4	7	5	6	4	-	10	18
SCE-NT - NT domain: desktop access	T	29	5	-	-	1	-	2	-
SCE-WIN2K - Windows 2000 product: XP/desktop access	T	32	-	-	-	-	-	-	-
SECURID - Two-factor authentication token fob for remote access	T	2	-	-	-	-	-	-	-
SYBP002 - The server where ATSLAN resides. This is a system generated application that is created whenever an ATSLAN ID is assigned.	A	14	3	79	7	4	1	8	67
SYBS001 - The server where ATSSD002 resides. This is a system generated application that is created whenever an ATSSD002 ID is assigned.	A	-	-	-	-	-	-	2	-
TPX7 - Terminal Productivity eExecutive: an application that allows clients to work on several mainframe applications at the same time	T	1	-	-	-	-	-	-	-
NONTSOG: TPXR - Required for TPX access	T	1	-	-	-	-	-	-	-
TSOD - TSO – System D: This mainframe ID is required for clients to access DSS HR. It is also a region used by project/program managers or developers for test purposes.	A	4	11	5	6	4	-	12	22
UNIXACCT - unique acct number associated with an individual for accessing Unix applications	T	20	-	-	-	-	-	1	-
UNIXID - Unique user ID associated with an individual for accessing Unix applications.	T	20	-	-	-	-	-	1	-
VPN CHCKPT - Virtual Private Network (remote access) utilizing Checkpoint technology	T	8	-	-	-	-	-	-	-
Wireless LAN - Wireless LAN Access (Remote access)	T	2	-	-	-	-	-	-	-

Source: DR 64

Rule V – Separation

Desktop Support

Resolution E-3539 specified that SCE is not permitted to perform hands-on desktop maintenance and troubleshooting as a corporate support function for fear that confidential SCE information could be passed to an affiliate. However, SCE is permitted to provide telephone support to affiliate personnel. We obtained statistics for 2004 affiliate employee calls to SCE's Help Desk and determined that all were resolved as Tier 1 or Tier 2 issues. (DR 65) This support is conducted over the telephone and does not involve on-site troubleshooting. This Help Desk support is permissible under Rule V.E., as described in SCE's Compliance Plan ("IT Service Center Support [not including Desktop Support]"). (MCP, ' 1)

CPUC Rule

V.D. Joint Purchases: To the extent not precluded by any other Rule, the utilities and their affiliates may make joint purchases of goods and services, but not those associated with the traditional utility merchant function. For purposes of these Rules, to the extent that a utility is engaged in the marketing of the commodity of electricity or natural gas to customers, as opposed to the marketing of transmission and distribution services, it is engaging in merchant functions. Examples of permissible joint purchases include joint purchases of office supplies and telephone services. Examples of joint purchases not permitted include gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. The utility must insure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions of such purchases, and in accordance with applicable Commission allocation and reporting rules.

Audit Criteria

- SCE and its affiliates engage in no joint purchases of the following items: electricity for resale, gas, gas transportation, coal, coal transportation, electric transmission, system operations, or marketing services
- When SCE and its affiliates make joint purchases of goods and services, SCE ensures that joint purchases are priced, reported and conducted in a manner that makes utility and affiliate portions of the purchase clearly identifiable

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review the process for joint purchases
- Identify the types of goods and services that are purchased jointly by SCE and affiliates. Review all service agreements and contracts, including purchases of bulk power, fuel, fuel transportation, transmission and marketing services.
- Sample/evaluate the methodology for allocating the costs of joint purchases to ensure SCE is not subsidizing affiliates

Conclusions

SCE is in compliance with Rule V.D.

Rule V – Separation

SCE's process to comply with the requirements of this Rule is well documented, widely communicated and consistently followed. Our evaluation of various joint purchase transactions provided no evidence of any violation of this Rule.

General requirements of this Rule are explained in the SCE's Modified Compliance Plan (MCP) and the ATR Manual, both of which are available to all employees. (DR 1, DR 5) Joint purchases of goods and services associated with the utility merchant function are specifically prohibited. Joint purchases of other goods and services, under specific conditions, are allowable. Particularly important are conditions that payments for joint purchases, and reporting of those payments, clearly identify/segregate the portions that pertain to SCE and affiliates. Although not explicitly stated in the wording of this Rule, the spirit of other Rules establishes an expectation that SCE and an affiliate would share equally in any benefit derived from a joint purchase.

Management personnel representing Procurement and Materials Management (INT 2, INT 29), Regulatory Policy and Affairs (RP&A) (INT 1), Energy Supply & Management (INT 20, INT 24), and QF Resources (INT 5) affirmed for us that their organizations were in compliance with Rule V.D throughout 2004.

Our transaction reviews for Rule V.D included an evaluation of all joint purchase arrangements initiated in 2004 or in effect during 2004. (DR 53). The list of joint purchases includes:

- Three joint contracts with SCE and affiliate(s) as original parties to the contract
- Eleven single party joint contracts involving SCE for which the supplier has a contract with either SCE or an EIX affiliate and agrees to extend the terms of the contract to other affiliate(s).
- Thirteen jointly negotiated agreements which subsequently resulted in separate SCE and affiliate contracts. Note that during our reviews this year, SCE clarified that ten other agreements were jointly negotiated but never resulted in contracts with an affiliate. (DR 53)

None of these agreements involved goods and services associated with the traditional utility merchant function.

For further verification of compliance with this part of the Rule, we reviewed wholesale power transactions, fuel purchases, and transmission purchases. During 2004 there were no wholesale power contracts in existence between SCE and an affiliate except for four allowable and preexisting QF contracts and no joint purchases of wholesale power with affiliates. (DR 59, DR 60, DR 61, DR 143, DR 145). Additionally, there were no transmission contracts between SCE and an affiliate nor were there any joint purchases or sales of transmission services. (DR 8, DR 111). And finally, no fuel (e.g., natural gas or coal) or fuel transportation contracts were in existence between SCE and an affiliate (DR 8), nor were there any joint fuel purchases or sales. (DR 109, DR 110).

Rule V – Separation

We also verified that all allowable joint purchase arrangements initiated in 2004 followed the internal procedure that requires RP&A to provide preliminary approval of the arrangement using Joint Procurement Notification Forms. (DR 52)

To test SCE's adherence to the part of Rule V.D requiring "clear identification of utility and affiliate portions" of joint purchases, we reviewed the methodology/formulas used to allocate costs between SCE and affiliates in the case of the fourteen joint contracts. In all cases, SCE was able to clearly distinguish between SCE and affiliate portions of the payments and effectively explain the methodology/formulas used. (DR 101)

We also sampled payments for goods and services made under the terms of the thirteen joint negotiations that ultimately resulted in separate contracts between (1) the vendor and SCE and (2) the vendor and affiliate. It should be noted that during our reviews this year, SCE clarified that ten other agreements were jointly negotiated but never resulted in contracts with an affiliate. By their nature, these kinds of arrangements automatically meet the "clear identification of utility and affiliate portions" requirements of Rule V.D. The following standard language is inserted in "joint-negotiation-resulting-in-separate contracts":

If sales to any other Affiliate of an Edison International Company are consummated, the services requested by such company shall be made pursuant to a separate Purchase Order or Letter Agreement. If any sales of any services to an Edison International Company or an Affiliate of an Edison International Company include a greater discount or incentive than has been previously provided with respect to the prior sales of the same services to another Edison International Company or an Affiliate of an Edison International Company, the discount or incentive thereafter used to compute the price payable for such services shall be the same as the largest discount or incentive provided to any Edison International Company or an Affiliate of an Edison International Company for such services.

Vendors risk a breach of contract if, after the negotiations, they offer better terms to an affiliate compared to SCE. The importance of this issue led us to make a recommendation in our 2002 Audit. We suggested that, as an added measure of protection, SCE should periodically audit / compare vendor invoices to SCE invoices for separate contracts growing out of the same negotiation. SCE accepted this recommendation and indicated it would "request the comparison be included in future Annual Affiliate Transaction Audits" and would "periodically request SCE's Audit Department to do a similar comparison". (2003 DR 11)

For the past two years in accordance with this direction, we sampled and compared SCE invoices with affiliate invoices when the product or service received was comparable. In our sampling of invoices for 2004, we noted no instances where advantage was being gained in pricing or terms by affiliates. (DR 168)

Rule V – Separation

CPUC Rule

V.E. Corporate Support: As a general principle, a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems, and personnel. Any shared support shall be priced, reported and conducted in accordance with the Separation and Information Standards set forth herein, as well as other applicable Commission pricing and reporting requirements.

As a general principle, such joint utilization shall not allow or provide a means for the transfer of confidential information from the utility to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of the specific mechanisms and procedures in place to ensure the utility follows the mandates of this paragraph, and to ensure the utility is not utilizing joint corporate support services as a conduit to circumvent these Rules.

Examples of services that may be shared include: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment practices), employee records, regulatory affairs, lobbying, legal, and pension management.

Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing.

Audit Criteria

- Shared corporate services involve allowed joint corporate oversight, governance, support systems and personnel; services specifically precluded by Rule V.E are not shared
- The basis for allocating shared corporate support expenses is equitable and does not cross-subsidize affiliates
- Corporate support arrangements are not used to transfer confidential information from SCE to affiliates or create unfair opportunities for affiliates

Audit Steps

- Review shared corporate services and determine that they meet the specifications of Rule V.E
- Evaluate the allocation methods for shared corporate support
- Determine that there are safeguards against inappropriate sharing of confidential SCE information with affiliates who participate in shared corporate services

Conclusions

SCE is in compliance with Rule V.E. <<need discussion of IMM rates DR 55>>

Corporate Support Services

We found SCE's definition of corporate support services is in line with the requirements of Rule V.E.

In the MCP, CP02 and the ATR Manual, SCE defines in detail what it considers allowable corporate support functions under Rule V.E. (DR 1, DR 2) We reviewed the

Rule V – Separation

description of the 60 functions and found SCE's interpretation met the following guidelines as to what qualifies as corporate support:

- Activities that are integral to corporate governance and oversight necessary to meet management's fiduciary responsibilities,
- Activities that are essential to maintain corporate, regulatory and other critical standards and policies, or
- Activities that produce economies of scale by serving the entire enterprise and that ultimately benefit ratepayers (DR 2)

In addition to clearly defining corporate support activities, SCE has further delineated such work by specifying areas of the company that may provide these services to affiliates. For each of the 60 or so corporate support functions, organizational units (called Core Areas of Responsibility or Core AORs) are named in the ATR Manual as authorized to provide that service. For example, Human Resources and Treasurer's are designated as the Core AORs that perform the corporate support activity "pension management". If, for instance, the Treasurer's Department required assistance from a statistician in the ES&M Department in the provision of pension management services to an affiliate, then the ES&M Department would be required to complete a Corporate Support Authorization Form (CSR) to obtain the necessary approvals before performing the work. Once a year, RP&A sends an email to departments that have performed directly charged corporate support to affiliates in the past, reminding them of the need to submit a CSR if they will continue to provide the services in the next year.

We reviewed the four CSRs completed in 2004 and found them to be appropriate for the circumstances involved. (DR 84)

Each month, the Controller's Department prepares an exception report showing charges for corporate support by non-Core AORs. (DR 74) This report is used to verify that the charges were appropriate and that a CSR form was prepared, if necessary. It provides a detective control over corporate support charges. (DR 2)

The MCP, CP02 and ATR Manual, SCE specifies it will not provide affiliates with the services precluded by Rule V.E. Those are employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. (DR 1, DR 2) We found no instances where these services were being provided to affiliates by SCE. (DR 84)

Under Rule V.C, we determined there were adequate controls over affiliate personnel with access to business applications and networks in connection with shared corporate services. We also cover the issue of transfer of confidential information under Rule IV.

As specified by Rule V.E, the MCP, CP02, CP03 and CP04-I contain a letter from SCE's Affiliates Officer and Vice President and Controller verifying that "specific mechanisms and procedures in place are believed to be sufficient to ensure: a) that

Rule V – Separation

SCE follows the mandates of Rule V.E., and b) that SCE is not utilizing joint corporate support services as a conduit to circumvent the Rules.” (DR 1 Appendix B)

Allocation of Corporate Support Expenses

We found SCE’s methodology for allocating corporate support expenses is appropriate and meets the requirements of Rule V.E.

The analysis below shows the trend in corporate support charges to affiliates during the past several years.

	2000	2001	2002	2003	2004
Directly Charged Services	\$ 10,272,781	\$ 6,269,838	\$ 6,403,777	\$ 6,937,080	\$ 6,772,449
Allocated Corporate Support	\$ 11,178,436	\$ 9,853,471	\$ 8,034,851	\$ 9,954,406	\$ 10,350,242
Total	\$ 21,451,217	\$ 16,123,309	\$ 14,438,628	\$ 16,891,486	\$ 17,122,691

Note: Audit Services charges are included in 2002, 2003 and 2004 but not in 2000 or 2001

(DR 112)

Shared corporate support expenses are assigned to affiliates based on the nature of the underlying work, as described below.

- **Directly Charged** – Work is performed for one affiliate who is charged with the cost of the service. It is possible to readily identify the amount of time spent on these activities and the affiliate(s) benefiting from the activities. Examples of this type of work include internal audits, preparation of tax returns and legal work.
- **Time-Identified** – Work that benefits affiliates but whose cost cannot be directly associated and assigned to specific affiliates. Time-identified costs are allocated to affiliates. Examples of this type of work include cash management, corporate accounting, tax department support, legal work and information technology.
- **Automatically Allocated** – Work that indirectly benefits affiliates. Examples of this type of work include corporate governance, corporate security, equal opportunity, mail services and corporate communications. (DR 5)

The following factors are used to allocate the cost of corporate support services that cannot be directly charged to affiliates:

- **Multi-Factor Method** – This formula is based on each company’s share of operating revenues, operating expenses (excluding income taxes and cost of sales), number of employees and total assets. Each factor is given equal weight in calculating the composite multi-factor ratio. This is the most common method. Examples of departments whose costs are allocated this way include IT (telephone operators), Corporate Communications, Community Involvement, Corporate Security and Corporate Mail. (DR 5)
- **Equity Investment and Advances Method** – This formula is based each company’s share of equity as calculated for Edison International consolidated financial statements. Examples of departments whose costs are allocated this

Rule V – Separation

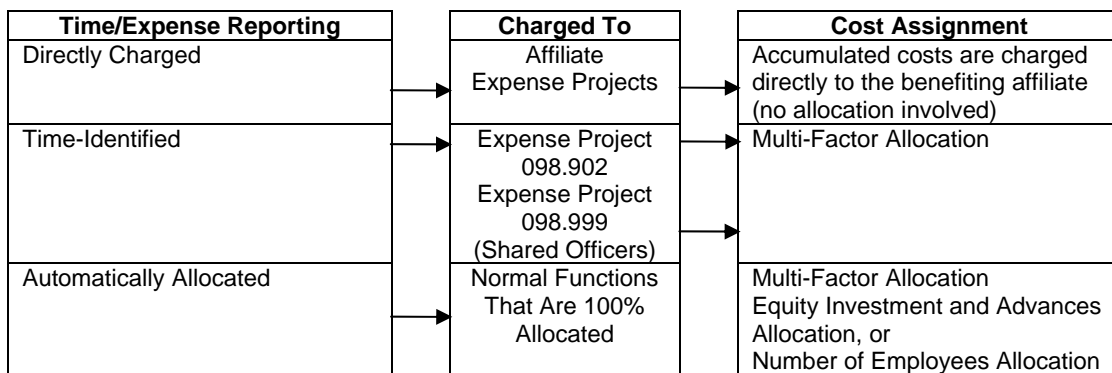
way include Shareholder Meetings, Corporate Governance and Controller’s (Outside Services). (DR 5)

- **Number of Employees Method** – This formula is based on each company’s number of regular employees. Examples of departments whose costs are allocated this way include Equal Opportunity (Equal Opportunity Division), Treasurer’s (Investments) and Controller’s (Outside Services and Benefits Accounting). (DR 5)

The allocation factors are recalculated every month. (INT 19) We believe these allocation factors are appropriate. Our conclusion is supported by a 2002 examination by the Office of Ratepayer Advocates (ORA) related to SCE’s General Rate Case. ORA assessed the basis for allocating Corporate Support costs and concluded:

Based on the documents received from SCE and information on the methodology used by SCE when calculating the allocation factors, ORA concludes that SCE’s allocations formulas and calculations used to allocate costs of certain shared support services appear reasonable. (2002 Affiliate Transaction Audit, DR 34)

The “expense project” is SCE’s accounting mechanism for accumulating and assigning many corporate support expenses to affiliates. Approximately 100 expense projects have been established for this purpose. (DR 75) Essentially, employees charge time and expenses to the appropriate expense project. Every month, the accumulated charges are then assigned to affiliates. (INT 19) The table below summarizes this process.



(DR 132)

Expense project costs are reported on the monthly intercompany invoices presented to affiliates. This provides them with detail they need to validate the charges. (INT 19)

<<Need discussion of EIX corporate support charges to SCE—nature of charges, allocation basis, etc, DR 146>>

CPUC Rule

V.F. Corporate Identification and Advertising:

Rule V – Separation

V.F.1. A utility shall not trade upon, promote, or advertise its affiliate’s affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:

V.F.1.a. The affiliate “is not the same company as [i.e. PG&E, Edison, the Gas Company, etc.], the utility,” and the affiliate “is not regulated by the California Public Utilities Commission

V.F.1.b. In the case of energy service provider affiliates, the disclaimer will be:

The affiliate “is not the same company as [i.e., PG&E, Edison, the Gas Company, etc.], the utility and the California Public Utilities Commission does not regulate the terms of [the affiliate’s] products and services.”

The application of the name/logo disclaimer is limited to the use of the name or logo in California.

Audit Criteria

- SCE does not trade upon, promote or advertise affiliate’s connection with SCE
- Affiliates do not trade upon, promote or advertise their affiliation with SCE
- Affiliate publications do not incorporate SCE’s name, logo, or taglines, except where they appropriately disclose that the affiliate is not the same company as SCE and not regulated by the CPUC.

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure compliance with this rule
- Review billing inserts to assure they have not been used to promote affiliate’s business, and to assure affiliations with SCE are not promoted without proper name/logo disclaimers.
- Review SCE and affiliate marketing/advertising/promotional/website materials (e.g., publications, advertisements, web pages) to assure affiliations with SCE are not promoted without proper name/logo disclaimers
- Sample SCE presentations to large commercial and industrial customers to assure affiliations with SCE are not promoted without proper name/logo disclaimers
- Sample account managers’ diary entries to assure SCE is not promoting business for affiliates

Conclusions

SCE is in compliance with Rule V.F.1.

SCE’s process to comply with the requirements of this Rule is generally well documented and widely communicated. However, as we will discuss later, improvements are possible in the guidance provided by corporate communications unit concerning the implementation of this Rule. Our transactions review of data associated with the Rule showed no instances of non-compliance.

Rule V – Separation

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Corporate Communications (INT 8) and Major Customer Division (INT 14, INT 27) affirmed for us that their organizations were in compliance with Rule V.F.1 throughout 2004.

SCE's Affiliate Transactions Compliance Plan – 2002 Update (CP02) and its Affiliate Transaction Rule (ATR) Manual, which are available to SCE and affiliate employees, describe the general requirements of Rule V.F.1 and its sub-rules. (DR 1, DR 5) Corporate Communications personnel received affiliate rules training specifically adapted to their activities and concerns in 2004. (DR 140)

Corporate Communications manages the set of pages on the EIX main intranet site which discusses Corporate Identity Standards, the standards manual for the system of company signatures and graphics standards used in any communications from SCE or its EIX affiliates. Topics include “media communications”, “branded merchandise / advertising promotions”, “business cards and stationery”, and “external web design”. (DR 19)

In evaluating SCE' compliance with Rule V.F.1, we conducted a variety of data reviews to affirm that SCE does not trade upon, promote, or advertise its affiliates' affiliation, or allow its affiliates to imply an affiliation with SCE. The outcome of these reviews is summarized below.

Affiliate Websites. We attempted to find websites for 40 different affiliates to determine if Rule V.F.1 was followed. One of the websites we reviewed was presented by Edison International, www.edison.com. In most cases, it is designed to present the same valid disclaimer no matter where the user navigates within the site. We found 9 instances, under the EME-Midwest Generation navigation link, which led the user to brochures describing Midwest Generation and eight of its generating facilities. All of the brochures carried the sunburst logo and the tagline “An Edison International Company”. No disclaimer was provided in any of these Adobe Acrobat (PDF) files. Only because of the portion of the Rule which limits its applicability to the use of the logo within California did these brochures avoid becoming an issue.

No external website was found for 31 of the 40 affiliates, although in many case the affiliates were referenced in the main EIX website. Six of the affiliate websites, all for non-US affiliates, made no mention of SCE or, for that matter, even of Edison International. One of the affiliate websites, for Edison Mission Marketing & Trading, immediately transferred the user to the Edison International website mentioned above. And the last of the 40 websites, for Edison Source Norvik Company's “Minit-Charger” product line, contained all appropriate disclaimers.

Billing Inserts, Advertisements, Promotions & Giveaways. We reviewed all billing inserts mailed to both commercial and residential customers during 2004. (DR 22) We examined all mass market advertisements, promotions, and giveaways sponsored by either SCE or its affiliates during 2004. (DR 20, DR 115, DR 152, DR 182). The SCE

Rule V – Separation

advertisements included approximately 150 print ads, 35 radio spots, 8 TV ads, 1 cash register strip ad, and 5 outdoor ads. Edison Source – Norvik sponsored 3 print ads and 2 brochures. There were no giveaways to customers in California. All of the inserts and advertisements complied with Rule V.F.1.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2004. (DR 21, DR 98)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 99) These notes document meetings held with large customers in 2004. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2004.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2004, and to indicate which, if any, resulted in an SCE proposal. SCE received three such RFPs in 2004 and responded to all three. We reviewed the three 2004 proposals, all of which related to possible privatization of government-owned electric systems. (DR 100)

We found SCE to be in compliance with Rule V.F.1 with respect to all of these methods used to communicate with large commercial and industrial customers.

Implementation of 2003 Recommendation #7 In the 2003 Affiliate Transactions Audit, we recommended that the EIX Corporate Communications organization should develop and maintain contemporaneous logs of all advertisements & promotional materials. SCE accepted the recommendation and has completed the remediation of the issue. (DR 9, DR 20, DR 152)

Implementation of 2003 Recommendation #8 In the 2003 Affiliate Transactions Audit, we recommended that SCE develop and communicate a policy that addresses the use of disclaimers on affiliate website accessible in California. We had concerns that SCE had not sufficiently articulated a policy that explained when, and for what affiliates, disclaimers would not be required because of the "in California" exclusion of the Rule.

SCE accepted the recommendation and provided us the text of a new policy which said in part that disclaimers would be required for any affiliate "with direct business in California or potential customers from California". (DR 9) However, the policy has not yet been publicized in the intranet-based Corporate Identity Standards manual section on "external web design" (myedison.net/cpi/policies/identity/exweb.shtml), nor has this policy been addressed in Chapter 9, "Separation – Advertising & Marketing – Utility Name and Logo (Disclaimers)" from the ATR Manual. (DR 5)

Rule V – Separation

Recommendation

7. Formally communicate the new policy regarding use of disclaimers on affiliate websites – The policy developed in response to 2003 Recommendation Number 8 needs to be better communicated to SCE affiliates via (1) the intranet-based Corporate Identity Standards section on “External Web Design” and (2) ATR Manual Chapter 9 regarding “Separation – Advertising & Marketing – Utility Name and Logo (Disclaimers).”

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.2. A utility, through action or words, shall not represent that, as a result of the affiliate’s affiliation with the utility, its affiliates will receive any different treatment than other service providers.

Audit Criteria

- SCE does not represent that its affiliates will receive different treatment than other service providers

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Monitor actual customer conversations with SCE Customer Call Center representative, both Residential and Commercial & Industrial, to determine affiliates are not being provided preferential treatment
- Review billing inserts to determine there is no representation that affiliates receive different treatment than other service providers
- Review SCE and affiliate marketing and advertising materials (e.g., publications, advertisements, web pages) to assure there is no representation that affiliates receive different treatment than other service providers
- Sample SCE presentations to large commercial and industrial customers to assure there is no representation that affiliates receive different treatment than other service providers
- Sample account manager/account executive journal entries to determine there is no representation that affiliates customers will be given preferential treatment

Conclusions

SCE is in compliance with Rule V.F.2.

SCE’s process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with the Rule showed no evidence of instances of non-compliance.

Rule V – Separation

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to employees, describe the requirements of Rule V.F.2. (DR 1, DR 5). Specifically, these documents say that "SCE will neither claim, nor provide preferential treatment to, its affiliates or affiliates customers."

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 10), Corporate Communications (INT 8), Customer Services Operations (INT 28), and the Major Customer Division (INT 14, INT 15, INT 27) affirmed for us that their organizations were in compliance with Rule V.F.2 throughout 2004.

We performed a number of transaction reviews to assess SCE's compliance with Rule V.F.2. The outcome of these reviews is summarized below.

Customer Call Centers. We listened in on a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any preferential treatment being discussed or provided. (DR 108)

Billing Inserts, Advertisements & Websites. We reviewed all billing inserts mailed to both commercial and residential customers during 2004. (DR 22). We examined all mass market advertisements sponsored by SCE during 2004. (DR 20, DR 152, DR 182) The SCE advertisements included approximately 150 print ads, 35 radio spots, 8 TV ads, 1 cash register strip ad, and 5 outdoor ads. We also linked to SCE and affiliate websites. (DR 23) In none of the inserts, advertisements, or websites did we see any evidence of preferential treatment being offered, or given, to any of SCE's affiliates or their customers.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2004. (DR 21, DR 98)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 99). These notes document meetings held with large customers in 2004. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2004.

Nothing in the presentations to large customers or the sample of diary notes indicated SCE would provide preferential treatment to affiliates. And there was no evidence that terms, conditions, and pricing offered affiliates or their customers were better or different than those offered to others.

Rule V – Separation

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.3. A utility shall not offer or provide to its affiliates advertising space in utility billing envelopes or any other form of utility customer written communication unless it provides access to all other unaffiliated service providers on the same terms and conditions.

Audit Criteria

- Affiliates advertise using SCE's bill inserts only if the same opportunity is available to unaffiliated service providers for the same terms and conditions

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review all billing inserts to determine if they have been used to promote affiliate's business. If so, determine that non-affiliate suppliers were offered the same terms and conditions to utilize bill inserts to advertise.

Conclusions

SCE is in compliance with Rule V.F.3.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with this Rule gave us confidence that SCE complied with the Rule in 2004.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to SCE and affiliate employees, describe the requirements of Rule V.F.3. (DR 1, DR 5).

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), and Corporate Communications (INT 8) affirmed for us that their organizations were in compliance with Rule V.F.3 throughout 2004.

We reviewed all billing inserts mailed to both commercial and residential customers during 2004. (DR 22). In none of the inserts did we see any evidence of affiliate advertising or promotion.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.4. A utility shall not participate in joint advertising or joint marketing with its affiliates. This prohibition means that utility may not engage in activities which include, but are not limited to the following:

V.F.4.a. A utility shall not participate with its affiliates in joint sales calls, through joint call centers or otherwise, or joint proposals (including responses to requests for proposals (RFPs)) to existing or potential customers. At a customer's unsolicited request, a utility may participate, on a nondiscriminatory basis, in

Rule V – Separation

non-sales meetings with its affiliates or any other market participant to discuss technical or operational subjects regarding the utility's provision of transportation service to the customer;

V.F.4.b. Except as otherwise provided for by these Rules, a utility shall not participate in any joint activity with its affiliate. The term "joint activities" includes, but is not limited to, advertising, sales, marketing, communications and correspondence with any existing or potential customer;

V.F.4.c. A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.

Audit Criteria

- SCE does not participate in joint advertising or marketing with affiliates including joint sales calls, proposals, or trade shows

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review billing inserts to determine there is no joint advertising or marketing with affiliates
- Review SCE and affiliate marketing/advertising/promotional materials (e.g., publications, advertisements, web pages) to assure there is no joint advertising or marketing with affiliates
- Sample SCE presentations to large commercial and industrial customers to assure there is no joint advertising or marketing with affiliates
- Sample calendar and journal information contained in Major Customer Division's contact management system to assure that SCE does not make joint sales calls with affiliates
- Review SCE proposals responding to RFPs from major SCE customers to assure there is no joint marketing with affiliates
- Review trade shows, conferences, and marketing events attended by both SCE and affiliates to assure elements of the rule were followed

Conclusions

SCE is in compliance with Rule V.F.4.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with the Rule showed no evidence of instances of non-compliance.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to SCE and affiliate employees, describe the requirements of Rule V.F.4 and its sub-rules. (DR 1, DR 5). The ATR Manual is particularly relevant.

In addition to the overall prohibitions, the ATR Manual provides examples of proper and improper acts under Rule V.F.4. For example, the ATR Manual instructs affiliate employees to never raise marketing issues in meetings where SCE employees are

Rule V – Separation

present. It instructs any SCE employee attending such meetings to explain the prohibition on joint marketing included in this Rule if marketing or sales promotion issues are raised unexpectedly by a third party.

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1), Customer Communications (INT 10), Corporate Communications (INT 8), Customer Services Operations (INT 28), and Major Customer Division (INT 14, INT 15, INT 27) affirmed for us that their organizations were in compliance with Rule V.F.4 throughout 2004.

SCE confirmed that in 2004 there were no instances in which SCE participated in joint advertising or marketing with an affiliate. (DR 90). And SCE confirmed there were no joint call centers used by both SCE and affiliates. (INT 10)

We performed a number of transaction reviews to determine if SCE was in compliance with Rule V.F.4 and its sub-rules. The outcome of these reviews is summarized below.

Billing Inserts, Advertisements, Promotions & Giveaways. We reviewed all billing inserts mailed to both commercial and residential customers during 2004. (DR 22). We examined all mass market advertisements, promotions, and giveaways sponsored by either SCE or its affiliates during 2004. (DR 20, DR 115, DR 152, DR 182). The SCE advertisements included approximately 150 print ads, 35 radio spots, 8 TV ads, 1 cash register strip ad, and 5 outdoor ads. Edison Source – Norvik sponsored 3 print ads and 2 brochures. There were no giveaways to customers in California. In none of the inserts or advertisements did we see any evidence of joint advertising or marketing between SCE and any affiliate.

Web Pages. We reviewed all websites maintained by SCE and its affiliates. (DR 23) No evidence of joint advertising or marketing was apparent on any of the sites.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2004. (DR 21, DR 98)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 99) These notes document meetings held with large customers in 2004. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2004.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2004, and to indicate which, if any, resulted in an SCE proposal. SCE received three such RFPs in 2004 and responded to all three. We reviewed the three proposals, all of which related to possible privatization of government electric systems. (DR 100)

Rule V – Separation

Nothing in the presentations to large customers, the sample of diary notes or the SCE proposals provided any evidence of joint advertising or marketing, joint sales calls or joint proposals.

Trade shows, conferences and marketing events. SCE confirmed that at no time in 2004 did representatives of SCE participate with its affiliates in joint advertising or joint marketing at trade shows, conferences, or other information/marketing events in California. (DR 92).

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.5. A utility shall not share or subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research.

Audit Criteria

- SCE's funding of research and development and advanced technologies does not subsidize affiliates

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review R&D projects to assure they are not funded by affiliates

Conclusions

SCE is in compliance with Rule V.F.5.

SCE's process to comply with the requirements of this Rule is well documented and widely communicated. Our review of data associated with the Rule showed no evidence of SCE sharing or subsidizing R&D costs, fees, or payments with its affiliates.

SCE's Modified Compliance Plan (MCP) and its Affiliate Transaction Rule (ATR) Manual, both of which are available to SCE and affiliate employees, describe the requirements of Rule V.F.5. (DR 1, DR 5). SCE states as its policy that it "will neither share nor subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research."

Management personnel representing Regulatory Policy and Affairs (RP&A) (INT 1) and Research, Development and Demonstrations (INT 11) affirmed for us that their organizations were in compliance with Rule V.F.5 throughout 2004.

During 2004, twenty internal research, development and demonstration projects were active within SCE. (DR 57) In addition, SCE participated in research conducted by the Electric Power Research Institute (EPRI).

Rule V – Separation

We evaluated whether any of this research information was relevant to affiliates. Some of the EPRI deliverables describe state-of-the-art approaches to utility operations and maintenance and definitely would be of value to affiliates. (DR 58) However, we were able to confirm that none of the EPRI research products had been made available for use by affiliates. (DR 121)

We confirmed that none of the twenty research projects or the EPRI research were jointly funded by SCE and an affiliate. (DR 93) We established that SCE and its affiliates did not share or subsidize any costs, fees, or payments for research and development activities, or for advanced technology research. (DR 96)

We also verified that none of the research projects conducted in 2004 were undertaken with the intent to benefit any affiliate. (DR 94) And SCE validated that it has not transferred or licensed to any of its affiliates any end products or rights associated with any of its R&D projects. (DR 95)

CPUC Rule

V.G. Employees: Joint Directors, Officers and Employees

V.G.1. Except as permitted in Section V E (corporate support), a utility and its affiliates shall not jointly employ the same employees. This Rule prohibiting joint employees also applies to Board Directors and corporate officers, except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to affiliates that operate within California. In the case of shared directors and officers, a corporate officer from the utility and holding company shall verify in the utility's compliance plan the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules. In its compliance plan required in Rule VI, the utility shall list all shared directors and officers between the utility and affiliates. No later than 30 days following a change to this list, the utility shall notify the Commission's Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 of any change to this list.

Audit Criteria

- SCE does not jointly employ personnel with affiliates
- Directors and officers of SCE do not serve as officers and directors of Class A affiliates except where they provide corporate support activities defined by Rule V.E
- SCE has monitoring and reporting mechanisms that prevent prohibited sharing of directors and officers, and joint employment of personnel with affiliates

Audit Steps

- Review the Annual Report of Affiliated Company Transactions to identify instances of shared officers and directors in 2004
- Review the list of directors and officers of EIX, SCE and affiliates for positions held during 2004
- Search for instances where personnel were jointly employed by SCE and affiliates

Rule V – Separation

Conclusions

SCE is in compliance with Rule V.G.1.

Officers and directors of SCE and affiliates are listed in the Annual Report of Affiliated Company Transactions (DR 2), as required by Rule V.G.1. It can be noted which individuals are shared officers and directors of SCE and affiliates. The accuracy of the 2003 Annual Report of Affiliated Company Transactions was confirmed by SCE's Affiliates Officer, who signed that the report is complete and accurate with no material omissions. In 2004, there were no changes to this list that required 30-day notification of the CPUC and applicable parties. (DR 78)

No instances were found in which a director of SCE was also a director of a Class A affiliate during 2003 (DR 12). There was one instance where an officer of SCE was also an officer of two Class A affiliates. This is SCE's Vice President and Secretary who also serves as the Secretary of Edison Source and EO&MS, both Class A affiliates. Rule V.G.1 specifies that an officer of SCE may not be an officer of a Class A affiliate. SCE petitioned the CPUC for clarification of this rule to allow such arrangements where the officer's duties constituted a shared corporate support function allowed by Rule V.E. In Decision D.98-08-035 (DR 3), the CPUC ruled in SCE's favor, stating:

We clarify that Rules V.E and V.G.1, when read together, can provide for limited sharing of directors and officers not only as explicitly set forth in Rule V.G.1, but also in their performance of the corporate support functions set forth in Rule V.E, and as set forth in the examples cited above which Edison has provided, namely, the Chief Financial Officer or General Counsel. (DR 3)

The MCP (DR 1) and the ATR Manual (DR 5) both state that the joint employment of the same person by SCE and a Class A affiliate is prohibited. "Joint employment" exists when an employee earns wages simultaneously from SCE and an affiliate (i.e., such that those earnings would be recorded toward W-2 earnings from both SCE and an affiliate during the same time period). We noted no such instances where an employee of SCE was also an employee of Class A affiliate. SCE also affirmed this in response to our data request. (DR 12)

As required by Rule V.G.1., the MCP contains a letter from SCE's Affiliates Officer and EIX Vice President and Controller verifying that "specific mechanisms and procedures in place are believed to be sufficient to ensure that SCE is not utilizing shared officers and directors as a conduit to circumvent any of the Rules." (DR 5 Appendix B)

CPUC Rule

V.G. Employees: Employee Movements

V.G.2. All employee movement between a utility and its affiliates shall be consistent with the following provisions:

Rule V – Separation

V.G.2.a. A utility shall track and report to the Commission all employee movement between the utility and affiliates. The utility shall report this information annually pursuant to our Affiliate Transaction Reporting Decision, D.93-02-016, 48 CPUC2nd 163, 171-172 and 180 (Appendix A, Section I and Section II H.).

V.G.2.b. Once an employee of a utility becomes an employee of an affiliate, the employee may not return to the utility for a period of one year. This Rule is inapplicable if the affiliate to which the employee transfers goes out of business during the one-year period. In the event that such an employee returns to the utility, such employee cannot be retransferred, reassigned, or otherwise employed by the affiliate for a period of two years. Employees transferring from the utility to the affiliate are expressly prohibited from using information gained from the utility in a discriminatory or exclusive fashion, to the benefit of the affiliate or to the detriment of other unaffiliated service providers.

V.G.2.c. When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 25% of the employee's base annual compensation, unless the utility can demonstrate that some lesser percentage (equal to at least 15%) is appropriate for the class of employee included. In the limited case where a rank-and-file (non-executive) employee's position is eliminated as a result of electric industry restructuring, a utility may demonstrate that no fee or a lesser percentage than 15% is appropriate. The Board of Directors must vote to classify these employees as "impacted" by electric restructuring and these employees must be transferred no later than December 31, 1998, except for the transfer of employees working at divested plants. In that instance, the Board of Directors must vote to classify these employees as "impacted" by electric restructuring and these employees must be transferred no later than within 60 days after the end of the O&M contract with the new plant owners. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment (i.e. credited to the Electric Revenue Adjustment Account or the Core and Non-core Gas Fixed Cost Accounts, or other ratemaking treatment, as appropriate), on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision will not apply to clerical workers. Nor will it apply to the initial transfer of employees to the utility's holding company to perform corporate support functions or to a separate affiliate performing corporate support functions, provided that that transfer is made during the initial implementation period of these Rules or pursuant to a §851 application or other Commission proceeding. However, the rule will apply to any subsequent transfers or assignments between a utility and its affiliates of all covered employees at a later time.

V.G.2.d. Any utility employee hired by an affiliate shall not remove or otherwise provide information to the affiliate which the affiliate would otherwise be precluded from having pursuant to these Rules.

Audit Criteria

- Employee movements between SCE and affiliates are tracked, approved and reported to the CPUC in the annual Affiliate Transaction Report
- Movement of employee to affiliates adheres to Rule V.G.2.a-d timing requirements. Employees moving to affiliates are prohibited from using SCE information in a way that provides affiliates with a competitive advantage over unaffiliated service providers.
- Affiliates pay SCE the required fee for the transfer of its employees
- SCE employees are given temporary or intermittent assignments with affiliates, except those involved in marketing power, in a way that complies with the ATR

Audit Steps

- Determine that the proper fees were paid when SCE employees moved to affiliates in 2004
- Determine that affiliate employees who moved to SCE in 2004 had not been employed by SCE for a period of more than one year previous to their move to SCE, unless the affiliate went out of business or significantly scaled back its

Rule V – Separation

business (in the case of EO&MS) in which case the one-year residency requirement does not apply. Determine that the movement of affiliate employees to SCE was approved by the SCE affiliates officer.

- Determine that all 2004 employee movements between SCE and affiliates are reported in the Annual Affiliate Transaction Report
- Evaluate the controls in place to ensure that confidential SCE information is not given to an affiliate by a moving employee

Conclusions

SCE is in compliance with Rule V.G.2.a through d.

SCE's Human Resources Department is responsible for processing movements of utility employees to Class A and B affiliates, including obtaining acknowledgement by the employee of restrictions pertaining to use of utility information and of residency requirements. Exit interviews are conducted for all utility employees to remind them of the prohibition against sharing of utility information. All relevant paperwork is reviewed by RP&A to ensure conformity with the ATR. (INT 17, DR 5, DR 56)

During 2004, one SCE employee moved to an affiliate. (DR 43) We reviewed this move and found the so-called transfer fee did not apply because the move was made to EIX, a class B affiliate. (DR 71) We also confirmed that SCE's Affiliates Officer approved the transfer. (review of personnel file)

In 2004, 4 affiliate employees transferred to SCE. (DR 43) We reviewed documentation for these employee moves and found that all met the residency requirements of Rule V.G.2.b. We also noted that SCE's Affiliates Officer approved the moves of the sample group. (review of personnel files) <<s/b DR 113>>

SCE properly reports employee movements, which are detailed in its Annual Report of Affiliate Company Transactions, Volume III, Section H – Movement of Employees report to the CPUC. (DR 2)

CPUC Rule

V.G. Employees: Temporary Assignments

V.G.2.e. A utility shall not make temporary or intermittent assignments, or rotations to its energy marketing affiliates. Utility employees not involved in marketing may be used on a temporary basis (less than 30% of an employee's chargeable time in any calendar year) by affiliates not engaged in energy marketing only if:

V.G.2.e.i. All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 10% of direct labor cost, or fair market value. When the affiliate obtains the services of an executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value.

V.G.2.e.ii. Utility needs for utility employees always take priority over any affiliate request;

V.G.2.e.iii. No more than 5% of full time equivalent utility employees may be on loan at a given time;

Rule V – Separation

V.G.2.e.iv. Utility employees agree, in writing, that they will abide by these Affiliate Transaction Rules; and

V.G.2.e.v. Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers.

Audit Criteria

- SCE employees are not temporarily assigned to marketing affiliates
- SCE personnel involved in marketing cannot be temporarily assigned to Class A affiliates
- SCE employees can be temporarily assigned no more than 30% of their time during calendar year
- Affiliates are charged for temporarily assigned SCE employees at their fully loaded labor costs plus a markup of 10% of direct labor cost for non-executives and 15% of direct labor for executives
- SCE employees agree in writing that they will abide with ATR
- All necessary written approvals obtained from utility and affiliate officers
- No more than 5% of SCE FTEs may be on loan at a given time

Audit Steps

- Review all instances where SCE personnel performed work on a temporary basis for affiliates and determine if there was adherence to Rule V.G.2.e

Conclusions

SCE is in compliance with Rule V.G.2.e.

An Intercompany Service Request (ISR) form must be completed whenever an Affiliate requests services from SCE except for services performed as permissible shared support pursuant to Rule V.E. (DR 5, DR 42) The ISR documents the services being requested, estimated hours required for the task and all required approvals. The ISR process is monitored through the “Loaned Labor Report” which shows every SCE employee who has charged time on a “directly requested” basis. Controller’s Department reviews the report to determine that ISRs are in place, where appropriate, for all employees in the report. (INT 19, DR 74)

The following have been determined to be “energy marketing affiliates”:

- Coalinga Cogeneration Company
- Edison Mission Marketing and Trading, Inc.
- Kern River Cogeneration Company
- March Point Cogeneration Company
- Midway-Sunset Cogeneration Company, LP
- Mid-Set Energy Company
- Salinas River Cogeneration Company

Rule V – Separation

- Sargent Canyon Cogeneration Company
- Sunrise Power Company, LLC
- Sycamore Cogeneration Company
- Watson Cogeneration Company. (DR 81)

During 2004, the classification of “energy marketing affiliate” was removed from Edison Source because it did not meet the following definition from CPUC decision D.98-09-035:

“An Affiliate that actively brokers commodity electricity on a competitive basis in California’s regional market.” (DR 5)

During 2004, Edison Source had no employees and did not function as an operating company. Edison Source owns Norvik Co., which is an operating company involved in manufacture and sale of battery chargers for forklifts. We concur with SCE’s decision to declassify Edison Source as an “energy marketing affiliate.”

With respect to SCE employees, the terms "marketing" and "involved in marketing" have not been defined by the Commission for purposes of Affiliate Transaction Rule V.G.2.e. In order to comply with the Rules, SCE has itself defined these terms in its ATR Manual and its Modified Compliance Plan. The determination that a particular SCE employee is or is not "involved in marketing" for purposes of Rule V.G.2.e is made in the first instance by the employee's SCE manager when responding to a affiliate's request for use of that employee pursuant to an ISR. He or she will compare the requested employee's job function(s) with the definitions referred to above. Before the ISR can be processed, the manager is required to attest that the employee is not involved in marketing (Section III of the ISR form). This approval is separate and distinct from the manager's approval of the assignment itself. In reviewing the ISR prior to submittal to the Affiliates Officer for approval, RP&A staff will ensure, first, that this managerial attestation is signed. RP&A personnel will then note the department or division for which the requested employee works, and will inquire further with the employee and/or his or her manager, if there is ambiguity, or if it appears that the employee's SCE responsibilities might be construed to fall under the definition of "involved in marketing" as presented in the ATR Manual and in the Modified Compliance Plan. RP&A does not maintain a list of individual employees or functions that may be considered "involved in marketing." (DR 80)

During 2004, there were 42 ISRs. We examined each ISR and were able to reach the following conclusions:

- No SCE employees were assigned to marketing affiliates
- No SCE personnel involved in marketing were assigned to Class A affiliates
- No SCE employees were temporarily assigned more than 30% of their time during calendar year
- Every SCE employee agreed in writing (on the ISR form) that they will abide with ATR

Rule V – Separation

- All written approvals were obtained from the SCE Affiliates Officer and SCE supervisor. (DR 42)

SCE has over 13,000 employees (www.SCE.com). Rule V.G.2.e. states that no more than 5%—about 650—may be temporarily assigned to affiliates at one time. SCE had only 42 temporary assignments throughout all 2004 and did not come close to the 5% limit.

We reviewed a sample of the 42 ISRs and were able to determine that:

- The employees' total payroll expense was accurate
- Appropriate payroll overheads (payroll taxes and benefits) were applied
- The appropriate markup and facilities charge was applied
- Fully loaded labor, markup and facilities charges were included on the affiliate invoices. (DR 150)

CPUC Rule

V.H. Transfer of Goods and Services: To the extent that these Rules do not prohibit transfers of goods and services between a utility and its affiliates, and except for as provided in Rule V.G.2.e, all such transfers shall be subject to the following pricing provisions:

V.H.1. Transfers from the utility to its affiliates of goods and services produced, purchased or developed for sale on the open market by the utility will be priced at fair market value.

V.H.2. Transfers from an affiliate to the utility of goods and services produced, purchased or developed for sale on the open market by the affiliate shall be priced at no more than fair market value.

V.H.3. For goods or services for which the price is regulated by a state or federal agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods and services, this Commission's pricing provisions govern.

V.H.4. Goods and services produced, purchased or developed for sale on the open market by the utility will be provided to its affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.

V.H.5. Transfers from the utility to its affiliates of goods and services not produced, purchased or developed for sale by the utility will be priced at fully loaded cost plus 5% of direct labor cost.

V.H.6. Transfers from an affiliate to the utility of goods and services not produced, purchased or developed for sale by the affiliate will be priced at the lower of fully loaded cost or fair market value.

Audit Criteria

- Transfers from SCE to affiliates of goods and services are valued according to the requirements of Rule V.H
- SCE does not discriminate in favor of affiliates in its offering of goods and services
- Transfers from affiliates to SCE of goods and services are valued according to the requirements of Rule V.H

Audit Steps

- Determine the policies and methodology for valuing affiliate transactions

Rule V – Separation

- Examine a sample of 2004 transactions and determine if SCE and affiliates are following the valuation guidelines of Rule V.H
- Determine what management controls exist over the valuation of affiliate transactions
- Evaluate 2004 property transfers to ensure they were properly valued

Conclusions

SCE is in compliance with Rule V.H.

We noted that the ATR Manual correctly specified how a value will be ascribed to each item covered by this Rule. SCE’s guidelines are summarized in the table below.

	Goods & Services Category	Valuation
SCE to Affiliate	V.H.1 For sale on open market (e.g., non-tariffed products & services)	Fair market value; no discrimination in favor of affiliates (V.H.4)
	V.H.3 Regulated by state or fed (e.g., tariffed products & services)	Fair market value (tariffed rate)
	V.H.5 Not for sale on open market (e.g., corporate support services)	Fully loaded costs plus 5% (10% or 15% for requested support)
Affiliate to SCE	V.H.2 For sale on open market (e.g., EO&MS services)	No more than fair market value
	V.H.6 Not for sale on open market (e.g., support services)	Lower of fully loaded cost or fair market value

DR 133

In the course of our audit work, we reviewed the valuation method for several of these categories of transactions. The results of those reviews are described below.

- V.H.1 SCE Open Market Product/Service Sales to Affiliates - We reviewed all the 2004 affiliate work performed by Energy Services, Inc. (ESI), a regulated subsidiary of SCE and an entity of SCE that performs various services for affiliates and non-affiliate third parties. ESI’s affiliate work was priced out using rates from ESI’s standard price list, which is also used to price out non-affiliate third party customers. Thus, we can conclude these sales were at “fair market value” and there was no discrimination in favor of affiliates. (INT 13, DR 67) <<add DR 66>>
- V.H.3 SCE Tariffed Product/Service Sales to Affiliates – We found no instances where SCE provided affiliates with discounts off their tariffed products and services. The ATR Manual states “SCE will provide no preferential treatment by the utility, such as discounts, in favor of affiliates.” There are a number of internal controls in place to guard against such discounts. First, the Finance Division of SCE’s Customer Services Business Unit, in consultation with SCE’s Controller’s Department, is responsible for reviewing the proposed pricing of all customer offerings, including proposed discounts and fee waivers. Pricing plans that may include a discount from the otherwise applicable tariff are also reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs (RP&A) and are subject to review and approval by the Commission. All of these reviews ensure that

Rule V – Separation

proposed offerings are not discriminatory. Thus, we can conclude these sales were at “fair market value.” (INT 31, DR 5)

- V.H.5 SCE Not-For-Sale Services to Affiliates – We reviewed the calculation of SCE corporate support charges to EME for one month in 2004 and found the proper calculation of fully loaded labor, overheads and the fee. Thus, we can conclude that these transactions were at “fully loaded costs plus 5%.” (DR 117)
- V.H.2 – Affiliates Open Market Product/Service Sales to SCE – In previous years, SCE purchases of services from EO&MS fell under this affiliate service category. Since EO&MS ceased to be an operating company effective November 26, 2003, SCE procured no open market services from EO&MS during 2004. (DR 87, DR 104, DR 105)
- V.H.5 Affiliates Not-For-Sale Services to SCE – We noted none of these transactions in 2004. If there had been any, it is SCE’s stated policy to value them at the lower of fully loaded cost or fair market value. (DR 5)

SCE’s ATR manual calls for “fair compensation” for all assets transferred between SCE and its affiliates, regardless of the direction of the transfer. (DR 5) During 2004, SCE did not purchase assets from or sell assets to any affiliate. (DR 45)

Rule VI – Regulatory Oversight

CPUC Rule

VI.A. Compliance Plans: No later than December 31, 1997, each utility shall file a compliance plan demonstrating to the Commission that there are adequate procedures in place that will preclude the sharing of information with its affiliates that is prohibited by these Rules. The utility should file its compliance plan as an advice letter with the Commission’s Energy Division and serve it on the parties to this proceeding. The utility’s compliance plan shall be in effect between the filing and a Commission determination of the advice letter. A utility shall file a compliance plan annually thereafter by advice letter served on all parties to this proceeding where there is some change in the compliance plan (i.e., when a new affiliate has been created, or the utility has changed the compliance plan for any other reason).

Audit Criteria

- SCE’s compliance plan is filed annually and served on all parties to the proceeding where there has been a reportable change (e.g., creation of a new affiliate subsidiary)

Audit Steps

- Determine that compliance plans in effect during 2004, the period of audit, sufficiently demonstrate that SCE has adequate procedures in place to adhere to the ATR, including prohibitions against sharing of information
- Determine that an updated compliance plan was filed in 2004

Conclusions

SCE is in compliance with Rule VI.A.

As shown in the table below, SCE has followed this Rule’s requirement to file annual updates to its compliance plan from 1998 through 2004. (DR 5)

Compliance Plan	Period Covered
PCP (Preliminary Compliance Plan)	1/1/98 – 1/29/98
SCP (Supplemental Compliance Plan)	1/30/98 – 9/16/98
SCP & Resolution E-3530	9/17/98 – 10/15/98
RCP (Revised Compliance Plan)	10/16/98 – 12/12/01
ARCP (Amended Revised Compliance Plan)	2/5/99 – 11/12/99
UCP (Updated Compliance Plan)	11/12/99 – 12/12/01
ACP (Amended Compliance Plan)	5/9/00 – 12/12/01
MCP (Modified Compliance Plan)	12/12/01 – present
CP02 (Compliance Plan Update for 2002)	12/12/02 – present
CP03 (Compliance Plan Update for 2003)	12/22/03 – present
CP04-I (Compliance Plan – 2004 Interim Update)	2/20/04 – present

DR 1

SCE’s most recent compliance plan, CP04-I, added two paragraphs to its compliance plan for Rule IV.B – Non-Customer Specific Non-Public Information. The new wording specified SCE may provide certain financial information to its parent, EIX, in connection with federal and state securities and income tax laws. SCE also documented its understanding that the ATR do not prohibit it from making available to senior financial

Rule VI – Regulatory Oversight

officers of affiliates recorded and projected financial performance information (e.g., net income, dividend capacity, financial statistics). This financial information does not include customer-specific information and other similar market- and competitively sensitive information. (DR 1)

During 2004, the following compliance plans covered the indicated rules:

Rule	Prevailing Compliance Plan	
	12/22/03 – 12/31/03	12/03/03 – 12/31/04
I	MCP	MCP
II.A-B	CP03	CP03
II.C through III.A	MCP	MCP
III.B	CP02	CP02
III.B.1 through III.F	MCP	MCP
IV.A	CP03	CP03
IV.B	MCP	CP04-I
IV.C	CP03	CP03
IV.D through V.D	MCP	MCP
V.E, V.F.1	CP02	CP02
V.F.2 through V.F.5	MCP	MCP
V.G.1	CP03	CP03
V.G.2 through V.H	MCP	MCP
VI.A, VI.B	CP03	CP03
VI.C through VII.G	MCP	MCP
VII.H	CP03	CP03
VII.I	MCP	MCP

DR 1

We reviewed the MCP, CP02, CP03 and CP04-I to assess whether they sufficiently demonstrate that SCE has adequate procedures in place to adhere to the ATR. (DR 1) The MCP covers every Rule since it was meant to incorporate and supercede the compliance statements of several previous plans. Our review of the MCP showed SCE's commitments to be complete and to generally involve a comprehensive interpretation of the Rules.

CP02, CP03 and CP04-I were meant to cover specific Rule updates so it is a more concise document than the MCP. Essentially, the language of the MCP is annotated with updates in CP02, CP03 and CP04-I. We reviewed these changes in light of the applicable Rules and found them to be appropriate. (DR 1)

We compared information and commitment statements in the MCP, CP02, CP03 and CP04-I to the contents of the ATR Manual, the resource used by employees for directions on compliance with the ATR. We found the MCP, CP02, CP03 and CP04-I to be consistent with the detailed instructions in the ATR Manual. (DR 1, DR 5)

It should be noted that in Resolution E-3539, Finding 91, the CPUC found SCE's process for updating its compliance plans reasonable. (DR 3)

CPUC Rule

Rule VI – Regulatory Oversight

VI.B. New Affiliate Compliance Plans: Upon the creation of a new affiliate which is addressed by these Rules, the utility shall immediately notify the Commission of the creation of the new affiliate, as well as posting notice on its electronic bulletin board. No later than 60 days after the creation of this affiliate, the utility shall file an advice letter with the Energy Division of the Commission, served on the parties to this proceeding. The advice letter shall demonstrate how the utility will implement these Rules with respect to the new affiliate.

Audit Criteria

- SCE communicates to affiliates the need to be promptly informed when new affiliates are created
- SCE properly reports on a timely basis, the creation of new affiliates which are subject to the ATR

Audit Steps

- Review communications between SCE and affiliates regarding the creation/establishment of new affiliates
- Review new affiliate advice letters to determine that the CPUC was notified of new affiliates in no later than 60 days after their creation

Conclusions

SCE is in compliance with Rule VI.B.

The ATR Manual states that within 60 days after the creation of a new affiliate, SCE must notify the CPUC via an Advice Letter. (DR 5)

The CPUC has not defined “creation” for purposes of this Rule. SCE has therefore determined it will consider an affiliate created “when it [affiliate] begins providing products and services that would render it an affiliate as defined in the Rules.” This may occur some time after the affiliate has been established. (DR 5) We find this position to be reasonable.

The last sentence of this Rule states that each new affiliate advice letter “shall demonstrate how the utility will implement these Rules with respect to the new affiliate.” Taken literally, it would seem this means SCE must have some customized compliance plan for each affiliate. However, SCE has taken the position that the existence of an adequate overall plan of compliance (as called for by VI.A) is sufficient to meet Rule VI.B. We concur with this approach.

Regulatory Policy and Affairs (RP&A) is responsible for filing advice letters concerning new affiliates. RP&A relies on certain affiliate executives and managers to notify them when new Class A affiliates are created. RP&A checks for unreported new affiliates, by reviewing the EIX Tier List and Affiliated Entity List, both prepared semi-annually by the Law Department. (2002 Affiliate Transactions Audit report)

The following new Class A affiliates were created in 2004:

Rule VI – Regulatory Oversight

New Class A Affiliate	Date Created	Date Reported to CPUC
Bisson Windfarm, LLC	July 30, 2004	August 2, 2004
Boeve Windfarm, LLC	July 30, 2004	August 2, 2004
CG Windfarm, LLC	July 30, 2004	August 2, 2004
DanMar Transmission, LLC	July 30, 2004	December 22, 2004
Fey Windfarm, LLC	July 30, 2004	August 2, 2004
K-Brink Windfarm, LLC	July 30, 2004	August 2, 2004
TG Windfarm, LLC	July 30, 2004	August 2, 2004
Tofteland Windfarm, LLC	July 30, 2004	August 2, 2004
Westridge Windfarm, LLC	July 30, 2004	August 2, 2004
Windcurrent Farms, LLC	July 30, 2004	August 2, 2004
Mission Energy Singapore Pte. Ltd.	November 24, 2004	January 26, 2005
Carstensen Wind, LLC	December 23, 2004	December 23, 2004
Greenback Energy, LLC	December 23, 2004	December 23, 2004
Lucky Wind, LLC	December 23, 2004	December 23, 2004
Northern Lights Wind, LLC	December 23, 2004	December 23, 2004
Stahl Wind Energy, LLC	December 23, 2004	December 23, 2004
West Pipestone Transmission, LLC	December 23, 2004	December 23, 2004

(DR 37)

Mission Energy Singapore Pte. Ltd. is owned by EME and is a successor entity to a Class B affiliate that held a services agreement to provide administrative services such as management, banking, finance, legal, tax and accounting services to an EME energy project. The services agreement also allows for this entity to provide construction and O&M services, which would move it into the realm of a Class A affiliate because these particular services relate to the use of electricity. Mission Energy Singapore Pte. Ltd. (and the predecessor entity) has not provided construction or O&M services in the past, although it may in the future. From an affiliate status standpoint, SCE considered this situation a reclassification from B to A that did not require a posting or notification under Rule VI.B. We concur with SCE in this regard.

In all but one case, RP&A notified the CPUC of new Class A affiliates within the 60 days from creation limit of Rule VI.B. The one exception, as shown above, was DanMar Transmission, LLC where notification took place 144 days after its creation. This delay occurred because Edison Capital was late in informing RP&A of the subsidiary’s creation. Considering that the 15 other new Class A affiliates with timely notification were all Edison Capital subsidiaries, Baryenbruch & Company does not view the one late notification instance as a breakdown in SCE’s compliance process for reporting new affiliates.

<<mention that new affiliate notices were noted on SCE website – DR46>>

CPUC Rule

VI.C. Affiliate Audit: No later than December 31, 1998, and every year thereafter, the utility shall have audits performed by independent auditors that cover the calendar year which ends on December 31, and that verify that the utility is in compliance with the Rules set forth herein. The utilities shall file the independent auditor’s report with the Commission’s Energy Division beginning no later than May 1, 1999, and serve it on all parties to this proceeding. The audits shall be at shareholder expense.

Rule VI – Regulatory Oversight

Audit Criteria

- An annual audit of affiliate transactions is performed by independent auditors whose report is filed with the CPUC by May 1 after the calendar year of the audit
- The audit is conducted at shareholder expense

Audit Steps

- Determine that audits were conducted when required in the past and the reports were filed on time
- Determine that the audits were conducted at shareholder expense

Conclusions

SCE is in compliance with Rule VI.C.

As required by this Rule, SCE has engaged independent auditors to perform the affiliate transaction audits since 1999. Each audit report was filed with the CPUC on a timely basis. The audits were performed at shareholder expense. (DR 79)

The disposition of Baryenbruch & Company's 2003 audit recommendations is shown in Exhibit 6.

CPUC Rule

VI.D. Witness Availability: Affiliate officers and employees shall be made available to testify before the Commission as necessary or required, without subpoena, consistent with the provisions of the Public Utilities Code Section 314.

Audit Criteria

- Affiliate officers and employees are available to testify before the CPUC without subpoena

Audit Steps

- Determine SCE's level of cooperation on witness availability

Conclusions

SCE is in compliance with Rule VI.D.

The ATR Manual evidences SCE's witness availability commitment by restating verbatim the text of this Rule. (DR 5) During 2004, no requests were made for SCE or affiliate officers or employees to testify on an affiliate transaction-related matter before the CPUC. (DR 47)

Southern California Edison
2004 Affiliates Transactions Audit of SCE
Status of 2003 Audit Recommendations

Rule	Recommendation	SCE Disposition
IV.C	<p>1. <u>Update Web Link to "List of Firms Qualified by CEC Staff for the Demand Response Transitional Incentives Programs"</u> – The web links provided for this list both at the SCE Affiliate Notices – Service Provider Lists web page and in Advice 1491-E-G are no longer valid and should be examined and updated. The Customer Service Business Unit (CSBU) should also monitor CEC's website and notify RP&A when any changes occur so that SCE's Affiliate Notices websites can be promptly updated.</p>	<p>SCE accepts this recommendation. The Web Link to the "<u>List of Firms Qualified by CEC Staff for the Demand Response Transitional Incentives Programs</u>" has been updated with the current list from the semi-annual Service Provider List Advice Letter filing on June 17, 2004 (Advice 1491-E-H). The Customer Service Business Unit (CSBU) has been notified of their responsibility to monitor this CEC-related information and to inform RP&A promptly of any future updates.</p>
IV.D	<p>2. <u>PAMM should maintain a Joint Procurement Summary Log</u> – This summary log would, in one spreadsheet or table, summarize the key affiliate-rules-related steps for each joint procurement and provide a cross-index that would cover both SCE and affiliate information. It should include, but not be limited to, the following informational elements: (a) brief description of goods or services being procured, (b) JPN Form submittal and approval date, (c) Proposal Request number and date, (d) names of vendors who were sent Proposal Requests, (e) Consent Form receipt dates for each vendor, (f) digital file location of JPN Forms and Consent Form (e.g., PDF file names), (g) date of joint negotiation session (if any), (h) list of each SCE affiliate involved in joint negotiation, (i) SCE Purchase Order number and opening date, (j) each affiliate's Purchase Order number and opening date, (k) SCE contract closing date and (l) each affiliate's contract closing date. The log should be designed so that missing information could easily be noted and pursued while memories were fresh. All relevant contract categories (i.e., Joint Contracts, Single Party Contracts – Joint Use, Joint Negotiations Resulting in Separate Contracts, and Joint Negotiations Not Resulting in Separate Contracts) would be listed. Arrangements would stay in the log so long as they were open, and even for a period of at least three years after it was closed.</p> <p>The log would be maintained by PAMM and submitted once a quarter to RP&A for cross referencing against the RP&A Affiliate Officer Signature Log.</p>	<p>SCE accepts these recommendations. As of the date of this response, SCE's Procurement and Material Management organization (PAMM) has created a Joint Procurements Summary Log and a Vendor Information List to track the items listed above. PAMM will provide both the Joint Procurement Summary Log and the Vendor Information List to RP&A on a semi-annual basis for cross referencing against the RP&A Affiliate Officer Signature Log.</p> <p>As of the date of this response, the JPN Form has been updated to incorporate the recommendations and has been distributed to PAMM for immediate use. Rather than creating a "revised" JPN Form when proposal request numbers become available, SCE will update the existing JPN Form.</p>

(DR 9)

Southern California Edison
2004 Affiliates Transactions Audit of SCE
Status of 2003 Audit Recommendations

Rule	Recommendation	SCE Disposition
IV.D	3. <u>Add a signature date, Proposal Request Number and better description of the item(s)/service(s) being proposed</u> – This would enhance PAMM’s process for obtaining RP&A’s approval prior to an RFP’s release. Even if it is appropriate for negotiations to begin before a Proposal Request Number has been assigned, a means of adding the Proposal Request Number at a later date to a “revised” JPN form should be implemented.	SCE accepts these recommendations. As of the date of this response, SCE’s Procurement and Material Management organization (PAMM) has created a Joint Procurements Summary Log and a Vendor Information List to track the items listed above. PAMM will provide both the Joint Procurement Summary Log and the Vendor Information List to RP&A on a semi-annual basis for cross referencing against the RP&A Affiliate Officer Signature Log. As of the date of this response, the JPN Form has been updated to incorporate the recommendations and has been distributed to PAMM for immediate use. Rather than creating a "revised" JPN Form when proposal request numbers become available, SCE will update the existing JPN Form.
IV.G	4. <u>Finalize “Doing Business in Compliance with the Affiliate Transaction Rules” Manual.</u> Procurement and Materials Management Department should update their procedures so they conform with the current Compliance Plans and the ATR Manual. This effort was started in early 2003 and, while significant progress has been made, it is still not finished. PAMM’s draft report entitled “Doing Business in Compliance with the Affiliate Transaction Rules” should be issued in final form with a mechanism for periodic updates to keep it current with changes in the ATR Manual and compliance plans.	SCE accepts these recommendations. As of the date of this response, the Procurement ATR Manual has been published. A review of the ESI contract files will be conducted by 12/31/04.
IV.G	5. <u>Conduct a review of ESI contract files.</u> Determine whether the original or the amended and restated agreement is the authorized contract.	SCE accepts these recommendations. As of the date of this response, the Procurement ATR Manual has been published. A review of the ESI contract files will be conducted by 12/31/04.
V.E	6. <u>Re-emphasize The Need To Obtain Timely Approvals For Corporate Support Services Performed By Employees In “Non-Core” AORs And For Employees Who Perform That Work To Charge Their Time To Affiliates.</u> Before corporate support work is performed by an employee who is not part of the pre-established AOR for a particular function, RP&A should have the opportunity to review the requesting department’s Corporate Service Request (CSR) and then obtain SCE’s Affiliates Officer’s approval. This requires that the requesting departments get their CSRs to RP&A well before the services are provided. RP&A should initiate more extensive communications with SCE corporate department representatives to remind them of the need for timely approvals and for their employees to charge their time correctly.	SCE accepts this recommendation. An e-mail to relevant SCE corporate department representatives was sent on June 30, 2004.

(DR 9)

Southern California Edison
2004 Affiliates Transactions Audit of SCE
Status of 2003 Audit Recommendations

Rule	Recommendation	SCE Disposition
V.F	<p>7. <u>The EIX Corporate Communications organization should develop and maintain contemporaneous logs of all advertisements & promotional materials.</u> Both SCE materials and Class A affiliates' materials that could be seen in California would be included in the log. At the end of each quarter, a copy of the current log would be sent to the RP&A affiliate compliance organization. It should show activity for the previous quarter, i.e., showing the materials that were "in play" during that quarter. The log should: describe the item, indicate the type of advertisement or promotion (radio, TV, billboard, newspaper, magazine, product spec sheet, giveaway, etc.), indicate the timing of its "play", and provide a link to the file where the item is kept.</p>	<p>SCE accepts these recommendations. Corporate Communications has developed a log of all advertising and promotional materials that were in the market for each quarter. The log includes detailed information on the topic of the campaign or advertising effort, the medium (TV, billboard, radio, newspaper, etc.) and the flight schedule, or when the product was in market. It is also organized by CDs, with a memo describing which campaign corresponds to which number CD. Corporate Communications will send RP&A a copy of the log and one set of supporting materials at the beginning of each quarter, for the preceding quarter.</p> <p>Having a ".com" domain extension does not imply that a website is hosted within the U.S. Many websites are hosted internationally but use the ".com" domain extension as an easy domain name for potential customers to remember.</p> <p>Corporate Communications has developed and will communicate the following policy to address the use of disclaimers on affiliate websites:</p> <p>All Class A affiliates are required to use the following disclaimer statement on their websites if the business location is in or if they conduct business in California whenever those websites:</p> <ol style="list-style-type: none"> 1. include the corporate tagline used by SCE (i.e., "An Edison International Company"); 2. include the utility's name (Southern California Edison, Southern California Edison Company, or SCE); and/or 3. include the utility's "plug and color bars" logo: <p><i>"(Affiliate) is not the same company as Southern California Edison (SCE), the utility, and is not regulated by the California Public Utilities Commission."</i></p> <p>Any affiliate website with direct business in California or potential customers from California must have the disclaimer statement presented on at least the homepage and the contact page of the site. If possible, the disclaimer statement should be included in a common footer file thereby displaying the affiliate statement on every page in the website. This allows for easy maintenance and compliance for any section within the website</p>

(DR 9)

Southern California Edison
2004 Affiliates Transactions Audit of SCE
Status of 2003 Audit Recommendations

Rule	Recommendation	SCE Disposition
V.F	<p>8. <u>Develop and communicate a policy that addresses the use of disclaimers on affiliate website accessible in California.</u> This would involve a discussion of U.S. and foreign domains. It would also specifically identify the affiliates that do, and those that do not, need to concern themselves with disclaimer requirements, and would be regularly updated.</p>	<p>SCE accepts these recommendations. Corporate Communications has developed a log of all advertising and promotional materials that were in the market for each quarter. The log includes detailed information on the topic of the campaign or advertising effort, the medium (TV, billboard, radio, newspaper, etc.) and the flight schedule, or when the product was in market. It is also organized by CDs, with a memo describing which campaign corresponds to which number CD. Corporate Communications will send RP&A a copy of the log and one set of supporting materials at the beginning of each quarter, for the preceding quarter.</p> <p>Having a ".com" domain extension does not imply that a website is hosted within the U.S. Many websites are hosted internationally but use the ".com" domain extension as an easy domain name for potential customers to remember.</p> <p>Corporate Communications has developed and will communicate the following policy to address the use of disclaimers on affiliate websites:</p> <p>All Class A affiliates are required to use the following disclaimer statement on their websites if the business location is in or if they conduct business in California whenever those websites:</p> <ol style="list-style-type: none"> 1. include the corporate tagline used by SCE (i.e., "An Edison International Company"); 2. include the utility's name (Southern California Edison, Southern California Edison Company, or SCE); and/or 3. include the utility's "plug and color bars" logo: <p><i>"(Affiliate) is not the same company as Southern California Edison (SCE), the utility, and is not regulated by the California Public Utilities Commission."</i></p> <p>Any affiliate website with direct business in California or potential customers from California must have the disclaimer statement presented on at least the homepage and the contact page of the site. If possible, the disclaimer statement should be included in a common footer file thereby displaying the affiliate statement on every page in the website. This allows for easy maintenance and compliance for any section within the website.</p>

(DR 9)

Southern California Edison
2004 Affiliates Transactions Audit of SCE
Status of 2003 Audit Recommendations

Rule	Recommendation	SCE Disposition
V.G	<p>9. <u>Improve the processes for obtaining SCE Affiliates Officer approval for employees transferring from affiliates to SCE.</u> Although not a Commission requirement, SCE Human Resources should improve its oversight of employee transfers from affiliates to SCE. to ensure that these transfers obtain the advance approval from SCE's Affiliates Officer.</p>	<p>SCE accepts this recommendation. The following process for obtaining Affiliates Officer approval has been revised as follows:</p> <ol style="list-style-type: none"> 1) When an Affiliate company employee is identified as a candidate to fill a job, a memo will be prepared for the Affiliates Officer approval. 2) The memo will be reviewed by the Regulatory Compliance group within RP&A and forwarded for approval. 3) The hiring manager/supervisor will be notified by Regulatory Compliance to move forward with the job offer upon receipt of the Affiliates Officer approval. <p>Communication to all stakeholders will be increased.</p>

(DR 9)

Rule VII – Utility Products and Services

CPUC Rule

VII. Utility Products and Services

VII.A. General Rule: Except as provided for in these Rules, new products and services shall be offered through affiliates.

Audit Criteria

- New products and services are only offered by affiliates except where provided by this ATR

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.A
- Determine that new products and services are only offered through affiliates

Conclusions

SCE is in compliance with Rule VII.A.

SCE's current offerings of non-tariffed products and services were conditionally approved by the CPUC on January 6, 2000 when it issued Resolution E-3639 in response to SCE's Advice 1286-E. The CPUC ordered that SCE:

- Reclassify four categories of non-tariffed products and services (customer account management services for non-ESPs; use of general facilities; inspection, operation and maintenance, modification, upgrade, removal, and repair of generation, transmission and distribution related facilities and equipment; and miscellaneous services) so that they comply with the definition established in Rule VII.B.1
- Delete categories "sale of tariffed utility property and equipment/furniture requiring Section 851 application" and "sale of utility property and equipment/furniture (not requiring a section 851 application)" and reclassify the specific line items in each category as appropriate
- Delete the category "trading, buying and selling of emission credits pursuant to RECLAIM" from Attachment A to Advice 1286-E.

SCE implemented this directive and submitted Advice 1286-E-A on April 5, 2000 notifying the CPUC of its actions. On September 29, 2003, the CPUC approved SCE's actions through the issuance of Resolution E-3639, which became effective retroactive to May 15, 2000. (DR 3, INT 31)

In 2003, SCE requested authorization from the CPUC to create one new category of non-tariffed products and services related to the resale of Type II telecommunications circuits. After further consideration, SCE withdrew this request in a letter dated February 23, 2005 to the CPUC. (INT 31, DR 184)

Rule VII – Utility Products and Services

During 2004, SCE did not create any new categories of non-tariffed products and services. (INT 31; DR 48).

Exhibit 7 shows the volume of non-tariffed products and services in 2003 and 2004. The following units of SCE that provided these products and services during 2004:

SCE Unit	2004 Gross Other Op Rev
Customer Service Bus Unit	\$ 8,713,127
Edison Carrier Solutions	\$ 32,100,833
Transmission and Distribution Bus Unit	\$ 19,583,907
Generation Bus Unit - Hydro	\$ 1,298,349
Generation Bus Unit - Power Production	\$ 1,259,260
Shared Services Bus Unit - Corporate Real Estate	\$ 181,079
Shared Services Bus Unit - Transportation Services	\$ 122,168
Edison ESI	\$ 13,142,385
Total	<u>\$ 76,401,108</u>

(DR 190)

During the course of our interviews and data analysis, we found no evidence that SCE was not complying with Rule VII.

Exhibit 7

Southern California Edison Company
2004 Affiliates Transactions Audit of SCE
2003-2004 Non-Tariffed Products and Services

Product/Service Category	2003		2004	
	Revenues	Incremental Costs	Revenues	Incremental Costs
Secondary Use of Transmission Right of Ways, and Land	\$ 16,565	\$ 392	\$ 18,330	\$ 508
Secondary Use of Distribution Right of Ways, Land, Facilities and Substations	\$ 1,545	\$ 386	\$ 1,867	\$ 681
Secondary Use of Utility-Owned Generation Facilities and Land	\$ 269	\$ -	\$ 220	\$ -
Secondary Use of Utility-Owned Office Buildings and Offices	\$ 479	\$ 94	\$ 555	\$ 164
Use of Transmission Towers, Distribution Poles, Facilities, Conduits, Ducts and Streetlight Poles	\$ 1,388	\$ 377	\$ 1,189	\$ 470
Use of Communications and Computing Systems	\$ 41,963	\$ 11,451	\$ 28,817	\$ 11,413
License of Utility Software	\$ 188	\$ 39	\$ 675	\$ 608
Licensing of Utility-Held Patents	\$ -	\$ -	\$ -	\$ -
Property Management, Property Maintenance and Real Property Brokerage Services	\$ 165	\$ 2	\$ 161	\$ 2
Recreation, Fish and Wildlife Activities	\$ 1,076	\$ -	\$ 1,156	\$ -
Sales of Timber Stands on Utility-Owned Property	\$ -	\$ -	\$ -	\$ -
Use of Customer Technology Application Center (CTAC) and Agricultural Technology Application Center (AgTAC) Facilities	\$ 112	\$ 25	\$ 78	\$ 58
Electric Vehicle (EV), Battery, and Charger-Related Services	\$ 254	\$ -	\$ 96	\$ 6
Energy Efficiency Engineering, Consulting and Technical Services	\$ -	\$ -	\$ -	\$ -
Billing and Customer Communications Center Services for Non-ESPs	\$ 424	\$ 4	\$ 360	\$ 4
Meter Reading and Field Services for Non-ESPs	\$ 2,464	\$ 1,045	\$ 2,687	\$ 1,496
Bill Payment Options	\$ 4,437	\$ 186	\$ 5,287	\$ 159
Vehicle Maintenance and Repair	\$ 182	\$ 58	\$ 122	\$ 53
Transportation and Disposal of Hazardous Materials	\$ -	\$ -	\$ -	\$ -
Use of Heavy Equipment and Machinery	\$ -	\$ -	\$ -	\$ -
Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities and Equipment	\$ 2,805	\$ 871	\$ 3,446	\$ 2,366
Advanced Testing of Hydraulic Pumps	\$ 49	\$ -	\$ 57	\$ -
Equipment and Machinery Repair, Testing, Maintenance and Calibration	\$ 13,904	\$ 9,935	\$ 10,770	\$ 9,891
Geographic Information Systems (GIS) Services	\$ 188	\$ -	\$ 220	\$ -
Tariff Sheet Sales	\$ -	\$ -	\$ -	\$ -
Recycling Services	\$ 15	\$ -	\$ 20	\$ -
Training and Technical Certification Services	\$ 327	\$ -	\$ 288	\$ 1
Material Procurement and Purchasing Services	\$ -	\$ -	\$ -	\$ -
Fuel Oil Pipeline System and Storage Facilities	\$ 16,646	\$ 88,297	\$ -	\$ -
Total	\$ 105,445	\$ 113,162	\$ 76,401	\$ 27,880

(DR 134)

Rule VII – Utility Products and Services

CPUC Rule

VII.B. Definitions: The following definitions apply for the purposes of this section (Section VII) of these Rules:

VII.B.1. “Category” refers to a factually similar group of products and services that use the same type of utility assets or capacity. For example, “leases of land under utility transmission lines” or “use of a utility repair shop for third party equipment repair” would each constitute a separate product or service category.

VII.B.2. “Existing” products and services are those which a utility is offering on the effective date of these Rules

VII.B.3. “Products” include use of property, both real and intellectual, other than those uses authorized under General Order 69-C.

VII.B.4. “Tariff” or “tariffed” refers to rates, terms and conditions of services as approved by this Commission or the Federal Energy Regulatory Commission (FERC), whether by traditional tariff, approved contract or other such approval process as the Commission or the FERC may deem appropriate.

Audit Criteria

- SCE’s definition of these terms is similar to those of this Rule

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.B
- Review the ATR Manual to determine that SCE has properly interpreted the terms included in this rule

Conclusions

SCE is in compliance with Rule VII.B.

The ATR Manual restates verbatim this Rule’s definitions of “category,” “existing,” “products” and “tariff/non-tariffed.” (DR 5) We interviewed the RP&A personnel responsible for monitoring SCE’s compliance with Rule VII.B and found them to be properly interpreting and implementing the requirements of Rule VII concerning non-tariffed products and services. (INT 31)

CPUC Rule

VII.C. Utility Products and Services: Except as provided in these Rules, a utility shall not offer non-tariffed products and services. In no event shall a utility offer natural gas or electricity commodity service on a non-tariffed basis. A utility may only offer for sale the following products and services:

VII.C.1. Existing products and services offered by the utility pursuant to tariff;

VII.C.2. Unbundled versions of existing utility products and services, with the unbundled versions being offered on a tariffed basis;

VII.C.3. New products and services that are offered on a tariffed basis; and

VII.C.4. Products and services which are offered on a nontariffed basis and which meet the following conditions:

VII.C.4.a. The nontariffed product or service utilizes a portion of a utility asset or capacity;

VII.C.4.b. such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility service;

Rule VII – Utility Products and Services

VII.C.4.c. the involved portion of such asset or capacity may be used to offer the product or service on a nontariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;

VII.C.4.d. the products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and

VII.C.4.e. The utility's offering of such nontariffed product or service does not violate any law, regulation, or Commission policy regarding anticompetitive practices.

Audit Criteria

- SCE offers only tariffed products and services except for those non-tariffed products and services that meet the conditions spelled out in this ATR

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.C
- Review the 2003 and 2004 Reports of Utility Non-Tariffed Products and Services
- Verify that non-tariffed products and services offered by SCE meet the requirements of this Rule

Conclusions

SCE is in compliance with Rule VII.C.

SCE does not offer electric commodity service on a non-tariffed basis and only offers non-tariffed products and services that are allowed by Rule VII.C. In 2003, SCE assumed responsibility for energy purchases associated with contracts assigned to it by the Department of Water Resources. Also in 2003, SCE established an energy trading function to meet its power requirements. None of the selling activities of the trading function are deemed by SCE to be a non-tariffed product or service. (INT 31)

We reviewed the non-tariffed work that Edison ESI (ESI) performed for affiliates during 2004. This involved seven jobs whose work properly fell into existing non-tariffed product and service categories. (DR 67)

We interviewed RP&A staff responsible for monitoring SCE's compliance with Rule VII.C and found them to be properly interpreting and implementing the rule. (INT 31)

We reviewed the 2003 and 2004 Periodic Reports of Utility Non-Tariffed Products and Services (DR 82) and noted that 3 of the 29 categories involved the use of more than 1% of applicable utility assets. We did not find this level of use to adversely affect the cost, quality or reliability of tariffed utility products and services, as described below.

- Secondary Use of Transmission Right of Ways and Land (40% in 2004) – These non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services

Rule VII – Utility Products and Services

- Secondary Use of Distribution Right of Ways, Land, Facilities and Substations (8% in 2004) – These non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services
- Secondary Use of Utility-Owned Generation Facilities and Land (52% in 2004) - These non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services (INT 31, DR 134)

SCE created no new categories of non-tariffed products or services in 2004. (INT 31, DR 48)

CPUC Rule

VII.D. Conditions Precedent to Offering New Products and Services: This Rule does not represent an endorsement by the Commission of any particular nontariffed utility product or service. A utility may offer new nontariffed products and services only if the Commission has adopted and the utility has established:

VII.D.1. A mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a non-tariffed basis;

VII.D.2. A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle.

VII.D.3. Periodic reporting requirements regarding pertinent information related to nontariffed products and services; and

VII.D.4. Periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services.

Audit Criteria

- Any new non-tariffed products and services offered by SCE are not cross-subsidized by tariffed products and services, have received approvals from the CPUC as to the cost allocation method, and SCE complies with the associated reporting requirements

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.D
- Evaluate the accounting process for non-tariffed revenues and expenses
- Review any Internal Audit work pertaining to Rule VII.D

Conclusions

SCE is in compliance with Rule VII.D.

Since the CPUC issued Decision 99-09-070 on September 16, 1999, SCE has followed the guidelines for the Gross Revenue Sharing Mechanism called for in that decision.

Rule VII – Utility Products and Services

SCE’s shareholders and ratepayers split the revenues from non-tariffed products and services according to the following percentages:

Type of Activity	Sharing Percentage	
	Shareholder	Ratepayer
Passive	70%	30%
Active	90%	10%

(INT 31)

Shareholder’s revenues are offset by the incremental costs associated with non-tariffed products and services activities. The determination of incremental costs is made by the areas of SCE that provide these services. (INT 31)

An automated accounting system was established in 2000 to collect revenue and incremental cost data from the various areas of SCE that provide non-tariffed products and services. Non-tariffed products and services revenues are recorded as Other Operating Revenues in accounts 451, 454 and 456. A recordkeeping process also exists to track the number of contracts and the percent of utility assets used by NTP&S category. (INT 31, DR 5)

We reviewed the monthly report prepared by the Controller’s Department showing a detailed tabulation of non-tariffed revenues and the calculation of gross revenue sharing. We noted that the sharing was properly calculated based on whether the revenue was passive or active. (DR 151)

We interviewed the RP&A personnel responsible for monitoring SCE’s compliance with Rule VII.D and found them to be interpreting and implementing this rule correctly. (INT 31)

In the past several years, SCE’s non-tariffed products and services recordkeeping process has been subjected to evaluation. In its 2002 General Rate Case examination, the Office of Ratepayer Advocate’s (ORA) reviewed SCE’s accounting process for non-tariffed products and services and concluded:

“Based on review of additional information obtained and workpapers provided in the 2003 GRC, it appears that revenues and incremental expenditures related to ECS [Edison Carrier Solutions] are excluded from the 2003 GRC.” (DR 34 from the 2002 Affiliate Transactions Audit)

Audit Services issued a report (dated January 30, 2002) covering its review of SCE’s 2000 Periodic Report of Utility Non-Tariffed Products and Services. The audit’s objectives were to: (1) ensure non-tariffed products and services revenues and incremental costs were reported correctly in SCE’s 2000 Periodic Report of Utility Non-Tariffed Products and Services, (2) review the accounting of non-tariffed products and services revenues to ensure compliance with classifications as active or passive categories for purposes of SCE’s Gross Revenue Sharing Mechanism, and (3) evaluate

Rule VII – Utility Products and Services

the efficiency and effectiveness of internal controls. The report concluded “procedures and internal controls currently in effect provide reasonable assurance that the objectives outlined above...” (DR 13 from the 2002 Affiliate Transactions Audit)

Given this Rule’s requirement for periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services, we believe it is time for Audit Services to perform another review of the non-tariffed products and services accounting process.

Recommendation

8. Audit Services Should Conduct an Audit of SCE’s Non-Tariffed Products and Services Accounting Process – It has been several years since an audit was conducted on the accounting process for non-tariffed products and services revenues and incremental costs. The scope of this audit should be similar to the last audit (2000 transactions).

CPUC Rule

VII.E. Requirements to File an Advice Letter: Prior to offering a new category of nontariffed products or services as set forth in Section VII C above, a utility shall file an advice letter in compliance with the following provisions of this paragraph.

VII.E.1. The advice letter shall:

VII.E.1.a. demonstrate compliance with these rules;

VII.E.1.b. address the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or service will not result in a degradation of cost, quality, or reliability of tariffed goods and services;

VII.E.1.c. demonstrate that the utility has not received competition transition charge (CTC) recovery in the Transition Cost Proceeding, A.96-08-001, or other related CTC Commission proceeding, for the portion of the utility asset dedicated to the non-utility venture; and

VII.E.1.d. address the potential impact of the new product or service on competition in the relevant market, including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect the market.

VII.E.1.e. be served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the rules governing the Commission’s advice letter process.

VII.E.2. For categories of nontariffed products or services targeted and offered to less than 1% of the number of customers in the utility’s customer base, in the absence of a protest alleging non-compliance with these Rules or any law, regulation, decision, or Commission policy, or allegations of harm, the utility may commence offering the product or service 30 days after submission of the advice letter. For categories of nontariffed products or services targeted and offered to 1% or more of the number of customers in the utility’s customer base, the utility may commence offering the product or service after the Commission approves the advice letter through the normal advice letter process.

VII.E.3. A protest of an advice letter filed in accordance with this paragraph shall include:

VII.E.3.a. An explanation of the specific Rules, or any law, regulation, decision, or Commission policy the utility will allegedly violate by offering the proposed product or service, with reasonable factual detail; or

VII.E.3.b. An explanation of the specific harm the protestant will allegedly suffer.

VII.E.4. If such a protest is filed, the utility may file a motion to dismiss the protest within 5 working days if it believes the protestant has failed to provide the minimum grounds for protest required above. The protestant has 5 working days to respond to the motion.

Rule VII – Utility Products and Services

VII.E.5. The intention of the Commission is to make its best reasonable efforts to rule on such a motion to dismiss promptly. Absent a ruling granting a motion to dismiss, the utility shall begin offering that category of products and services only after Commission approval through the normal advice letter process.

Audit Criteria

- SCE offers only tariffed products and services except for those non-tariffed products and services that meet the conditions spelled out in the ATR
- New categories of non-tariffed products and services are only offered after an Advice Letter has been filed with the CPUC

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.E
- Determine if SCE offered any new categories of non-tariffed products and services through: (1) interviews with SCE staff and (2) by comparing the 2004 and 2003 Utility Non-Tariffed Products and Services Report to the CPUC
- Note that Advice Letters were properly filed with the CPUC before a new category of NTP&S is established
- If new categories were offered, determined that an advice letter was filed

Conclusions

SCE is in compliance with Rule VII.E.

During 2004, SCE did not offer any new non-tariffed products and services, thus did not request such authorization from the CPUC. (INT 31, DR 48)

In 2004, no protest letters were filed regarding SCE's non-tariffed products and services or related advice letters. (DR 83)

CPUC Rule

VII.F. Existing Offerings: Unless and until further Commission order to the contrary as a result of the advice letter filing or otherwise, a utility that is offering tariffed or nontariffed products and services, as of the effective date of this decision, may continue to offer such products and services, provided that the utility complies with the cost of allocation and reporting requirement in this rule. No later than January 30, 1998, each utility shall submit an advice letter describing the existing products and services (both tariffed and nontariffed) currently being offered by the utility and the number of Commission decision or advice letter approving this offering, if any, and requesting authorization or continuing authorization for the utility's continued provision of this product or service in compliance with the criteria set forth in Rule VII. This requirement applies to both existing products and services explicitly approved and not explicitly approved by the Commission.

Audit Criteria

- SCE has properly responded to any 2004 CPUC orders as they relate to the offering of non-tariffed products and services

Rule VII – Utility Products and Services

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.F
- Review any 2004 CPUC orders pertaining to the offering of tariffed and non-tariffed products and services

Conclusions

SCE is in compliance with Rule VII.F.

As required by this Rule, SCE filed the Advice Letter 1286-E on January 30, 1998, identifying its tariffed and non-tariffed utility products and services. At the CPUC's direction, SCE filed an updated version of this advice letter on April 5, 2000 (Advice 1286-E-A), which the Commission approved on September 29, 2003. On February 22, 2000, SCE filed Advice Letter 1436-E requesting the CPUC authorize Newspaper Solicitation Service, a new category of non-tariffed products and services. In 2003, the CPUC ruled against SCE's request in Resolution E-3793 because it was felt the LA Times, the potential customer in question, may become less independent if SCE was providing it with this service. SCE complied with the resolution and the newspaper solicitation service was not offered during 2004. (INT 31, DR 151)

CPUC Rule

VII.G. Section 851 Application: A utility must continue to comply fully with the provisions of Public Utilities Code Section 851 when necessary or useful property is sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered as part of a nontariffed product or service offering by the utility. If an application pursuant to Section 851 is submitted, the utility need not file a separate advice letter, but shall include in the application those items which would otherwise appear in the advice letter as required in this Rule.

Audit Criteria

- When SCE offers non-tariffed products and services that involve property subject this Rule, it submits a Section 851 Application or files a separate advice letter, as appropriate

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.G
- Review 2004 instances where SCE sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered necessary or useful property

Conclusions

SCE is in compliance with Rule VII.G.

During 2004, SCE submitted Section 851 Applications for the following arrangements to lease SCE property to unaffiliated parties:

Rule VII – Utility Products and Services

- RHC Communities, LLC (A.04-07-034)
- Anaheim RV Storage, LLC (A.04-09-017)
- Target Corporation (A.04-09-018)
- Sprint Communications Company, LP (A.03-11-027) (DR 49)

All of these arrangements fell into existing non-tariffed product and service categories, thus SCE was not required to file any other Rule VII.G Advice Letters.

CPUC Rule

VII.H. Periodic Reporting of Nontariffed Products and Services: Any utility offering nontariffed products and services shall file periodic reports with the Commission's energy Division twice annually for the first two years following the effective date of these Rules, then annually thereafter unless otherwise directed by the Commission. The utility shall serve periodic reports on the service list of this proceeding. The periodic reports shall contain the following information:

VII.H.1. A description of each existing or new category of nontariffed products and services and the authority under which it is offered;

VII.H.2. A description of the types and quantities of products and services contained within each category (so that, for example, "leases for agricultural nurseries at 15 sites" might be listed under the category "leases of land under utility transmission lines," although the utility would not be required to provide the details regarding each individual lease);

VII.H.3. The cost allocated to and revenues derived from each category; and

VII.H.4. Current information on the proportion of relevant utility assets used to offer each category of product and service.

Audit Criteria

- The report format and content meets CPUC requirements
- The process for assembling the Periodic Report of Utility on Non-Tariffed Products and Services to the CPUC ensures the information is accurate and timely
- The report is filed by the required deadline of March 31

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.H
- Review the 2003 and 2004 Periodic Reports of Utility on Non-Tariffed Products and Services for: format, content and filing date
- Review Internal Audit work pertaining to non-tariffed products and services

Conclusions

SCE is in compliance with Rule VII.H.

Since January 1, 2004, SCE filed the following Periodic Report of Utility Non-Tariffed Products and Services:

Rule VII – Utility Products and Services

- 2003 Report covering January 1, 2003 through December 31, 2003 (filed March 31, 2004)
- 2004 Report covering January 1, 2004 through December 31, 2004 (filed March 13, 2005) (DR 82)

Both reports contained the following information, as called for by Rule VII.H:

- Non-tariffed product/service categories offered during the reporting period
- Description of each category, including a listing of the types and quantities of products/services within each category
- Revenues and incremental costs associated with each product/service category
- Proportional share of relevant utility assets used to offer each product/service category

On January 30, 2002, SCE's Audit Services issued a report on its review of SCE's 2000 Non-Tariffed Products and Services Report. The audit's objectives were to: (1) ensure non-tariffed products and services revenues and incremental costs were reported correctly in SCE's Periodic Report of Utility Non-Tariffed Products and Services and (2) review the accounting of non-tariffed products and services revenues to ensure compliance with classifications as active or passive categories for purposes of SCE's Gross Revenue Sharing Mechanism, and (3) evaluate the efficiency and effectiveness of internal controls. The report concluded "procedures and internal controls currently in effect provide reasonable assurance that the objectives outlined above..." (DR 13 2002 Affiliate Transactions Audit)

CPUC Rule

VII.I. Offering of Nontariffed Products and Services to Affiliates: Nontariffed products and services which are allowed by this Rule may be offered to utility affiliates only in compliance with all other provisions of these Affiliate Rules. Similarly, this Rule does not prohibit affiliate transactions which are otherwise allowed by all other provisions of these Affiliate Rules.

Audit Criteria

- SCE only offers allowed non-tariffed products and services to affiliates

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.I
- Assess how non-tariffed product and service offerings are monitored to ensure compliance with Rule VII.I

Conclusions

SCE is in compliance with Rule VII.I.

The following SCE entities provided affiliates with non-tariffed products and services:

Rule VII – Utility Products and Services

- Edison ESI (ESI) – provided EME subsidiary Watson Cogen with Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities Equipment and Equipment and Machinery Repair category services in 2004. ESI has service agreements in place with other affiliates but there was no activity in 2004. (DR 50, DR 67)
- Carrier Solutions – until it ceased to be an operating company on November 26, 2003, Carrier Solutions had a service agreement with EO&MS. Carrier Solutions provided no non-tariffed products and services to EO&MS or other SCE affiliates during 2004. Carrier Solutions provides services in the “Use of Communications and Computing Systems” category of non-tariffed products and services. (DR 119)
- Generation Business Unit – before 2003, the Generation Business Unit provided Training and Technical Certification category of non-tariffed products and services to EO&MS. During 2004 no such services were provided to EO&MS or other SCE affiliates. (DR 118)

The ESI services to affiliates were found to be allowed by Rule VII. (INT 13)

Rule VIII – Complaint Procedures and Remedies

CPUC Rule

VIII. Procedure:

VIII.A. The Commission shall strictly enforce these rules. Each act or failure to act by a utility in violation of these rules may be considered a separate occurrence.

VIII.B. Standing:

VIII.B.1. Any person or corporation as defined in Sections 204, 205, and 206 of the California Public Utilities Code may complain to the Commission or to a utility in writing, setting forth any act or thing done or omitted to be done by any utility or affiliate in violation or claimed violation of any rule set forth in this document.

VIII.B.2. “Whistleblower complaints” will be accepted and the confidentiality of complainant will be maintained until conclusion of an investigation or indefinitely, if so requested by the whistleblower. When a whistleblower request anonymity, the Commission will continue to pursue the complaint only where it has elected to convert it into a Commission-initiated investigation. Regardless of the complainant's status, the defendant shall file a timely answer to the complaint.

VIII.C. Procedure:

VIII.C.1. All complaints shall be filed as formal complaints with the Commission and complainants shall provide a copy to the utility's designated officer (as described below) on the same day that the complaint is filed.

VIII.C.2. Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate rules and the utility's compliance plan adopted pursuant to these rules. Such officer shall also be responsible for receiving, investigating, and attempting to resolve complaints. The Affiliate Compliance Officer may, however, delegate responsibilities to other officers and employees.

VIII.C.2.a. The utility shall investigate and attempt to resolve the complaint. The resolution process shall include a meet-and-confer session with the complainant. A Commission staff member may, upon request by the utility or the complainant, participate in such meet-and-confer sessions and shall participate in the case of a whistleblower complaint.

A party filing a complaint may seek a temporary restraining order at the time the formal complaint is filed. The defendant utility and other interested parties may file responses to a request for a temporary restraining order within 10 days of the filing of the request. An assigned commissioner or administrative law judge, or the Commission shall act on the request for a temporary restraining order within 30 days. The request may be granted when: (1) moving party is reasonably likely to prevail on the merits, and (2) a temporary restraining order relief is necessary to avoid irreparable injury, will not substantially harm other parties, and is consistent with the public interest.

A notice of temporary restraining order issued by an assigned commissioner or administrative law judge will only stay in effect until the end of the day of the next regularly-scheduled Commission meeting at which the Commission can issue a temporary restraining order or a preliminary injunction. If the Commission declines to issue a temporary restraining order or a preliminary injunction, the notice of temporary restraining order will be immediately lifted. Whether or not a temporary restraining order or a preliminary injunction is issued, the underlying complaint may still move forward.

VIII.C.2.b. The utility shall prepare and preserve a report on each complaint, all relevant dates, companies, customers and employees involved, and if applicable, the resolution reached, the date of the resolution and any actions taken to prevent further violations from occurring. The report shall be provided to the Commission and all parties within four weeks of the date the complaint was filed. In addition to providing hard copies, the utility shall also provide electronic copies to the Commission and to any party providing an e-mail address.

VIII.C.2.c. Each utility shall file annually with the Commission a report detailing the nature and status of all complaints.

VIII.C.2.d. The Commission may, notwithstanding any resolution reached by the utility and the complainant, convert a complaint to an investigation and determine whether the utility violated these rules, and impose any appropriate penalties under Section VIII.D or any other remedies provided by the Commission's rules or the Public Utilities Code.

VIII.C.3. The utility will inform the Commission's Energy Division and Consumer Services Division of the results of this dispute resolution process. If the dispute is resolved, the utility shall inform the Commission staff of the actions taken to resolve the complaint and the date the complaint was resolved.

Rule VIII – Complaint Procedures and Remedies

VIII.C.4. If the utility and the complainant cannot reach a resolution of the complaint, the utility will so inform the Commission's Energy Division. It will also file an answer to the complaint within 30 days of the issuance by the Commission's Docket Office of instructions to answer the original complaint. Within 10 business days of notice of failure to resolve the complaint, Energy Division staff will meet and confer with the utility and the complainant and propose actions to resolve the complaint. Under the circumstances where the complainant and the utility cannot resolve the complaint, the Commission shall strive to resolve the complaint within 180 days of the date the instructions to answer are served on the utility.

VIII.C.5. The Commission shall maintain on its web page a public log of all new, pending and resolved complaints. The Commission shall update the log at least every week. The log shall specify, at a minimum, the date the complaint was received, the specific allegations contained in the complaint, the date the complaint was resolved and the manner in which it was resolved, and a description of any similar complaints, including the resolution of such similar complaints.

VIII.C.6. Preliminary Discussions

VIII.C.6.a. Prior to filing a formal complaint, a potential complainant may contact the responsible utility officer and/or the Energy Division to inform them of the possible violation of the affiliate rules. If the potential complainant seeks an information meeting with the utility to discuss the complaint, the utility shall make reasonable efforts to arrange such a meeting. Upon mutual agreement, Energy Division staff and interested parties may attend any such meeting.

VIII.C.6.b. If a potential complainant makes an informal contact with a utility regarding an alleged violation of the affiliate transaction rules, the utility office in charge of affiliate compliance shall respond in writing to the potential complainant within 15 business days. The response would state whether or not the issues raised by the potential complainant require further investigation. (The potential complainant does not have to rely on the responses in deciding whether to file a formal complaint.)

VIII.D. Remedies

VIII.D.1. When enforcing these rules or any order of the Commission regarding these rules, the Commission may do any or all of the following:

VIII.D.1.a. Order a utility to stop doing something that violates these rules;

VIII.D.1.b. Prospectively limit or restrict the amount, percentage, or value of transactions entered into between the utility and its affiliate(s);

VIII.D.1.c. Assess fines or other penalties;

VIII.D.1.d. Prohibit the utility from allowing its affiliate(s) to utilize the name and logo of the utility, either on a temporary or a permanent basis;

VIII.D.1.e. Apply any other remedy available to the Commission

VIII.D.2. Any public utility which violates a provision of these rules is subject to a fine of not less than five hundred dollars (\$500), nor more than \$20,000 for each offense. The remainder of this subsection distills the principles that the Commission has historically relied upon in assessing fines and restates them in a manner that will form the analytical foundation for future decisions in which fines are assessed. Before discussing those principles, reparations are distinguished.

VIII.D.2.a. Reparations: Reparations are not fines and conceptually should not be included in setting the amount of a fine. Reparations are refunds of excessive or discriminatory amounts collected by a public utility. PU Code §734. The purpose is to return funds to the victim which were unlawfully collected by the public utility. Accordingly, the statute requires that all reparation amounts are paid to the victims. Unclaimed reparations generally escheat to the state, Code of Civil Procedure §1519.5, unless equitable or other authority directs otherwise, e.g., Public Utilities Code §394.9.

VIII.D.2.b. Fines: The purpose of a fine is to go beyond restitution to the victim and to effectively deter further violations by this perpetrator or others. For this reason, fines are paid to the State of California, rather than to victims.

Effective deterrence creates an incentive for public utilities to avoid violations. Deterrence is particularly important against violations which could result in public harm, and particularly against those where severe consequences could result. To capture these ideas, the two general factors used by the Commission in setting fines are: (1) severity of the offense and (2) conduct of the utility. These help guide the Commission in setting fines which are proportionate to the violation.

Rule VIII – Complaint Procedures and Remedies

VIII.D.2.b.i. Severity of the Offense: The severity of the offense includes several considerations. Economic harm reflects the amount of expense which was imposed upon the victims, as well as any unlawful benefits gained by the public utility. Generally, the greater of these two amounts will be used in establishing the fine. In comparison, violations which caused actual physical harm to people or property are generally considered the most severe, with violations that threatened such harm closely following.

The fact that the economic harm may be difficult to quantify does not itself diminish the severity or the need for sanctions. For example, the Commission has recognized that deprivation of choice of service providers, while not necessarily imposing quantifiable economic harm, diminishes the competitive marketplace such that some form of sanction is warranted.

Many potential penalty cases before the Commission do not involve any harm to consumers but are instead violations of reporting or compliance requirements. In these cases, the harm may not be to consumers but rather to the integrity of the regulatory processes. For example, compliance with Commission directives is required of all California Public Utilities:

“Every public utility shall obey and comply with every order, decision, direction, or rule made or prescribed by the Commission in the matters specified in this part, or any other matter in any way relating to or affecting its business as a public utility, and shall do everything necessary or proper to secure compliance therewith by all of its officers, agents, and employees.” Public Utilities Code §702.

Such compliance is absolutely necessary to the proper functioning of the regulatory process. For this reason, disregarding a statutory or Commission directive, regardless of the effects on the public, will be accorded a high level of severity.

The number of the violations is a factor in determining the severity. A series of temporally distinct violations can suggest an on-going compliance deficiency which the public utility should have addressed after the first instance. Similarly, a widespread violation which affects a large number of consumers is a more severe offense than one which is limited in scope. For a “continuing offense,” PU Code §2108 counts each day as a separate offense.

VIII.D.2.b.ii. Conduct of the Utility: This factor recognizes the important role of the public utility’s conduct in (1) preventing the violation, (2) detecting the violation, and (3) disclosing and rectifying the violation. The public utility is responsible for the acts of all its officers, agents, and employees:

“In construing and enforcing the provisions of this part relating to penalties, the act, omission, or failure of any officer, agent or employee of any public utility, acting within the scope of his [or her] official duties or employment, shall in every case be the act, omission, or failure of such public utility.” Public Utilities Code §2109.

VIII.D.2.b.ii.(1) The Utility’s Actions to Prevent a Violation: Prior to a violation occurring, prudent practice requires that all public utilities take reasonable steps to ensure compliance with Commission directives. This includes becoming familiar with applicable laws and regulations, and most critically, the utility regularly reviewing its own operations to ensure full compliance. In evaluating the utility’s advance efforts to ensure compliance, the Commission will consider the utility’s past record of compliance with Commission directives.

VIII.D.2.b.ii.(2) The Utility’s Actions to Detect a Violation: The Commission expects public utilities to monitor diligently their activities. Where utilities have for whatever reason failed to meet this standard, the Commission will continue to hold the utility responsible for its actions. Deliberate as opposed to inadvertent wrong-doing will be considered an aggravating factor. The Commission will also look at the management’s conduct during the period in which the violation occurred to ascertain particularly the level and extent of involvement in or tolerance of the offense by management personnel. The Commission will closely scrutinize any attempts by management to attribute wrong-doing to rogue employees. Managers will be considered, absent clear evidence to the contrary, to have condoned day-to-day actions by employees and agents under their supervision.

VIII.D.2.b.ii.(3) The Utility’s Actions to Disclose and Rectify a Violation: When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes “prompt” will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.

Rule VIII – Complaint Procedures and Remedies

Prompt reporting of violations furthers the public interest by allowing for expeditious correction. For this reason, steps taken by a public utility to promptly and cooperatively report and correct violations may be considered in assessing any penalty.

VIII.D.2.b.iii. Financial Resources of the Utility: Effective deterrence also requires that the Commission recognize the financial resources of the public utility in setting a fine which balances the need for deterrence with the constitutional limitations on excessive fines. Some California utilities are among the largest corporations in the United States and others are extremely modest, one-person operations. What is accounting rounding error to one company is annual revenue to another. The Commission intends to adjust fine levels to achieve the objective of deterrence, without becoming excessive, based on each utility's financial resources.

VIII.D.2.b.iv. Totality of the Circumstances in Furtherance of the Public Interest: Setting a fine at a level which effectively deters further unlawful conduct by the subject utility and others requires that the Commission specifically tailor the package of sanctions, including any fine, to the unique facts of the case. The Commission will review facts which tend to mitigate the degree of wrongdoing as well as any facts which exacerbate the wrongdoing. In all cases, the harm will be evaluated from the perspective of the public interest.

VIII.D.2.b.v. The Role of Precedent: The Commission adjudicates a wide range of cases which involve sanctions, many of which are cases of first impression. As such, the outcomes of cases are not usually directly comparable. In future decisions which impose sanctions the parties and, in turn, the Commission will be expected to explicitly address those previously issued decisions which involve the most reasonably comparable factual circumstances and explain any substantial differences in outcome.

Audit Criteria

- SCE has a process for handling ATR-related complaints that meets the requirements of Rule VIII.C and it is well documented
- Complaints filed in 2004 were properly managed
- Violations of ATR are promptly investigated and reported to the CPUC

Audit Steps

- Review SCE's complaint resolution process
- Evaluate how SCE resolved 2004 ATR-related complaints
- Evaluate how SCE responded to 2004 ATR-related violations

Conclusions

SCE is in compliance with Rule VIII.

There were no ATR-related complaints filed against SCE in 2004. (DR 51)

SCE's Affiliates Officer is responsible for compliance with the ATR, including the preparation of SCE's compliance plans. The Affiliates Officer is also responsible for receiving, investigating and attempting to resolve ATR-related complaints. (DR 5)

The ATR Manual describes the process by which complaints will be received, investigated and reported upon. In accordance with Rule VIII.C.4, SCE gives itself four weeks from the time a complaint is received to meet with the complainant, investigate the complaint and present a report to the CPUC on its findings. (DR 5)

Appendices

**2004 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
1	12/6/04	Veronica Gutierrez Director, Regulatory Policy & Affairs Randy Lisbin Manager of Regulatory Compliance, Regulatory Policy & Affairs Joseph Llorens Project Manager, Regulatory Policy & Affairs	<ul style="list-style-type: none"> ▪ Overview of any changes in affiliate transactions and SCE's compliance program/process ▪ Status of Mountainview project
2	12/7/04	Louise Watkins Program Manager, Procurement & Materials Management Dan Walker Program Manager, Procurement & Materials Management John Minnicucci, Project Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Joint purchase process; supplier information handling; competitive bidding requirements; record-keeping; joint procurement notification forms usage ▪ Disposition of 2003 Recommendations ▪ III.B, IV.D, IV.G, V.D
3	12/7/04	Robert Schuur Manager., Corporate Real Estate	<ul style="list-style-type: none"> ▪ Separation of SCE offices from affiliates in the General Office, allocation of General Office space costs ▪ V.C, V.E
4	12/8/04	Tom Braun Affiliates Counsel	<ul style="list-style-type: none"> ▪ ATR compliance ▪ All ATRs
5	12/8/04	Paul Amero Manager, General Administration, QF Resources	<ul style="list-style-type: none"> ▪ QF Contracts ▪ III.A, III.B, III.B.1, III.B.2, III.E.4, III.F, IV.B, IV.F, IV.G, IV.H, V.D
6	12/8/04	Fred Nandy Audit Manager Michelle Olavides Audit Manager	<ul style="list-style-type: none"> ▪ Audit planning, results of affiliate transaction-related audits completed in 2004 ▪ Audits of NTP&S reporting; trading with affiliates ▪ Various ATRs
7	12/8/04	Yvonne Chacon Project Manager, Corporate Real Estate	<ul style="list-style-type: none"> ▪ Separation of the SCE and EME offices in Washington DC facility ▪ V.C
8	12/9/04	Rutely Conde Manager, Customer & Ethnic Communications	<ul style="list-style-type: none"> ▪ Preferential treatment; tying of services; disclaimers/logos; advertising space usage; joint advertising/marketing/etc. ▪ Disposition of 2003 Recommendations 7 and 8 ▪ III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, V.F.1, V.F.2, V.F.4
9	12/9/05	Steve Brown Manager, Security Ops., Corporate Security David Lover Tech Specialist., Security Ops., Corporate Security	<ul style="list-style-type: none"> ▪ Access to SCE's General Office ▪ V.C

**2004 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
10	1/11/05	Linda Sagen Operations Mgr., Customer Comm. Edwin Lanfranco QA Supervisor, Customer Comm.	<ul style="list-style-type: none"> ▪ Call Center's compliance with ATRs ▪ Transaction testing – customer calls ▪ III.A, III.B.2, III.B.3, III.B.4, III.C, III.D, III.E.2, III.E.6, III.E.7, IV.C., IV.E., V.F.1, V.F.2, V.F.4
11	1/11/05	John Minnicucci SCE Research Manager / Project Mgr., RP&A	<ul style="list-style-type: none"> ▪ R&D and advanced technology research projects; R&D funding; prohibitions of cost sharing; prohibitions for R&D info acquisition for affiliates ▪ III.E.3, III.E.4, V.F.5
12	1/11/05	Lyle Geiger Affiliate Controller, Controllers Mary Eckman Financial Compliance Accountant, Controllers Jeff Weekley Project Manager, Corporate Financial Accounting	<ul style="list-style-type: none"> ▪ Mountainview Project funding, accounting, capitalization policies and other ATR-related issues ▪ IV.F, V.A, V.B
13	1/11/05	Dan Ceballos Project Manager, SSID/ESI Administration	<ul style="list-style-type: none"> ▪ ESI proposal development and billing process ▪ III.A, VII.C
14	1/12/05	Kristina Falkner, Proj/Prod Mgr., Major Customer Division John Solomon System Analyst, Major Customer Division	<ul style="list-style-type: none"> ▪ Online access/review of Acct Trak and AMIS entries ▪ Transaction testing – account managers' journal notes ▪ Transaction testing -- presentations to major customers ▪ III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C, IV.E, V.F.1, V.F.2, V.F.4
15	1/12/05	Linda Luft Major Account Manager(s), Major Customer Division	<ul style="list-style-type: none"> ▪ Major Customer Division compliance with affiliate rules ▪ III.A, III.C, III.E.2, III.E.3, III.E.6, IV.C, IV.E, V.F.1, V.F.2, V.F.4
16	1/13/05	Jeanette Yamamoto Supervisor., IT Security Administration Peter Winne Project Manager, IT Business Services	<ul style="list-style-type: none"> ▪ Access to SCE's IT infrastructure, IMMS process ▪ V.C
17	1/13/05	Edith Baltierrez Manager, Workforce Mobility, HR	<ul style="list-style-type: none"> ▪ Movement of SCE employees to affiliates and affiliate employees to SCE ▪ V.G.2
18	1/13/05	James Kelly Vice President, Engineering and Technical Services Veronica Gutierrez Director, Regulatory Policy & Affairs Joseph Llorens Project Mgr., Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Mountainview project background ▪ Various ATRs
19	1/25/05	Lyle Geiger Affiliate Controller, Controllers Mary Eckman Financial Compliance Accountant, Controllers Desiree Villalobos Corporate Financial Accountant, Controllers	<ul style="list-style-type: none"> ▪ Intercompany billing process, allocation factors ▪ Monitoring of affiliate transactions ▪ V.B, V.E, V.H

**2004 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
20	1/25/05	Jill Horswell Director, Energy Contracts Energy Supply & Management	<ul style="list-style-type: none"> ▪ DWR allocated power contracts ▪ Structured power contracts ▪ Enabling power agreements ▪ Okay to Trade List ▪ Record-keeping (including Mountainview) ▪ III.B, III.B.1, III.E.4, IV.B, IV.F, IV.G, V.D
21	1/26/05	Michael Carter Credit Manager, SCE Risk Control	<ul style="list-style-type: none"> ▪ Assurance that counterparty lists do not include SCE Class A affiliates ▪ Okay to Trade List maintenance ▪ III.B
22	1/26/05	Sean Baker, Project Manager, SCE Risk Control Marc Ulrich Director, Energy Planning, ES&M (formerly Mgr, Risk Control, ES&M)	<ul style="list-style-type: none"> ▪ Okay to Trade Lists for specific days (DR 143) ▪ Okay to Trade List maintenance ▪ III.B
23	1/27/05	Elias Malouf Sr. Cost & Schedule Engineer Mountainview Project Nancy Aguinaldo Financial Analyst Mountainview project	<ul style="list-style-type: none"> ▪ Mountainview Project – selection of transactions to review ▪ V.B, V.H
24	1/27/05	Doug Parker Mgr. of Energy Operations, Energy Supply & Management Tom Watson Mgr. of Day-Ahead Operations, Energy Supply & Management	<ul style="list-style-type: none"> ▪ Day-Ahead power scheduling ▪ Real-time energy trading ▪ Okay to Trade List ▪ Record-keeping ▪ III.B, III.B.1, III.E.4, IV.B, IV.F, IV.G, V.D
25	1/27/05	Clark Palmer Auditor	<ul style="list-style-type: none"> ▪ Work done to review Mountainview's acquisition costs ▪ Various ATRs
26	1/27/05	Tom Braun Affiliates Counsel Veronica Gutierrez Director, Regulatory Policy & Affairs Randy Lisbin Manager of Regulatory Compliance, Regulatory Policy & Affairs Joseph Llorens Project Mgr., Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Mountainview Project ▪ Various Rules
27	2/22/05	Bill Bryan VP, Major Customer Division	<ul style="list-style-type: none"> ▪ Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance; trade shows, joint sales calls, joint communications ▪ III.A, III.C, III.D, III.E.2, IV.C, IV.E, V.F.1, V.F.2, V.F.4
28	2/23/05	Harry Hutchison VP, Customer Services Operations	<ul style="list-style-type: none"> ▪ Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance. ▪ III.A, III.B.2, III.B.3, III.B.4, III.C, III.D, III.E.2, III.E.6, III.E.7, IV.C, IV.E, V.F.1, V.F.2, V.F.4

**2004 Affiliate Transaction Audit
Interview Log**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
29	2/23/05	Gary Meyers Dir of Procurement & Materials Management & VP, Edison Material Supply LLC	<ul style="list-style-type: none"> ▪ Joint purchase process; supplier information handling; competitive bidding requirements; record-keeping; joint procurement notification forms usage. ▪ III.B, IV.D, IV.G, V.D
30	1/27/05	Joseph Llorens Project Mgr., Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Intercompany Service Request (ISR) process ▪ V.G
31	3/15/05	Randy Lisbin Manager of Regulatory Compliance, Reg. Policy & Affairs Zach Buhler Financial Analyst, Reg. Policy & Affairs Joseph Llorens Project Mgr., Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Non-tariffed products and services ▪ VII (all subrules)
32	3/15/05	Veronica Gutierrez Director, Regulatory Policy & Affairs Randy Lisbin Manager of Regulatory Compliance, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Edison Capital/EME reorganization ▪ Various Rules
33	3/31/05	John Fielder Senior VP of Regulatory Policy and Affairs; Affiliates Officer Veronica Gutierrez Director, Regulatory Policy & Affairs Joseph Llorens Project Manager, Regulatory Policy & Affairs	<ul style="list-style-type: none"> ▪ Briefing on audit results ▪ All Rules
34	4/13/05	Al Fohrer Chairman & CEO, SCE Robert Foster President & COO, SCE Veronica Gutierrez Director, Regulatory Policy & Affairs Joseph Llorens Project Mgr., Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Briefing on audit results ▪ All Rules
35	1/25/05	John Helvin Manger, Plant Accounting & Analysis Controllers	<ul style="list-style-type: none"> ▪ Mountainview Project accounting and capitalization policies ▪ IV.F, V.A, V.B

**2004 Affiliate Transaction Audit
Data Requests**

#	Item																																		
1	All compliance plans filed with the CPUC beginning with the original dated December 31, 1997																																		
2	Annual Reports of affiliated Company Transactions (CPUC D.93-02-019) for 1999, 2000, 2001, 2002, 2003 and 2004																																		
3	CPUC decisions/rulings/orders related to affiliate transactions																																		
4	List/description of SCE's 2004 CPUC proceedings relating to affiliate transactions																																		
5	SCE's Affiliate Transaction Rule Manual																																		
6	2003 revenues for each affiliate entities (Class A and B)																																		
7	2003 number of employees for each affiliate entities (Class A and B)																																		
8	Service agreements or contracts between SCE and affiliates that were in force at any time during 2004																																		
9	SCE's disposition of recommendations from Baryenbruch & Co 2003 Affiliate Transactions Audit Report (note: put this in the same format as shown in 2003 Audit Report, Exhibit 5 on pages 100-102)																																		
10	SCE and Edison annual reports and 10Ks (2001, 2002 and 2003)																																		
11	List of internal audits conducted (i.e., started or completed) in 2003 and 2004. Please provide access to the audit reports completed in 2003 and 2004																																		
12	Analysis of directors and officers of Edison, SCE and affiliates (for positions held during 2004) e.g., Entity Name Position																																		
13	Advice letters 1286-E, 1286-E-A, and any subsequent updates, including attachments																																		
14	Update Affiliate Transactions Overview presentation for 2004 activities																																		
15	Advice letters 1342-E; 1342-E-A; 1342-E-B; 1450-E; 1491-E; 1491-E-A; 1491-E-B; 1491-E-C; 1491-E-D; 1491-E-E; 1491-E-F; and 1491-E-G; including any subsequent updates, as well as a list of other affiliate-related advice letters																																		
16	Copy of 2004 "Service Provider Lists" web-page and any subordinate web-pages (please provide in landscape format and specify URL addresses)																																		
17	List of Registered Service Providers from CPUC website (please provide printout of primary and subordinate pages in landscape format and specify URL addresses)																																		
18	2004 ATR-related articles in the EIX News and any other company publications																																		
19	Access to MyEdison.net to view ATR-related materials																																		
20	SCE and affiliate radio ads, TV ads, billboard ads, and print (newspaper, magazine, etc) ads provided to customers or potential customers in CA																																		
21	SCE presentation materials to large industrial customers																																		
22	2004 SCE billing inserts																																		
23	Access to affiliate websites List and URLs of SCE's affiliate websites																																		
24	CPUC ruling eliminating new direct access after 9/1/02 and any subsequent decisions related to direct access through 2004.																																		
25	List of instances during 2004 in which SCE tied its products/services of customer's use of affiliate products/services																																		
26	List of SCE customers assigned to affiliates during 2004																																		
27	List of instances where SCE provided affiliates with assistance on business development, market assessments or marketing services or information																																		
28	Policies covering the release of customer information (including the CISR process)																																		
29	2004 CISR summary report																																		
30	Copy of 2004 "Notice of Release of Customer Information to Affiliates" web-page and any subordinate web-pages (please provide in landscape format and specify URL addresses)																																		
31	Description of all non-customer, non-public information that has been made available to affiliates during 2004 and copy of 2004 "Non-Customer Specific, Non-Public Information Offered to Affiliates" web-page (4B reports) and any subordinate web-pages (please provide in landscape format and specify URL addresses)																																		
32	List all instances in 2004 where non-public information and data from unaffiliated suppliers was provided by SCE to affiliates or non-affiliates. For all cases, provide (1) copies of all written affirmative authorizations of such suppliers, and (2) cross reference to purchase order number or requisition number																																		
33	Analysis of Call Center calls: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th></th> <th>2003</th> <th>2004</th> </tr> </thead> <tbody> <tr> <td>Direct Access Call</td> <td></td> <td></td> </tr> <tr> <td>Total Calls</td> <td></td> <td></td> </tr> </tbody> </table>		2003	2004	Direct Access Call			Total Calls																											
	2003	2004																																	
Direct Access Call																																			
Total Calls																																			
34	Analysis of number of customers: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">2003</th> <th colspan="2">2004</th> </tr> <tr> <th>Direct Access</th> <th>Total</th> <th>Direct Access</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Residential</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Commercial</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Industrial</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Other</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		2003		2004		Direct Access	Total	Direct Access	Total	Residential					Commercial					Industrial					Other					Total				
	2003		2004																																
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Total																																			

**2004 Affiliate Transaction Audit
Data Requests**

#	Item																			
35	List of instances during 2004 in which SCE has been requested to provide affiliate transaction information within 72 hours																			
36	List of 2004 bids and access to bid documents for work between SCE and affiliates.																			
37	Notices to the CPUC of new affiliates																			
38	Incorporation papers for active first, second and third tier corporate entities																			
39	2004 and 2005 internal audit plans																			
40	List all non-corporate support related instances in 2004 where SCE shares its office space, equipment, services or systems with affiliates																			
41	List all instances in 2004 where affiliate employees accessed SCE information systems except where it relates to corporate support activities																			
42	Copies of all 2004 ISRs																			
43	List of employees who have transferred companies to/from SCE in 2004, as shown below: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th rowspan="2">Employee</th> <th colspan="2">From</th> <th colspan="2">To</th> </tr> <tr> <th>Company</th> <th>Area</th> <th>Company</th> <th>Area</th> </tr> </thead> <tbody> <tr> <td>--list--</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Employee	From		To		Company	Area	Company	Area	--list--									
Employee	From		To																	
	Company	Area	Company	Area																
--list--																				
44	List all instances in 2004 where officers or directors of SCE were also officers or directors of affiliates																			
45	List of 2004 asset transfers between SCE and affiliates																			
46	Printout of website reporting the creation of new affiliates in 2004																			
47	List all instances in 2004 where affiliate officers and employees were not available to testify before the CPUC without subpoena																			
48	Listing of new products and service SCE offered in 2004																			
49	Section 851 Applications filed during 2004																			
50	Identify instances where non-tariffed products and services were offered to affiliates during 2004																			
51	Listing of all ATR-related complaints filed, under investigation, or resolved in 2004																			
52	Copies of all Joint Procurement Notification Forms approved by, or pending before, RP&A in 2002, 2003 and 2004 (Re: ATR pg. 4-16)																			
53	Summary of all joint purchasing arrangements, including a listing of all joint purchases during 2004, between SCE and its affiliates																			
54	List all instances during 2004 in which an affiliate of SCE submitted a bid to SCE but was not awarded a contract, including requisition, or other identifying numbers																			
55	IMM unit rates for all products/services provided to affiliates during the years 2002, 2003 and 2004																			
56	Employee termination package checklist																			
57	Research Balancing Account, Budget, & Co-Funding Summary for 2004 including brief descriptions of the projects																			
58	Summary of SCE's 2004 "Target" Purchases from EPRI, including purchase amounts (\$) and a list of all available EPRI "targets"																			
59	List of all merchant entities with which SCE conducted wholesale transactions for the sale or purchase of electric energy, capacity, or ancillary services during 2004, indicating: (1) the type of services purchased/sold (e.g., "E" or "C/A"); (2) those, if any, that were Class A affiliates; and (3) for energy transactions, the cumulative megawatt-hours of 2004 purchases, and of 2004 sales, for each entity.																			
60	For two sample days (1/5/2004 and 8/11/2004), please provide table showing, for the aggregate 24-hour period, the following: (1) total MWH scheduled or provided by SCE, broken down as to source, e.g., SCE plant name, DWR, merchant suppliers, QF suppliers (in aggregate), etc.; and (2) total MWH sold to others by SCE, broken down as to purchaser/recipient.																			
61	List of all QF entities with which SCE sold or purchased electric energy, capacity, or ancillary services during 2004, indicating: (1) the type of services purchased/sold (e.g., "E" or "C/A"); (2) those, if any, that were Class A affiliates; and (3) for energy transactions, the cumulative megawatt-hours of 2004 purchases, and of 2004 sales, for each entity.																			
62	List of affiliate (other than EIX) personnel (employees, contractors or consultants) that visited the Rosemead GO Buildings #1-2-3-4 during the month of August 2004. <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Affiliate</th> <th>Visitor</th> <th>Date</th> <th>SCE Escort</th> <th>Reason for Visit</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Affiliate	Visitor	Date	SCE Escort	Reason for Visit														
Affiliate	Visitor	Date	SCE Escort	Reason for Visit																
63	ISSM form and description																			

2004 Affiliate Transaction Audit
Data Requests

#	Item											
64	Update the following table from the 2003 Audit Report (Exhibit 3, page 62-63) showing analysis of affiliate personnel with access to SCE applications											
	Application	Application or Tool?	EIX	EME	Mission O&M	Mission Energy NY	EME Homer City	Edison Mission M&T	Mission Land	Midwest Gen	Midwest Gen LLC	EO&MS
	A & I (Approval & Inquiry) - Automated system that routes employee job data changes. For affiliates, any job data changes must be made directly in the PeopleSoft application.	A	7	9	2	-	3	3	-	7	14	2
	ATSLAN (Distributed Time Keeping) - Required for processing employee time sheets.	A	12	3	7	-	6	3	2	8	63	2
	ATSSD002 (ATSLAN System Test) - Test region for ATSLAN	A	-	-	-	-	-	-	-	2	28	1
	BATCHD - Batch on System D: Functional ID that allows application to application communication.	A	-	-	-	-	-	-	-	-	-	2
	CICS - An extension to the operating system of IBM mainframe computers. An ID created for each person accessing the mainframe computer. This does not mean that the ID owner has access to SCE customer data.	A	14	4	6	-	6	3	1	5	28	-
	APS ALL (Accounts Payable) - Application used by the Accounts Payable department.	A	2	-	-	-	-	-	-	-	-	-
	CRD ALL (Credit Card Recon) - Application used for reconciling credit card data.	A	3	-	-	-	-	-	-	-	-	-
	DRS ALL (R/DARs) - Required for viewing the RDARS reports on the host system. This application allows payroll personnel to view payroll information, i.e., time sheet errors, paycheck data, etc.	A	2	4	6	-	6	3	1	5	28	-
	FAR ALL - Financial Reporting	A	10	-	-	-	-	-	-	-	-	-
	FAS ALL - Corporate Accounting	A	10	-	-	-	-	-	-	-	-	-
	MTS ALL - Material Management	A	6	-	-	-	-	-	-	-	-	-
	DOMINO MAIL - Domino Mail (SCE): Lotus Notes E-Mail	T	33	-	-	-	-	-	-	-	-	-
	DOMINO - The platform (server) on which Domino Mail resides. This is a system generated application that is created whenever a Domino Mail ID is assigned.	T	33	-	-	-	-	-	-	-	-	-
	DSS HR (Decision Support Sys HR) - Dynamic system which allows users to generate reports on a range of data, limited by access privileges, that includes time keeping, payroll, and demographic tables.		2	9	6	-	6	3	1	10	22	1
	FACTIVA - Dow Jones Interactive: Dow Jones web site; access is tracked in Global database.	T	3	29	-	1	-	1	-	7	1	-
	INETALIAS - An application in Global that allows client to have multiple e mail IDs.	T	1	-	-	-	-	-	-	-	-	-

2004 Affiliate Transaction Audit
Data Requests

#	Item												
64 (cont)	Application	Application or Tool?	EIX	EME	Mission O&M	Mission Energy NY	EME Homer City	Edison Mission M&T	Mission Land	Midwest Gen	Midwest Gen LLC	EO&MS	
	Landial - remote access dialup	T	19	-	-	-	-	-	-	-	-	-	-
	MODEM LINE - modem line connection	T	1	-	-	-	-	-	-	-	-	-	-
	NETWARE - SCE Tree: allows printing capabilities	T	27	5	-	-	-	-	-	-	-	-	-
	NONTSOG - region where TPx resides (see TPXR)	T	1	-	-	-	-	-	-	-	-	-	-
	PAS (Payroll Adjustment Sys) - Required to adjust past payroll information to reflect time or rate changes.	A	3	3	6	-	6	3	1	5	28	1	
	PSOFT (Peoplesoft) - Required to maintain and update a variety of personnel information including: benefit; in. service dates; emergency contacts; job history; vacation and sick time balances; and education level.	A	4	6	6	-	6	3	1	10	20	1	
	SCE-NT - NT domain: desktop access	T	29	5	-	-	-	-	-	-	-	-	-
	SCE-WIN2K - Windows 2000 product: XP/desktop access	T	29	-	-	-	-	-	-	-	-	-	-
	SYBAP002 - SThe server where ATSLAN resides. This is a system generated application that is created whenever an ATSLAN ID is assigned.	A	12	3	7	-	6	3	2	8	63	2	
	SYBS001- The server where ATSSD002 resides. This is a system, generated application that is created whenever an ATSSD002 ID is assigned.	A	-	-	-	-	-	-	-	2	-	1	
	TPX7 - A region within TPX (see description for TPXR).	T	1	-	-	-	-	-	-	-	-	-	-
	TPXR - TPX allows a client to sign onto and maneuver between multiple mainframe applications at one time. Very similar to the way windows are accessed using the ALT-TAB keys.	T	1	-	-	-	-	-	-	-	-	-	-
	TSOD - TSO – System D: This mainframe ID is required for clients to access DSS HR. It is also a region used by project/program managers or developers for test purposes.	A	4	9	6	-	6	3	1	12	22	1	
	UNIXACCT - unique acct number associated with an individual for accessing Unix applications	T	21	-	-	-	-	-	-	1	-	-	-
	UNIXID - Unique user ID associated with an individual for accessing Unix applications.	T	21	-	-	-	-	-	-	1	-	-	-
VPN - Virtual Private Network: Remote access using cable modem or DSL	T	7	-	-	-	-	-	-	-	-	-	-	
Wireless LAN - Wireless LAN Access: Remote access using wireless technology.	T	1	-	-	-	-	-	-	-	-	-	-	
65	Analysis of 2004 Affiliate Personnel Help Desk Activity (total number of calls handled by type) (note: include a description of system acronyms)												
	Tier 1				Tier 2				Tier 3				
	Time Rptg	PR	PS HR	Acctg	Etc...	Etc..		Etc..					
66	Description of the ESI facilities and products/services												

**2004 Affiliate Transaction Audit
Data Requests**

#	Item
67	Analysis of 2004 ESI billings to affiliates including the following information and supporting backup for each charge: The 2004 published rate sheet Service agreement with each affiliate The type of work performed for each job (so I can associate the types of overheads that apply) Cost estimate for each job – show each cost element; for labor, show the direct labor rate and labor overheads; also show the other applicable overheads and profit Invoice for each job (indicate the date the funds were received from the affiliate) Sales Journal (or equivalent) that shows the recording of revenues from each job ESI's income statements that shows monthly revenues from the sales journal (or equivalent) A. Standard terms and conditions B. Copies of emails from RP&A approving all 2004 affiliate work C. Copies of all affiliate checks paying invoices for all 2004 affiliate work
68	Access to minutes of meetings held in 2004 by SCE Board of Directors, EIX Board of Directors and EIX Audit Committee
69	List and access to all corporate policy manuals. Identify policies that pertain to affiliate transactions
70	Names and job titles of personnel who are jointly employed by SCE and an affiliate
71	Analysis of 2004 payments to SCE for employees transferred to affiliates, including the following information: Employee Name Job Title SCE AOR Transfer Date Hiring Affiliate Affiliate Class Compensation Benefits Transfer Fee Include in this DR, a description of how the fee is calculated and accounted for
72	Description of SCE's IT security roles and responsibilities, policies and procedures
73	Copy of 2003 professional ethics letters, memorandums or affidavits to management employees. Include the number of employees that received the annual ethics letter and related website link and the number of management and professional employees required to complete a Management Certificate in 2004
74	Loaned Labor Report for December 2004
75	List and description of all Expense Project Numbers
76	List of affiliate employees with offices during 2004 in SCE facilities, including the following information. Affiliate Employee Name Job Title AOR SCE Work Location (e.g., General Office)
77	List of SCE employees with offices during 2004 in affiliate facilities, including the following information: SCE Employee Name Job Title AOR Affiliate Work Location (e.g., Washington DC)
78	Copy of all 2004 notifications to the CPUC of changes in shared directors and officers among utility and affiliates, as required by Rule V.G.1.
79	Description of how the cost of the Affiliate Transaction Audit for 2003 was recorded by EIX. Indicate which function and income statement account is charged.
80	Criteria and evaluative process used to determine who is an "employee involved in marketing" that are prohibited from temporary assignments with affiliates
81	Listing, showing hierarchy, of all EIX entities defined as energy marketing affiliates
82	All NTP&S filings and advice letters submitted to the CPUC during 2004. Include a copy of the annual report on NTP&S filed in March 2005.
83	All feedback from the CPUC regarding NTP&S reports and any protests filed during 2004
84	Copy of Corporate Support Authorization forms, including any guidelines pertaining to form preparation.
85	Floor plan for the Washington DC office showing facilities occupied by SCE and affiliates during 2004; include analysis of square feet occupied

**2004 Affiliate Transaction Audit
Data Requests**

#	Item																		
86	<p>Basis for allocating Washington DC office expenses, in the following format:</p> <table border="1"> <thead> <tr> <th rowspan="2">Office Cost</th> <th colspan="3">Percent Allocation</th> <th rowspan="2">Total</th> </tr> <tr> <th>SCE</th> <th>EME</th> <th>RWE</th> </tr> </thead> <tbody> <tr> <td>Lease, insurance, maintenance, etc.</td> <td></td> <td></td> <td></td> <td>100%</td> </tr> <tr> <td>Common expenses (e.g., receptionist)</td> <td></td> <td></td> <td></td> <td>100%</td> </tr> </tbody> </table>	Office Cost	Percent Allocation			Total	SCE	EME	RWE	Lease, insurance, maintenance, etc.				100%	Common expenses (e.g., receptionist)				100%
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87	ESRs created in 2004																		
88	Identify any pricing concessions, discounts or waivers offered to affiliates by SCE during 2004.																		
89	Copy of 2004 "Discounts Offered to Affiliates" web-page (3F Reports) and any subordinate web-pages (please provide in landscape format and specify URL addresses)																		
90	Identify any known occurrence in 2004 in which SCE participated in joint advertising or joint marketing with its affiliates																		
91	Describe how SCE in 2004 offered or provided advice or assistance to its customers with regard to its affiliates or other service providers																		
92	List all trade shows, conferences, other information or marketing events held in California that in 2004 were attended by representatives of SCE and one or more of SCE's Class A affiliates. In each of these cases, please describe how SCE participation was separated from affiliate participation																		
93	Identify any R&D projects active in 2004 that were jointly funded by SCE and one or more of its Class A affiliates.																		
94	Identify any R&D projects active in 2004 for which end products and results are recognized as beneficial to one or more of SCE's affiliates.																		
95	Identify any R&D projects active in 2004 that, regardless of initial funding, have demonstrated commercial viability to SCE's affiliates.																		
96	Identify any instances during 2004 in which SCE and one or more of its affiliates shared or subsidized costs, fees, or payments for research and development activities, or investment in advanced technology research.																		
97	Provide access to all 2004 Customer Information Service Request (CISR) Forms and provide copies of CISR forms received on the following dates in 2004: January 21, April 22, July 23, and October 25.																		
98	Make available for review the 2004 presentations and documents stored in the Account Manager Information System (AMIS).																		
99	Make available for inspection the 2004 calendar and journal information contained in the Major Customers Division contact management system, "AccountTrak".																		
100	Identify RFPs/RFQs that were issued by major SCE customers for energy services and products in 2004 and please identify those for which SCE issued a proposal in 2004. Please provide an executive summary of each of these proposals and indicate if any Class A affiliates were parties in those proposals.																		
101	For "Joint Contracts" and "Single Party Contracts – Joint Use" (categories of joint purchasing arrangements), please provide a table showing the cumulative dollar amount of 2004 payments made by SCE and each of the Class A affiliates that were parties to the contract. And, for each contract, please describe the method(s) by which these payment amounts were allocated between SCE and affiliates.																		
102	Provide details of instances in 2004 in which SCE provided utility information, services, or unused supply/capacity to one or more of its affiliates and copy of 2004 "Supply / Capacity / Service / Info Offered to Affiliates" web-page and any subordinate web-pages (3B Reports) (please provide in landscape format and specify URL addresses)																		
103	List of affiliate employees with access to SCE's IT infrastructure/business applications																		
104	EO&MS price lists in effect during 2004 for SCE and third party customers (re: ESRs)																		
105	All 2004 invoices from EO&MS for ESRs																		
106	The first six (6) EO&MS third party customer invoices in 2004. This sample should include invoices with as many line items as possible. (re: ESRs)																		
107	Provide a list of instances in 2004 in which (a) SCE gave any appearance that it speaks on behalf of one or more of its affiliates (re: Rule III.E.6), or (b) SCE gave any appearance that one or more of its affiliates speaks on behalf of SCE (re: Rule III.E.7)																		
108	Provide access to monitor call center calls both at the residential and the commercial gates																		
109	Provide a list of all contracts for the purchase or sale of natural gas or gas transportation that include an SCE affiliate as a party in 2004. Please indicate the name of the parties to the contract and approximate cumulative volume of gas, or gas transported, in terms of MCF (decatherms). And please make these contracts available for inspection.																		
110	Provide a list of all contracts for the purchase or sale of coal or coal transportation that include an SCE affiliate as a party in 2004. Please indicate the name of the parties to the contract and approximate cumulative volume of coal, or coal transported, in terms of tons. And please make these contracts available for inspection.																		

**2004 Affiliate Transaction Audit
Data Requests**

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111	Provide a list of all contracts for the purchase or sale of transmission rights or ancillary services that include an SCE affiliate as a party in 2004. Please indicate the name of the parties to the contract. And please make these contracts available for inspection.																				
112	Update the 2004 numbers in following table from the 2003 Audit Report (page 70) showing corporate support charges as either directly charged or allocated: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th></th> <th>2000</th> <th>2001</th> <th>2002</th> <th>2003</th> </tr> </thead> <tbody> <tr> <td>Directly Charged Services</td> <td>\$ 10,272,781</td> <td>\$ 6,269,838</td> <td>\$ 6,403,777</td> <td>\$ 6,937,080</td> </tr> <tr> <td>Allocated Corporate Support</td> <td>\$ 11,178,436</td> <td>\$ 9,853,471</td> <td>\$ 8,034,851</td> <td>\$ 9,954,406</td> </tr> <tr> <td>Total</td> <td>\$ 21,451,217</td> <td>\$ 16,123,309</td> <td>\$ 14,438,628</td> <td>\$ 16,891,486</td> </tr> </tbody> </table> <p>Note: Audit Services charges are included in 2002 and 2003 but not in 2000 or 2001</p>		2000	2001	2002	2003	Directly Charged Services	\$ 10,272,781	\$ 6,269,838	\$ 6,403,777	\$ 6,937,080	Allocated Corporate Support	\$ 11,178,436	\$ 9,853,471	\$ 8,034,851	\$ 9,954,406	Total	\$ 21,451,217	\$ 16,123,309	\$ 14,438,628	\$ 16,891,486
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113	SCE rehire dates for affiliate employees transferring to SCE during 2004																				
114	Analysis of Corporate Real Estate's charges to affiliates (2003 and 2004)																				
115	Samples of all promotional materials provided by Class A affiliates to customers or potential customers in California during 2004																				
116	Self-reporting letters to CPUC in 2004 concerning: (a) use of disclaimer in advertising and (b) promotional items																				
117	Sample intercompany invoice from SCE to an affiliate which includes charges for directly requested services, directly charged corporate support and allocated corporate support and relevant supporting documents (sample selection to be made later) (selected July 2004)																				
118	2004 Analysis of Generation Business Unit's Non-tariffed products and services charges to affiliates.																				
119	Analysis of 2004 Carrier Solutions Business Unit's Non-tariffed products and services charges to affiliates																				
120	List instances in 2004 where SCE (1) provided leads to or solicited business on behalf of its affiliates, (2) acquired information on behalf of or to provide to its affiliates, (3) shared proprietary or non-publicly available reports with its affiliates, or (4) requested authorization from its customers to pass information exclusively to its affiliates, as described in Rules III.E.1 through III.E.5.																				
121	List any EPRI deliverables which were shared with, or available to, personnel from Class A affiliates in 2004																				
122	List any instances in 2004 where SCE (1) applied discretionary tariffs differently for affiliates than for other market participants, and/or (2) did not strictly enforce non-discretionary tariffs, as described in Rules III.B.3 and III.B.4.																				
123	Affiliate rules training, presentations, instructions, etc. provided to employees of SCE and its affiliates																				
124	All Entity Lists prepared in 2004																				
125	Update with 2004 information Edison International structure from the 2002 Audit Report (page 8) <pre> graph TD EIX[Edison International (EIX)] --- SCE[Southern California Edison (SCE)] EIX --- EMG[Edison Mission Group] SCE --- RegSub[Various regulated subsidiaries] EMG --- EC[Edison Capital] EMG --- EE[Edison Enterprises] EMG --- ES[Edison Source] EMG --- EOMS[Edison O&M Services] EMG --- MEHC[Mission Energy Holding Company] EMG --- EME[Edison Mission Energy (EME)] ES --- ESNC[Edison Source Norvik Co.] EIX --- EIS[Edison Insurance Services] EIX --- EDV[Edison Ventures] EIX --- ET[EIX Trusts I and II] EIX --- ETEN[Edison TransEnergy] style SCE fill:#fff,stroke:#000 style RegSub fill:#fff,stroke:#000 style EC fill:#808080,stroke:#000 style EE fill:#808080,stroke:#000 style ES fill:#808080,stroke:#000 style EOMS fill:#808080,stroke:#000 style MEHC fill:#808080,stroke:#000 style EME fill:#808080,stroke:#000 style ESNC fill:#808080,stroke:#000 style EIS fill:#808080,stroke:#000 style EDV fill:#808080,stroke:#000 style ET fill:#808080,stroke:#000 style ETEN fill:#808080,stroke:#000 </pre> <p>Legend: Regulated Utility Unregulated Utility</p>																				

**2004 Affiliate Transaction Audit
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126	<p>Update with 2004 information the summary (see below) on page 6 of the 2003 Audit Report for 2004 affiliate transactions</p> <p style="text-align: center;">(\$ in thousands)</p> <table border="1"> <thead> <tr> <th></th> <th>1999</th> <th>2000</th> <th>2001</th> <th>2002</th> <th>2003</th> </tr> </thead> <tbody> <tr> <td>SCE's Provision of Goods and Services to Affiliates (A)</td> <td>\$ 25,455</td> <td>\$ 35,395</td> <td>\$ 30,441</td> <td>\$ 16,565</td> <td>\$ 18,260</td> </tr> <tr> <td>Affiliates Provision of Goods and Services to SCE (B)</td> <td>\$ 202</td> <td>\$ 9,281</td> <td>\$ 3,619</td> <td>\$ 14,215</td> <td>\$ 32,430</td> </tr> <tr> <td>SCE Transfers of Tangible Assets to(from) affiliates</td> <td>\$ -</td> <td>\$ 1,830</td> <td>\$ 3,916</td> <td>\$ -</td> <td>\$ (1,120)</td> </tr> <tr> <td>SCE Transfers of Intangible and Intellectual Property (SCE to<from> affiliates)</td> <td>\$ -</td> <td>\$ -</td> <td>\$ 205</td> <td>\$ -</td> <td>\$ -</td> </tr> </tbody> </table> <p>Note A: Excludes charges to accounts (146, 236 and 438) not directly related to the provision of goods and services Note B: Excludes dividends paid in 2003 (DR 142)</p>		1999	2000	2001	2002	2003	SCE's Provision of Goods and Services to Affiliates (A)	\$ 25,455	\$ 35,395	\$ 30,441	\$ 16,565	\$ 18,260	Affiliates Provision of Goods and Services to SCE (B)	\$ 202	\$ 9,281	\$ 3,619	\$ 14,215	\$ 32,430	SCE Transfers of Tangible Assets to(from) affiliates	\$ -	\$ 1,830	\$ 3,916	\$ -	\$ (1,120)	SCE Transfers of Intangible and Intellectual Property (SCE to<from> affiliates)	\$ -	\$ -	\$ 205	\$ -	\$ -
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127	<p>Update with 2004 information the following listing of Class A affiliates from the 2003 Audit Report (page 7)</p> <p style="text-align: center;">Edison Mission Energy (EME) and subsidiaries:</p> <table border="1"> <tbody> <tr> <td>Edison Mission Energy Services B.V.</td> <td>ISAB Energy s.r.l.</td> </tr> <tr> <td>Edison Mission Operation and Maintenance Services B.V.</td> <td>CPC Cogeneration LLC</td> </tr> <tr> <td>Edison Mission Marketing & Trading, Inc.</td> <td>Tri-Energy Company Limited</td> </tr> <tr> <td>EME Homer City Generation L.P.</td> <td>EME Fuel Services LLC</td> </tr> <tr> <td>Mission Energy Westside, Inc.</td> <td>CL Power Sales 1,2,6,7,8,9,10, and CP Power Sales 12 and 17, LLCs</td> </tr> <tr> <td>Chestnut Ridge Energy Company</td> <td>Perth Power Partnership</td> </tr> <tr> <td>EME Energy Services, Inc.</td> <td>CBK Power Company Limited</td> </tr> <tr> <td>Contact Energy Limited</td> <td>Kalayaan Power Management Corporation</td> </tr> <tr> <td>EcoElectrica LP</td> <td>Sunrise Power Company LLC</td> </tr> <tr> <td>Edison First Power Limited</td> <td>Coaltrade Services International Pte Ltd.</td> </tr> <tr> <td>Midwest Generation, LLC</td> <td>EMOM Services, Inc.</td> </tr> <tr> <td>Italian Vento Power Corporation 4S.r.l.</td> <td></td> </tr> </tbody> </table> <table border="1"> <tbody> <tr> <td>Edison Capital subsidiaries: Storm Lake Power Partners I LLC Lakota Ridge LLC Shaokatan Hills LLC Woodstock Hills LLC Cade, Edeser, Electropaz, and Empresa de Luz y Fuerza Electrica de Oruro S.A.</td> <td>Edison Enterprises subsidiary Edison Source Norvik Company</td> </tr> <tr> <td></td> <td>Edison O&M Services</td> </tr> <tr> <td></td> <td>Mission Power Engineering Company (inactive)</td> </tr> </tbody> </table>	Edison Mission Energy Services B.V.	ISAB Energy s.r.l.	Edison Mission Operation and Maintenance Services B.V.	CPC Cogeneration LLC	Edison Mission Marketing & Trading, Inc.	Tri-Energy Company Limited	EME Homer City Generation L.P.	EME Fuel Services LLC	Mission Energy Westside, Inc.	CL Power Sales 1,2,6,7,8,9,10, and CP Power Sales 12 and 17, LLCs	Chestnut Ridge Energy Company	Perth Power Partnership	EME Energy Services, Inc.	CBK Power Company Limited	Contact Energy Limited	Kalayaan Power Management Corporation	EcoElectrica LP	Sunrise Power Company LLC	Edison First Power Limited	Coaltrade Services International Pte Ltd.	Midwest Generation, LLC	EMOM Services, Inc.	Italian Vento Power Corporation 4S.r.l.		Edison Capital subsidiaries: Storm Lake Power Partners I LLC Lakota Ridge LLC Shaokatan Hills LLC Woodstock Hills LLC Cade, Edeser, Electropaz, and Empresa de Luz y Fuerza Electrica de Oruro S.A.	Edison Enterprises subsidiary Edison Source Norvik Company		Edison O&M Services		Mission Power Engineering Company (inactive)
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128	<p>Update with 2004 information the following listing of Class B affiliates from the 2003 Audit Report (page 8)</p> <table border="1"> <tbody> <tr> <td>Edison International (EIX)</td> <td>Edison Drives Electric (inactive)</td> </tr> <tr> <td>The Mission Group and subsidiaries: Edison Capital and all subsidiaries except for those listed as Class A above Edison Enterprises Edison Environmental Services (inactive) Edison Technology Solutions and subsidiary: Edison EV (inactive) Mission Energy Holding Company Mission Land Company and its subsidiaries</td> <td>Edison Insurance Services</td> </tr> <tr> <td></td> <td>Edison Ventures and subsidiary Edison TransEnergy</td> </tr> <tr> <td></td> <td>EIX Trusts I, II and III</td> </tr> </tbody> </table>	Edison International (EIX)	Edison Drives Electric (inactive)	The Mission Group and subsidiaries: Edison Capital and all subsidiaries except for those listed as Class A above Edison Enterprises Edison Environmental Services (inactive) Edison Technology Solutions and subsidiary: Edison EV (inactive) Mission Energy Holding Company Mission Land Company and its subsidiaries	Edison Insurance Services		Edison Ventures and subsidiary Edison TransEnergy		EIX Trusts I, II and III																						
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**2004 Affiliate Transaction Audit
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130	<p>Update with 2004 information, the following list showing affiliates that SCE's Controller's Department bills for joint purchases and shared corporate support (see page 25 from the 2003 Audit Report)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr><td>Edison Mission Group</td><td>Edison Ventures</td></tr> <tr><td>Edison Mission Energy</td><td>Edison Enterprises</td></tr> <tr><td>Edison Capital</td><td>Edison Insurance Services</td></tr> <tr><td>Mission Land</td><td>Edison Technology Solutions</td></tr> <tr><td>EIX</td><td>EO&MS</td></tr> <tr><td>Edison Source</td><td>Mission Energy Holding Company</td></tr> </tbody> </table>	Edison Mission Group	Edison Ventures	Edison Mission Energy	Edison Enterprises	Edison Capital	Edison Insurance Services	Mission Land	Edison Technology Solutions	EIX	EO&MS	Edison Source	Mission Energy Holding Company																																																								
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131	<p>Provide the 2004 numbers for the following table from the 2003 Audit Report (page 58) showing SCE space occupied by SCE and affiliates</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="3" style="text-align: left;">Facility Types</th> <th colspan="6" style="text-align: center;">SCE Owned/Leased Facilities Occupied By</th> </tr> <tr> <th colspan="2" style="text-align: center;">SCE</th> <th colspan="2" style="text-align: center;">EIX</th> <th colspan="2" style="text-align: center;">EME</th> </tr> <tr> <th style="text-align: center;">Number</th> <th style="text-align: center;">Sq. Feet</th> <th style="text-align: center;">Number</th> <th style="text-align: center;">Sq. Feet</th> <th style="text-align: center;">Number</th> <th style="text-align: center;">Sq. Feet</th> </tr> </thead> <tbody> <tr> <td>Office</td> <td style="text-align: center;">7</td> <td style="text-align: right;">1,255,395</td> <td style="text-align: center;">1</td> <td style="text-align: right;">21,094</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,820</td> </tr> <tr> <td>Service Centers</td> <td style="text-align: center;">37</td> <td style="text-align: right;">1,458,365</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Computer/Phone Center</td> <td style="text-align: center;">4</td> <td style="text-align: right;">363,396</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Local Offices</td> <td style="text-align: center;">2</td> <td style="text-align: right;">7,925</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Other</td> <td style="text-align: center;">13</td> <td style="text-align: right;">1,119,062</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Leased</td> <td style="text-align: center;">6</td> <td style="text-align: right;">166,458</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">69</td> <td style="text-align: right;">4,370,601</td> <td style="text-align: center;">1</td> <td style="text-align: right;">21,094</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,820</td> </tr> </tbody> </table>	Facility Types	SCE Owned/Leased Facilities Occupied By						SCE		EIX		EME		Number	Sq. Feet	Number	Sq. Feet	Number	Sq. Feet	Office	7	1,255,395	1	21,094	1	1,820	Service Centers	37	1,458,365					Computer/Phone Center	4	363,396					Local Offices	2	7,925					Other	13	1,119,062					Leased	6	166,458					Total	69	4,370,601	1	21,094	1	1,820
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**2004 Affiliate Transaction Audit
Data Requests**

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132	<p>Confirm the 2004 accuracy of the following table from the 2003 Audit Report (page 71) summarizing the accounting for expense projects:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;">Time/Expense Reporting</th> <th style="width: 33%;">Charged To</th> <th style="width: 33%;">Cost Assignment</th> </tr> </thead> <tbody> <tr> <td>Directly Charged</td> <td>Affiliate Expense Projects</td> <td>Accumulated costs are charged directly to the benefiting affiliate (no allocation involved)</td> </tr> <tr> <td>Time-Identified</td> <td>Expense Project 098.902 Expense Project 098.999 (Shared Officers)</td> <td>Multi-Factor Allocation</td> </tr> <tr> <td>Automatically Allocated</td> <td>Normal Functions That Are 100% Allocated</td> <td>Multi-Factor Allocation Equity Investment and Advances Allocation, or Number of Employees Allocation</td> </tr> </tbody> </table>	Time/Expense Reporting	Charged To	Cost Assignment	Directly Charged	Affiliate Expense Projects	Accumulated costs are charged directly to the benefiting affiliate (no allocation involved)	Time-Identified	Expense Project 098.902 Expense Project 098.999 (Shared Officers)	Multi-Factor Allocation	Automatically Allocated	Normal Functions That Are 100% Allocated	Multi-Factor Allocation Equity Investment and Advances Allocation, or Number of Employees Allocation			
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133	<p>Confirm the 2004 accuracy of the following table from the 2003 Audit Report (page 92) regarding SCE's guidelines for valuing affiliate transactions</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;"></th> <th style="width: 40%;">Goods & Services Category</th> <th style="width: 40%;">Valuation</th> </tr> </thead> <tbody> <tr> <td rowspan="3" style="vertical-align: top;">SCE to Affiliate</td> <td>V.H.1 For sale on open market (e.g., non-tariffed products & services)</td> <td>Fair market value; no discrimination in favor of affiliates (V.H.4)</td> </tr> <tr> <td>V.H.3 Regulated by state or fed (e.g., tariffed products & services)</td> <td>Fair market value (tariffed rate)</td> </tr> <tr> <td>V.H.5 Not for sale on open market (e.g., corporate support services)</td> <td>Fully loaded costs plus 5% (10% or 15% for requested support)</td> </tr> <tr> <td rowspan="2" style="vertical-align: top;">Affiliate to SCE</td> <td>V.H.2 For sale on open market (e.g., EO&MS services)</td> <td>No more than fair market value</td> </tr> <tr> <td>V.H.6 Not for sale on open market (e.g., support services)</td> <td>Lower of fully loaded cost or fair market value</td> </tr> </tbody> </table>		Goods & Services Category	Valuation	SCE to Affiliate	V.H.1 For sale on open market (e.g., non-tariffed products & services)	Fair market value; no discrimination in favor of affiliates (V.H.4)	V.H.3 Regulated by state or fed (e.g., tariffed products & services)	Fair market value (tariffed rate)	V.H.5 Not for sale on open market (e.g., corporate support services)	Fully loaded costs plus 5% (10% or 15% for requested support)	Affiliate to SCE	V.H.2 For sale on open market (e.g., EO&MS services)	No more than fair market value	V.H.6 Not for sale on open market (e.g., support services)	Lower of fully loaded cost or fair market value
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**2004 Affiliate Transaction Audit
Data Requests**

#	Item	2002		2003	
		Revenues	Incremental	Revenues	Incremental
			Costs		Costs
134	Update the 2004 NTP&S numbers in the following analysis from the 2003 Audit Report (Exhibit 6 page 105):				
	Product/Service Category				
	Secondary Use of Transmission Right of Ways, and Land	\$ 15,878	\$ 439	\$ 16,565	\$ 392
	Secondary Use of Distribution Right of Ways, Land, Facilities and Substations	\$ 1,372	\$ 628	\$ 1,545	\$ 386
	Secondary Use of Utility-Owned Generation Facilities and Land	\$ 218	\$ -	\$ 269	
	Secondary Use of Utility-Owned Office Buildings and Offices	\$ 604	\$ 157	\$ 479	\$ 94
	Use of Transmission Towers, Distribution Poles, Facilities, Conduits, Ducts and Streetlight Poles	\$ 1,987	\$ 815	\$ 1,388	\$ 377
	Use of Communications and Computing Systems	\$ 24,311	\$ 11,137	\$ 41,963	\$ 11,451
	License of Utility Software	\$ 26	\$ 16	\$ 188	\$ 39
	Licensing of Utility-Held Patents	\$ -	\$ -		
	Property Management, Property Maintenance and Real Property Brokerage Services	\$ 168	\$ 18	\$ 165	\$ 2
	Recreation, Fish and Wildlife Activities	\$ 951	\$ 53	\$ 1,076	\$ -
	Sales of Timber Stands on Utility-Owned Property	\$ 86	\$ -	\$ -	\$ -
	Use of Customer Technology Application Center (CTAC) and Agricultural Technology Application Center (AgTAC) Facilities	\$ 164	\$ 69	\$ 112	\$ 25
	Electric Vehicle (EV), Battery, and Charger-Related Services	\$ 27	\$ 20	\$ 254	\$ -
	Energy Efficiency Engineering, Consulting and Technical Services	\$ -	\$ -	\$ -	\$ -
	Billing and Customer Communications Center Services for Non-ESPs	\$ 426	\$ 33	\$ 424	\$ 4
	Meter Reading and Field Services for Non-ESPs	\$ 2,481	\$ 1,560	\$ 2,464	\$ 1,045
	Bill Payment Options	\$ 3,700	\$ 196	\$ 4,437	\$ 186
	Vehicle Maintenance and Repair	\$ 265	\$ 115	\$ 182	\$ 58
	Transportation and Disposal of Hazardous Materials	\$ -	\$ -	\$ -	\$ -
	Use of Heavy Equipment and Machinery	\$ -	\$ -	\$ -	\$ -
	Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities and Equipment	\$ 6,566	\$ 3,344	\$ 2,805	\$ 871
	Advanced Testing of Hydraulic Pumps	\$ 67	\$ -	\$ 49	\$ -
	Equipment and Machinery Repair, Testing, Maintenance and Calibration	\$ 14,919	\$ 12,341	\$ 13,904	\$ 9,935
	Geographic Information Systems (GIS) Services	\$ -	\$ -	\$ 188	\$ -
	Tariff Sheet Sales	\$ -	\$ -	\$ -	\$ -
	Recycling Services	\$ 8	\$ -	\$ 15	\$ -
	Training and Technical Certification Services	\$ 130	\$ -	\$ 327	\$ -
	Material Procurement and Purchasing Services	\$ -	\$ -	\$ -	\$ -
	Fuel Oil Pipeline System and Storage Facilities	\$ 28,868	\$ 7,160	\$ 16,646	\$ 88,297
	Total	\$ 103,222	\$ 38,101	\$ 105,445	\$ 113,162
135	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by the Customer Service Business Unit (including major accounts and mass markets) in 2004 to help assure the organization's compliance with the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).				

**2004 Affiliate Transaction Audit
Data Requests**

#	Item												
136	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by the <u>Procurement and Material Management organization</u> in 2004 to help assure the organization's compliance with the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).												
137	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by the <u>Generation Business Unit</u> in 2004 to help assure the organization's compliance with the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).												
138	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by the <u>Q F Resources Business Unit</u> in 2004 to help assure the organization's compliance with the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).												
139	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by the <u>Transmission & Distribution Business Unit</u> in 2004 to help assure the organization's compliance with the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).												
140	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by the <u>EIX and SCE corporate communication organizations</u> in 2004 to help assure the organization's compliance with the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).												
141	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by any <u>Class A Affiliate organizations</u> in 2004 to help assure the organization's compliance the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).												
142	Copy of: (1) D.02-10-062, (2) D.03-06-076, and any related subsequent decisions												
143	SCE Power "Okay to Trade" lists for 1/5/2004 and 8/11/2004 from Power Contracts organization												
144	Latest version of "Contracts Group Operating Guide", from Power Contracts organization: Provide only copy of Cover Sheet and Table of Contents but make manual available for inspection												
145	Quarterly Procurement Plan Compliance Reports: Provide copies of quarterly 2004 transmittal letters only and provide access to data in reports												
146	April and July 2004 detail backup for EIX charges to SCE												
147	<p>Confirm the accuracy of the following table from the 2003 ATR Audit Report (page 25) The table below shows who in SCE is responsible for billing affiliates for these transactions.</p> <table border="1"> <thead> <tr> <th>Allowed Affiliate Transactions</th> <th>Who Bills Affiliates</th> </tr> </thead> <tbody> <tr> <td>Tariffed products and services</td> <td>SCE Customer Services Business Unit</td> </tr> <tr> <td>Goods/services available to open market/third parties</td> <td>SCE department performing the work</td> </tr> <tr> <td>Joint purchases</td> <td>Controller's Department</td> </tr> <tr> <td>Shared corporate support (A)</td> <td>Controller's Department</td> </tr> <tr> <td>Non-tariffed products and services</td> <td>SCE business unit performing the work</td> </tr> </tbody> </table> <p>Note A: these make up the majority of SCE's affiliate charges</p>	Allowed Affiliate Transactions	Who Bills Affiliates	Tariffed products and services	SCE Customer Services Business Unit	Goods/services available to open market/third parties	SCE department performing the work	Joint purchases	Controller's Department	Shared corporate support (A)	Controller's Department	Non-tariffed products and services	SCE business unit performing the work
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148	For "Joint Negotiations Resulting in Separate Contracts" (a category of joint purchasing arrangement), please provide a table with the following information for each of the listed arrangements: (1) supplier name; (2) SCE purchase order number and date; (3) affiliate(s) name(s), purchase order number(s) and date(s); (4) SCE/EIC/EIX proposal request (PR) number and date ; (5) brief description of the goods / services / deliverables to be provided; and (6) Joint Procurement Notification Form reference .												

2004 Affiliate Transaction Audit Data Requests

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149	Information for sample of affiliate employees with access to SCE IT applications/network (see table below)																																
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**2004 Affiliate Transaction Audit
Data Requests**

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150	<p>Provide backup for tracing charges associated with a sample of ISRs (to be selected later). For each SCE employee, select one month's charges so we can perform the following audit steps:</p> <ol style="list-style-type: none"> 1. Find employee on applicable month's "Holding Co Expense Project Detail Report" 2. Determine the employee's payroll expense (payment plus accrual) 3. Determine that payroll overheads (payroll taxes and benefits) were properly applied 4. Determine that the appropriate markup and facilities charges were applied 5. Tie employee charges to the affiliate invoice. <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th>ISR #</th> <th>ISR Date</th> <th>SCE Employee</th> <th>Requesting Affiliate</th> <th>2004 Hours</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	ISR #	ISR Date	SCE Employee	Requesting Affiliate	2004 Hours																																																																			
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152	<p>Complete the following summary log of all advertisements and promotional items provided by SCE and any of its Class A affiliates to any customer or potential customer in California during 2004. Note: this DR summarizes materials requested in other 2004 DRs</p> <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th>Description of Advertisement or Promotional Item</th> <th>Type of Ad or Promotion: Radio; Television; Billboard; Newspaper; Magazine; Product Spec Sheet; Giveaway</th> <th>How Item Was Distributed</th> <th>How Copy for Review Is Provided (DR # / Key / Location / Filename / Page / etc.)</th> </tr> </thead> <tbody> <tr> <td colspan="4">SOUTHERN CALIFORNIA EDISON</td> </tr> <tr> <td colspan="4">Following is a list of all advertisements published, distributed, or broadcast in 2004 in CA by Southern California Edison: <Begin List or Enter "None"></td> </tr> <tr> <td colspan="4">EDISON SOURCE - NORVIK</td> </tr> <tr> <td colspan="4">A. 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153	Instances where SCE construed the ATR as modifying FERC accounting or reporting rules (see ATR IV.H)																																																																								
154	Access to year 2004 entries into the WES Affiliate Transaction folder of the Wholesale Energy System (WES) utilized by SCE's QF Resources unit.																																																																								
155	Final CPUC decision on Mountainview (this was included in DR 164 for the 2003 audit)																																																																								
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157	Proposed and final decision of ALJ Brown concerning the matter of LT Procurement Proceeding																																																																								
158	Documentation (e.g., process flowchart, controls information, test plans, test results, remediation efforts) developed in conjunction with Sarbanes-Oxley 404 implementation pertaining to Mountainview																																																																								
159	June 30, 2004 email to relevant SCE corporate department representatives regarding the need to obtain timely approvals for Corporate Services performed by employees in non-core AORs																																																																								
160	Security's Management Certification Program training materials (per 12/9 Lover/Brown interview)																																																																								
161	As a supplement to DR-116, provide self-reporting letters to CPUC in 2004 concerning any other affiliate transaction rule issues (including 10/13/04 letter regarding Edison AgTAC Outdoor Demonstration Contributor List)																																																																								
162	Provide a list and brief description of any actions taken since 10/13/04 in response to the Edison AgTAC Outdoor Demonstration Contributor List self-reporting letter.																																																																								

**2004 Affiliate Transaction Audit
Data Requests**

#	Item																																																						
163	Provide Semiannual (1) Joint Procurements Summary Logs and (2) Vendor Information Lists sent by PAMM to RP&A (Re: SCE response to 2003 ATA Recommendation 2)																																																						
164	Provide blank copy of revised Joint Procurement Notification (JPN) Form and any associated instructions for its use (Re: SCE response to 2003 ATA Recommendation 3)																																																						
165	Provide complete "Doing Business in Compliance with the Affiliate Transaction Rules" guidebook as issued in its final form (Re: SCE response to 2003 ATA Recommendation 4, and DR-136)																																																						
166	Provide description of the QF Resources Business Unit's "QF Affiliate Transaction Compliance Monitoring" process.																																																						
167	Describe the process by which SCE's Legal Department assures that: (1) potential energy trading counterparties are not affiliates and (2) existing energy trading counterparties have not become affiliates; and how this assurance is provided to SCE Risk Control/ES&M on a timely basis so the OK-To-Trade Checklist is current.																																																						
168	<p>Please refer to 2004 DR 53 and the arrangements listed under the category "Joint Negotiations – Separate Contracts". For the following arrangements, please provide the following:</p> <ul style="list-style-type: none"> • <u>Software Spectrum (J1099902)</u> – ten instances in 2004 where SCE purchased the same software product as did <u>EME</u>, showing the unit prices invoiced to SCE and those invoiced to the affiliate • <u>CISCO Systems (E5040901)</u> –five instances in 2004 where SCE purchased the same product or service as did <u>EME</u>, showing the unit prices invoiced to SCE and those invoiced to the affiliate • <u>Dell (E5110902)</u> – ten instances in 2004 where SCE purchased the same product as did <u>EME</u>, showing the unit prices invoiced to SCE and those invoiced to the affiliate • <u>New Horizons (E1101949)</u> – five instances in 2004 where SCE purchased the same training products or services as did <u>EME</u>, showing the unit prices invoiced to SCE and those invoiced to the affiliate • <u>Wolfetech (E2121903)</u> – ten instances in 2004 where SCE purchased the same software as did <u>either EME or EIX</u>, showing the unit prices invoiced to SCE and those invoiced to the affiliates • <u>Cingular Interactive (E2121914)</u> – ten instances in 2004 where SCE purchased the same product or service as did <u>either EME or EIX</u>, showing the unit prices invoiced to SCE and those invoiced to the affiliates • <u>Verizon Wireless (E3014903)</u> – ten instances in 2004 where SCE purchased the same product or service as did <u>either EME or Edison Capital</u>, showing the unit prices invoiced to SCE and those invoiced to the affiliates 																																																						
169	Documents describing SCE's accounting for Mountainview and supporting SCE's ratemaking treatment for the option price and legal fees associated with the plant's acquisition. Accounting topics of interest include: AFUDC, overheads to be capitalized or not capitalized (A&G), corporate support allocated and directly charged. Include any documents with relevant accounting guidance from SCE's outside auditors (PwC), the CPUC or other third parties.																																																						
170	November 2004 (and December 2004 when it is available) financial statements for MVL, LLC																																																						
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172	<p>Analysis of the ratemaking basis for MVL, LLC as of the dates below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Account In Which Balance Is</th> <th colspan="2">At "Closing"</th> </tr> <tr> <th>Recorded</th> <th></th> <th></th> <th></th> </tr> <tr> <th></th> <th>Company</th> <th>Acct #</th> <th>Date</th> <th>12/31/04</th> </tr> </thead> <tbody> <tr> <td>Original Purchase Price</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Option Price</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Legal Fees</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Additions Since Acquisition:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td> Construction</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td> Overheads</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td> AFUDC</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Ratemaking Basis</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Account In Which Balance Is		At "Closing"		Recorded					Company	Acct #	Date	12/31/04	Original Purchase Price					Option Price					Legal Fees					Additions Since Acquisition:					Construction					Overheads					AFUDC					Total Ratemaking Basis				
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175	<p>Relevant SCE testimony from the Mountainview hearings that cover the following the following accounting and cost recovery topics:</p> <ol style="list-style-type: none"> GAAP versus ratemaking accounting for Mountainview's capital costs Mountainview's option cost Mountainview's legal fees associated with Mountainview's acquisition and SCE/FERC hearings AFUDC A&G expenses incurred during construction (e.g., directly charged and allocated corporate support) 																																																						
176	Images of any brochures, flyers, etc., from SCE's Energy Centers (CTAC and AgTAC) which were publicly available in 2004 and which contain addresses or phone numbers of SCE affiliates or third party product vendors/service providers																																																						

**2004 Affiliate Transaction Audit
Data Requests**

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177	FERC's instructions for calculating AFUDC (Electric Plant Instruction 3(A)(17) of the FERC's Uniform System of Accounts																				
178	Mountainview AFUDC calculation spreadsheet (maintained by John Helvin) through 12/31/04																				
179	Support for Mountainview charges: (a) Construction Management (Nov 2004) and (b) Environmental Affairs (Aug 2004)																				
180	Regarding sample of Account Manager / Executive journal notes taken from Major Customer Division's "AcctTrak" system, please describe in more detail the circumstances surrounding four nearly identical AcctTrak entries for SCE <i>account team</i> Pasmore/Zimmerman, containing a <i>call date</i> of April 9, 2004, a <i>subject</i> of "Forklift Technology" and with <i>note text</i> beginning "Emailed following message to Pat and JR: I came across a news article this morning ...". Please specify company affiliation of the two <i>contacts</i> referenced in these entries and provide copy of the email referenced in these entries.																				
181	identify and describe all instances in 2004 in which any SCE employee (including, but not limited to, Customer Service and T&D employees) provided information to customers or potential customers about the technologies/products of Edison Source Norvik Company .																				
182	Please identify and describe any branded merchandise (jackets, coffee mugs, shirts, paperweights, caps, flashlights, etc.) given in 2004 by Class A subsidiaries of Edison Mission Group, Inc., to their California employees, customers, or potential customers that displayed (1) the tagline "An Edison International Company", or (2) the utility name (Southern California Edison or SCE), or (3) the SCE "plug and color bars" logo. Please provide a photocopy of any such items, or make the items available for inspection																				
183	183-Amount of 2004 electric sales and contracts for post-2004 electric sales between Edison Mission Group, Inc. or any of its subsidiaries and: (a) Western Wind Energy Corp. or any of its affiliates, (b) Coram Energy Group or any of its affiliates, (c) SeaWest Windpower Inc. or any of its affiliates, (d) Silvan Biomass or its affiliates, and (e) Vulcan Power Co or its affiliates.																				
184	Advice Letter to CPUC dated February 23, 2005 withdrawing the 2003 request to establish a new NTP&S category																				
185	Brief description of the circumstances and timeline associated with Edison Capital's Director of Construction Support acting to administer the outside maintenance contracts for the Storm Lake wind farm																				
186	Self-reporting letter to CPUC dated 3/18/05 concerning 2004 Email Referral of Edison Minit-Charger Product Website																				
187	Description of Edison O&M Service's activities as of December 31, 2004 and as of the end of March 2005. Include in the description: (a) business (revenue generating) activities , (b) warranty work related to previous projects and (c) administrative work (e.g., resolution of employee matters).																				
188	Provide the 1/11/05 CPUC approval letter for Advice 1491-E-1 which supplied CPUC approval of the Focused Lists of Non-Affiliated Service Providers shown in Table B of the Advice Letter																				
189	Summary of Transactions with Non-Utility Affiliated Companies for the period January 1 through June 30, 2004 (this was DR 151 for the 2003 audit)																				
190	<p>NTP&S Revenues by SCE unit/department:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>SCE Unit</th> <th>2004 Gross Other Op Rev</th> </tr> </thead> <tbody> <tr> <td>Customer Service Bus Unit</td> <td>\$ 8,713,127</td> </tr> <tr> <td>Edison Carrier Solutions</td> <td>\$ 32,100,833</td> </tr> <tr> <td>Transmission and Distribution Bus Unit</td> <td>\$ 19,583,907</td> </tr> <tr> <td>Generation Bus Unit - Hydro</td> <td>\$ 1,298,349</td> </tr> <tr> <td>Generation Bus Unit - Power Production</td> <td>\$ 1,259,260</td> </tr> <tr> <td>Shared Services Bus Unit - Corporate Real Estate</td> <td>\$ 181,079</td> </tr> <tr> <td>Shared Services Bus Unit - Transportation Services</td> <td>\$ 122,168</td> </tr> <tr> <td>Edison ESI</td> <td>\$ 13,142,385</td> </tr> <tr> <td style="text-align: right;">Total</td> <td>\$ 76,401,108</td> </tr> </tbody> </table>	SCE Unit	2004 Gross Other Op Rev	Customer Service Bus Unit	\$ 8,713,127	Edison Carrier Solutions	\$ 32,100,833	Transmission and Distribution Bus Unit	\$ 19,583,907	Generation Bus Unit - Hydro	\$ 1,298,349	Generation Bus Unit - Power Production	\$ 1,259,260	Shared Services Bus Unit - Corporate Real Estate	\$ 181,079	Shared Services Bus Unit - Transportation Services	\$ 122,168	Edison ESI	\$ 13,142,385	Total	\$ 76,401,108
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**AUDIT OF 2005 AFFILIATE TRANSACTIONS BETWEEN
SOUTHERN CALIFORNIA EDISON COMPANY AND
CERTAIN OF ITS AFFILIATES**

April 2006

**AUDIT OF 2005 AFFILIATE TRANSACTIONS BETWEEN
SOUTHERN CALIFORNIA EDISON COMPANY AND
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TABLE OF CONTENTS

Executive Summary	1
Background	5
Rule I – Definitions	14
Rule II – Applicability	17
Rule III – Non-Discrimination	21
Rule IV – Disclosure and Information	47
Rule V – Separation	60
Rule VI – Regulatory Oversight	94
Rule VII – Utility Products and Services	102
Rule VIII – Complaint Procedures and Remedies	115
Appendices	
A – Interview List	121
B – Data Request List	125

Executive Summary

Audit Results

In our opinion, Southern California Edison Company's (SCE) 2005 affiliate transactions were in compliance with the California Public Utilities Commission's (CPUC) rules and SCE's own compliance plans. Exhibit 1 summarizes our conclusions by rule. In 40 of 41 rule/sub-rules audited, we noted full compliance. In the case of one sub-rule, SCE was found to be in partial compliance.

Three incidents related to Rule IV.C were discovered by SCE during 2005 and reported to the CPUC via "self-reporting letters." In each case, SCE personnel published a list recognizing vendors who contributed to or participated in SCE-sponsored programs designed to improve energy service for its customers. These lists did not include the necessary disclaimer required by Rule IV.C. Upon investigation, we found SCE was simply acknowledging support from these vendors and did not intend to endorse their products and services. These incidents do not represent serious violations nor did they result in disadvantage to utility ratepayers or unfair benefit to SCE affiliates.

Baryenbruch & Company conducted the 2002, 2003 and 2004 audits of SCE's affiliate transactions. During the 2005 audit, we continued to be impressed with SCE's overall compliance program. SCE remains serious about adhering to the CPUC's affiliate rules.

Notable was the level of understanding of the affiliate transaction rules among the managers and staff we interviewed. Clearly, a considerable effort has gone into educating SCE and affiliate personnel and sustaining their commitment to compliance with the affiliate rules. We also found SCE's compliance organization consists of experienced and conscientious professionals committed to ensuring compliance.

Compliance policies and procedures are well-documented and readily available to utility and affiliate personnel. Employees are encouraged to contact SCE's compliance organization with questions or for advice on implementing the rules.

Finally, we found internal controls to be effective at ensuring compliance. Among these are various monitoring activities by the compliance organization and the important role played by SCE's Audit Services Department. (INT 13)

As shown in Exhibit 1, we had 3 recommendations directed at further improving SCE's compliance process.

Exhibit 1

Southern California Edison Company
2005 Affiliate Transactions Audit
Summary of SCE's Compliance With CPUC Affiliate Transactions Rules

Rule	Sub-Rule	Was SCE In Compliance?	Recommendations
I. Definitions	A through G – Definitions	Yes	
II. Applicability	A through I – Applicability	Yes	
III. Non-Discrimination	A – Preferential treatment	Yes	1 (pg.31)
	B – Affiliate transactions	Yes	
	C – Tying of services	Yes	
	D – Assignment of customers	Yes	
	E – Bus development & customer relations	Yes	
	F – Affiliate discount report	Yes	
IV. Disclosure and Information	A – Customer information	Yes	2 (pg. 54)
	B – Non-customer, non-public information	Yes	
	C – Service provider information	Partial	
	D – Supplier information	Yes	
	E – Affiliate-related advice or assistance	Yes	
	F – Recordkeeping	Yes	
	G – Maintenance of Affiliate Contracts and Related Bids	Yes	
	H – FERC reporting requirements	Yes	
V. Separation	A – Corporate entities	Yes	3 (pg. 88)
	B – Books and records	Yes	
	C – Sharing of plant, facilities, equipment or costs	Yes	
	D – Joint purchases	Yes	
	E – Corporate support	Yes	
	F – Corporate identification and advertising	Yes	
	G – Employees	Yes	
	H – Transfer of goods and services	Yes	
VI. Regulatory Oversight	A – Compliance plans	Yes	
	B – New affiliate compliance plans	Yes	
	C – Affiliate audit	Yes	
	D – Witness availability	Yes	
VII. Utility Products and Services	A – General rule	Yes	
	B – Definitions	Yes	
	C – Utility products and services that may be offered	Yes	
	D – Conditions precedent to offering utility products and services	Yes	
	E – Requirements to file an advice letter	Yes	
	F – Existing offerings	Yes	
	G – Section 851 application	Yes	
	H – Periodic reporting of non-tariffed products and services	Yes	
	I – Offering of non-tariffed products and services to affiliates	Yes	
VIII. Complaint Procedures and Remedies	A – Enforcement of CPUC rules	Yes	
	B – Standing	Yes	
	C – Procedures	Yes	
	D – Remedies	Yes	

Executive Summary

Audit Objective

The objective of Baryenbruch & Company's evaluation was to express an opinion on the extent to which Southern California Edison (SCE) was in compliance during 2005 with the California Public Utilities Commission's (CPUC or Commission) affiliate transaction rules and its own compliance plans. Rule VI.C requires that affiliate transactions be subjected to an annual audit by an independent firm.

This is the eighth annual Affiliate Transactions Audit since the CPUC established its latest affiliate transaction rules in 1997. These rules were created contemplating the competitive world of Assembly Bill (AB) 1890, not today's market structure. (DR 3, D02-10-062, p. 49) In spite of the changed market situation, SCE continues to be subject to the affiliate transaction rules, most of which are still relevant to ensuring that utility ratepayers remain indifferent to the existence of non-utility affiliates and that the utility is not used for the unfair benefit of such affiliates.

Audit Approach

Baryenbruch & Company conducted its work in accordance with the auditing standards published in the Generally Accepted Government Auditing Standards ("Yellow Book"). These standards provide comprehensive guidance in compliance auditing and cover such issues as audit planning, evidence and report contents.

One of our first steps was to develop evaluative criteria against which we would judge SCE's performance. These criteria represent conditions we would expect to exist if SCE were in compliance with the affiliate transaction rules. Our criteria can be found in the body of this report preceding our conclusions.

We gathered the evidence from the following sources:

- Interviews with over 40 SCE officers, managers and staff members involved in compliance with the affiliate transaction rules
- Analysis of data from over 180 information requests pertaining to 2005 affiliate transactions
- Tests of various affiliate-related transactions (see Exhibit 2 for an analysis of the transactions we tested)

We developed our conclusions by comparing SCE's evidence of compliance against the evaluative criteria. Where SCE was not in full compliance or where the compliance process could be enhanced, we offered recommendations for improvement.

Southern California Edison Company
2005 Affiliate Transactions Audit
Analysis Of Transaction Tests

Transactions Reviewed	Sample Size	Data Request Numbers	Applicable Subrule
Account manager's journal notes	10 - 15 %	93	93
ATR-related employee calls to the Ethics helpline	All	153	153
ATR-related complaints	100%	48	48
Bill inserts, Power Bulletins, and Business Solutions Newsletters	All	20, 92	20, 92
Board of Directors minutes	All	65	65
Corporate Support Requests (CSRs)	All	79	79
Customer Calls (residential, commercial and energy efficiency)	95 Calls	98	98
Customer Information Service Requests (CISRs) processing times and samples of CISR forms	All (List) and 3-5 % of Forms	27, 91	27, 91
Data Center (SCE Rosemead) tour to determine EIX servers are separate from those of SCE	All		0
Demonstration Center Flyers	All	160, 161	160, 161
Direct Access Service Requests (DASRs)	All, if any	22	22
Edison News company newsletters	All	16	16
SCE employee transfers to affiliates (fee calculation, non-marketing personnel, property transfers, fees)	All	41, 66	41, 66
Affiliate employee transfers to SCE (residency reqmts, SCE affiliates officer approval)	All	41	41
Employees of SCE in affiliate offices	All	72	72
Employees of affiliates in SCE offices	All	71	71
ESI billings to affiliates (non-tariffed products and services)	90%	64	64
EXI servers in SCE's Rosemead data center	All	INT 24	INT 24
External Service Requests (ESRs)	All	82	82
Facilities tour (for separation)	Tour GO, Gateway; Review DC office floor plan	80, 81 (DC office)	80, 81 (DC office)
File retention review for service agreements and contracts; joint purchases; bulk power purchases & sales; transmission rights & capacity; fuel & fuel transportation	10% of agreements/contracts from last three year's DRs	6, 33, 34, 50, 51, 56, 57, 58, 99, 100, 101	6, 33, 34, 50, 51, 56, 57, 58, 99, 100, 101
General office access	All visiting affiliate employees during August 2004	59	59
Incorporation papers	All major entities	36	36
Intercompany/affiliate billings - SCE billings to EIX, Edison	Month of August	105	105
Intercompany/affiliate billings - EIX billings to SCE	Month of September	127	127
Intercompany/affiliate billings - Mountainview to SCE	Month of December	179	179
Internal Audit reports and workpapers	All pertaining to affiliate-related audits	9, 37	9, 37
Internal Service Requests (ISRs)	All forms; verified charges for 20% of ISRs	40	40
IT security access	10% of affiliate employees	130	130
Joint purchases	All	30, 49, 50, 51, 95, 129	30, 49, 50, 51, 95, 129
Marketing/advertising/promotion/branded merchandise	All	18, 104	18, 104
Mountainview charges	10-2005 construction-related charges (\$73 million) and all AFUDC (\$46 million) for 80% of all 2005 charges	142, 143	142, 143
New affiliate advice letters to the CPUC	All	35	35
Officer/Directors (no inappropriate sharing)	All	10	10
Presentations to major customers	All	19, 92	19, 92
Property transfers to/from SCE	All	42	42
Proposals responding to major customer RFPs	All	94	94
R&D projects and EPRI targets	All	54, 55, 87-90	54, 55, 87-90
Power purchases and sales between SCE and Affiliates (incl QF)	All entities and 2 sample days	56-58	56-58
Power and gas "Okay to Trade" counterparty lists	All entities and 2 sample days	124	124
Power procurement plan quarterly compliance reports	All (roll-up analysis)	126	126
Fuel & fuel transportation purchases/sales with Affiliates	All	99, 100	99, 100
Transmission and ancillary services purchases/sales with Affiliates	All	101	101
Regulatory Info Center / Affiliate Notice Website Postings: "CISRs", "3B" Reports, "3F" Reports, & "4B" Reports	All	28, 29, 83, 96	28, 29, 83, 96
Section 851 applications	50%	46	46
Service agreements and contracts between SCE and affiliates	All	6, 34, 51, 56-58, 99-101	6, 34, 51, 56-58, 99-101
Trade shows, conferences & marketing events	All	86	86
Websites of affiliates	All	21	21

Background

California Affiliate Transaction Regulation

On December 16, 1997, the CPUC issued Decision No. 97-12-088 establishing a new set of rules governing how transactions may be conducted between California's gas and electric utilities and their affiliates. This decision was the culmination of the CPUC's Affiliate Transaction Rulemaking and Investigation, thus the rules are referred to as the "ATR." (DR 2)

The ATR were adopted primarily to prevent California's regulated utilities from using their resources to provide an unfair competitive advantage to their unregulated affiliates, with principal emphasis on the then-anticipated competitive market for the electric commodity and related products and services. Essentially, they cover dealings between a utility and its unregulated affiliates with respect to:

- Transactions
- Sharing of information and assets (tangible and intangible)
- Employee moves and temporary use of utility employees by affiliates

SCE must file a compliance plan with the CPUC demonstrating how it ensures adherence to the ATR. SCE's latest annual update is called the Compliance Plan – 2005 Update (CP05) and is dated December 23, 2005. (DR 1) The CP05 constitutes SCE's compliance plan for all of the ATR established by D.97-12-088.

SCE's Compliance Program

The major elements of SCE's ATR compliance program are described below.

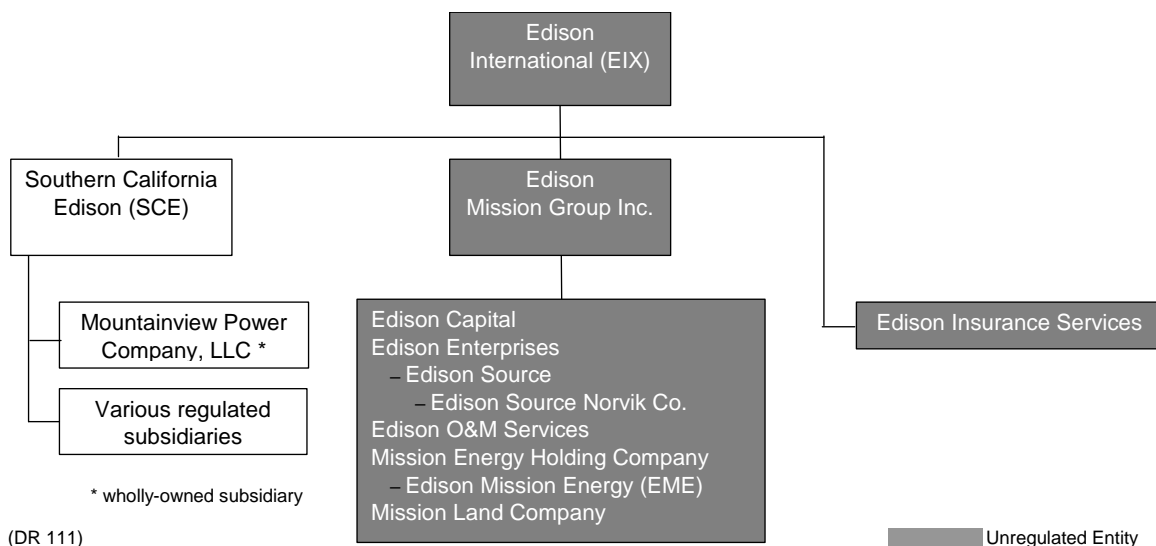
- **Affiliate Compliance Management Oversight and a Regulatory Compliance Organization** – SCE's Affiliates Oversight Team is responsible for ensuring that SCE and its affiliates comply with affiliate transaction rules adopted by the CPUC and other agencies. The team includes the Affiliates Officer, Affiliates Compliance Manager, Designated Affiliates Counsel and Designated Affiliates Controller. This management team is supported by the Regulatory Compliance organization comprised of management and professional-level employees reporting to the Affiliates Compliance Manager. These individuals work with units and individuals throughout SCE and its affiliates, to assist with various compliance activities. In addition, key personnel in every department and business unit of SCE and its affiliates have been designated responsible for facilitating compliance with affiliate transaction rules related to their business and business practices. (DR 1)
- **Affiliate Transaction Rule (ATR) Manual** – This manual is SCE's definitive compliance reference tool for employees. The ATR Manual covers the body of rules pertaining to affiliate transactions and provides examples of how CPUC and FERC rules should be implemented. It is available to all utility and affiliate employees on-line via EIX's corporate intranet. (DR 5)

Background

- **Employee Education and Training** – SCE employs regular training and communications programs to educate utility and affiliate employees about the affiliate transaction rules. Notable aspects include:
 - Articles in corporate-wide publications, such as Edison News
 - Electronic and hard-copy letters to all employees on affiliate-related issues made available on the web
 - Presentations customized for specific employee groups
 - SCE describing standards of conduct and business policies
 - Responses to individual employees’ questions by SCE’s Affiliates Oversight Team and Affiliate Compliance Organization (e.g., affiliate information hotline, e-mail address) (DR 1, DR 16)
- **Compliance Reporting Process** – SCE maintains a system of internal accounting controls to ensure that affiliate transactions are recorded and reported in compliance with applicable guidelines. In addition, SCE is required by the Rules previously adopted by the CPUC to provide the Commission with an Annual Report of Affiliate Company Transactions by May 1 each year. (DR 1)
- **Periodic Compliance Reviews** – Annual audits are conducted by an independent consulting firm. In addition, periodic internal reviews of selected affiliate transactions are conducted by SCE staff and the Audit Services Department. A list of these reviews is submitted as part of the Annual Report of Affiliate Company Transactions to the CPUC. (DR 1, DR 9)
- **Ethics and Compliance Organization** – SCE established an Ethics and Compliance Office in February 2005 to help ensure compliance with Company policies and legal and regulatory obligations, including the ATR. (INT 2, INT 39)

Structure of Edison International

The principal active unregulated affiliates of SCE are shown below. The holding company arrangement was first established in 1988 (pursuant to CPUC decision D.88-01-063) to protect utility ratepayers from the corporation’s venture into unregulated business activities.



Background

Overview of SCE’s Affiliate Transactions

While the ATR themselves do not define the term “transaction,” the interim reporting requirements adopted by the CPUC in 1992 define an affiliate transaction as: the provision of any good, property, service, privilege or act between any two parties for which compensation normally would be provided if each party was independent of the other and acting in its best financial interest. (D.93-02-019, Rule I.G.m, DR 5) According to ATR III.B, transactions between a utility and its affiliates are limited to:

- Tariffed products and services
- The sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process
- Joint purchases, as provided for in ATR V.D
- Corporate oversight, governance and support services, as provided for in ATR V.E
- Non-tariffed products and services, as provided for in ATR VII (DR 5)

A summary of affiliate transactions during the past several years is shown below.

(\$ in thousands)	2000	2001	2002	2003	2004	2005
SCE’s Provision of Goods and Services to Affiliates (A)	\$ 35,395	\$ 30,441	\$ 16,565	\$ 18,260	\$ 17,604	\$ 16,709
Affiliates Provision of Goods and Services to SCE (B)	\$ 9,281	\$ 3,619	\$ 14,215	\$ 32,430	\$ 32,117	\$ 35,950
Transfers of Tangible Assets	\$ 1,830	\$ 3,916	\$ -	\$ (1,120)	\$ -	\$ 1
Transfers of Intangible and Intellectual Property	\$ -	\$ 205	\$ -	\$ -	\$ -	\$ -

Note A: Excludes charges to accounts (146, 236 and 438) not directly related to the provision of goods and services

Note B: Excludes dividends paid (438) and investment in subs (123.1)
(DR 112)

While there are hundreds of corporate and partnership entities that make up EIX non-utility businesses, SCE conducts transactions with just a small number of them.

Affiliate Transaction-Related Events During 2005

During 2005, there were no changes in California’s affiliate transaction rules or the CPUC’s interpretation of those rules with respect to SCE. Affiliate transaction-related events that have occurred since the 2004 Affiliate Transactions Audit Report are described below.

Annual Compliance Plan

On December 23, 2005, SCE filed its annual compliance plan update (CP05). It incorporated compliance measures included in several previous compliance plan updates and it made compliance action changes concerning long term power procurement and certain other matters. (DR 1, DR 12)

Self Reporting Letters

During 2005, SCE submitted the following 4 self-reporting letters to the CPUC concerning the following ATR compliance issues:

Background

- Edison minit-Charger product website (March 18, 2005) – An account executive in SCE’s Customer Service Business Unit (CSBU) sent an industrial customer an email with the web address of Edison Source Norvik Company, a Class A affiliate. The SCE employee did not realize this action was not allowed by the ATR. The customer never purchased any Norvik products and the incident was discussed with the appropriate CSBU management. (rules III.E.2, III.E.6 and IV.E)
- Southern California Lighting Technology Center vendor list (April 14, 2005) – In January 2005, a page was added to www.sce.com that included a list of twenty-two lighting designers and manufacturers and other associated industries who donated resources to support the Southern California Lighting Technology Center (SCLTC). This list was meant to acknowledge contributions of these SCLTC partners and was not an endorsement or a list of service providers. (rule VIII.D.2.b.ii)
- Demand Response Technology Showcase vendor list (July 26, 2005) – In July 2005, a list of exhibitors participating in SCE’s Demand Response Emerging Technologies Showcase was posted to the website of an entity SCE uses to promote new strategies, products and applications for reducing demand during peak periods. This list was meant to acknowledge the exhibitor’s participation and was not an endorsement or a list of service providers. (rules IV.C, VIII.D.2.b.ii)
- Refrigeration and Thermal Test Center document (November 10, 2005) – From January 2004 through October 2005, a document listing the names of two non-affiliated vendors/consultants was made publicly available at SCE’s Refrigeration and Thermal Test Center (RTTC). These vendors had helped with energy efficiency-related research for refrigeration products for SCE customers. This list was meant to acknowledge the vendor’s participation and was not an endorsement or a list of service providers. (rules IV.C, VIII.D.2.b.ii) (DR 139)

Reorganization of Edison Mission Energy and Edison Capital Personnel

In a March 9, 2005 email to all employees, EIX Chairman John Bryson announced the reorganization of Edison Mission Energy (EME) and Edison Capital. Essentially, the management and staff of the two affiliates are being combined in a single virtual organization. The personnel will remain as employees of their respective companies but will be directed by a single management team. (INT 1)

EME is a Class A affiliate and Edison Capital is a Class B affiliate. As a consequence of this reorganization, Edison Mission Group, the parent of EME and Edison Capital, was reclassified from Class B to a Class A affiliate. This action was taken to help facilitate compliance with the ATR. (INT 1, DR 35)

Closing of Affiliate Rules and Reporting Requirements Reopener

On April 7, 2005, the CPUC issued decision D05-04-015 closing an earlier Order Instituting Rulemaking (OIR) 01-01-001 that was meant to investigate the CPUC’s affiliate transaction rules. OIR 01-01-001 was stayed on April 25, 2001 because it

Background

overlapped with another CPUC investigation. After 4 years, this OIR was closed because issues it addressed were not currently relevant to the CPUC. (DR 3)

Holding Company OIR

OIR 05-10-030 was issued by the CPUC in October 2005 to allow the Commission to re-examine the relationship of the major energy utilities with their parent holding companies and affiliates. This action was taken in response to the repeal of PUCHA by congress. (DR 1, DR 12)

On November 30, 2005, SCE filed a report with the CPUC, as required by Section III of the OIR. It answered the following six questions:

- Estimates of capital to be invested each year from 2006-2010 by the utility
- Estimates of capital to be invested by the parent holding company through an affiliate for each year from 2006-2010
- Financial statements for each affiliate that is developing, financing, constructing, operating, managing or owning energy infrastructure which meets part of California's energy needs
- Dividend policies and policies regarding retention of capital
- Names of utility and parent holding company officers responsible for deciding corporate policy regarding capital budgets, dividends and capital retentions
- Description of the process by which corporate policy is implemented and how capital is allocated among or between a utility and its affiliates by the parent holding company. (DR 158)

At the time of this report, the CPUC had made no decision on this matter that changed the ATR.

Procurement of Power From Affiliates

For many years, SCE has had long-term power purchase contracts with affiliate QF facilities. These arrangements pre-date the current ATR. During 2005, one such contract with Kern River Cogeneration Company (KRCC), a non-utility affiliate, expired. The CPUC provided three ways for utilities to comply with PURPA with respect to existing QFs with expiring contracts. One such option is to offer a 5-year "Standard Offer 1" contract with short-run avoided costs pricing. SCE entered into such a contract with KRCC in August 2005. SCE subsequently re-negotiated this contract with KRCC to include more favorable terms for SCE ratepayers. This renegotiated contract is awaiting approval of the CPUC. Other contracts with affiliate QF facilities are due to expire in 2007. The new contract with KRCC is subject to the ATR. (INT 15, INT 33)

Also during 2005, SCE began taking power from its wholly-owned affiliate, Mountainview Power Company, LLC under a power purchase agreement approved by the CPUC in December 2003. As will be discussed later, certain ATR apply to Mountainview even though it is a wholly-owned subsidiary of SCE. (INT 40)

Background

Mountainview Project Status

The Mountainview Plant is located in Redlands, California, 60 miles east of Los Angeles and within SCE's load center. The plant consists of two gas-fired units with a total of 1,054 MW of net electrical output. In 2003, SCE purchased an option to buy Mountainview Power Company, LLC (Mountainview), a wholly owned subsidiary of Sequoia Generating Company, LLC (Sequoia), a subsidiary of InterGen (a joint venture of Shell and Bechtel). (DR 135, DR 136)

In its order dated December 18, 2003, the CPUC authorized SCE to purchase Mountainview and operate it as a wholly-owned subsidiary. SCE was authorized to enter into a power purchase agreement (PPA) with Mountainview, which is prohibited from selling power to any third party (i.e., all power sales must be to SCE). The CPUC's order was contingent on the receipt of a FERC decision approving the Mountainview PPA, without modification, or making a modification with no potential rate impacts. The FERC, which has regulatory jurisdiction over this purchased power transaction, issued an order approving the PPA on February 25, 2004. (DR 135, DR 136)

SCE exercised its option to purchase Mountainview on March 12, 2004 and commenced work on finishing the plant. Mountainview has no employees of its own so SCE personnel manage the project and all of its contractors. Mountainview went into commercial operation on the following dates:

Unit 3 and common: December 10, 2005
Unit 4: January 19, 2006 (DR 187)

Since Mountainview is to be operated by SCE as a subsidiary, a major issue in the CPUC hearings was the applicability of the affiliate transaction rules. The CPUC eventually ruled the ATRs do apply, although Mountainview's transactions with SCE were given a one-time exemption from the following rules:

- Rule III.B Affiliate Transactions
- Rule III.E Business Development and Customer Relations
- Rule IV.B Non-Customer Specific Non-Public Information
- Rule V.C Separation of Facilities and System
- Rule V.D Joint Purchases
- Rule V.E. Corporate Support
- Rule V.F Corporate Identification and Advertising
- Rule V.G.1 Sharing of Employees
- Rule V.G.2 Movement of Employees
- Rule V.H.5 Transfer of Goods and Services (DR 155)

Exhibit 3 shows the scope of Baryenbruch & Company's 2005 audit work for those ATR rules from which Mountainview was not exempted. In 2005, Mountainview was under construction and not operational. Thus, much of the Mountainview audit work involved a review of the acquisition costs and subsequent construction expenditures. The

Background

construction project is structured where SCE pays all Mountainview costs and then charges Mountainview Power Company, LLC. As shown below, Baryenbruch & Company verified a sample of 61% of the Mountainview's 2005 basis additions. (INT 32, DR 142, 143, DR 149)

	Ratemaking Basis	Costs Reviewed		Comments
		Amount	Percent	
December 31, 2004	\$ 518,300,203	\$ 345,543,519	67%	Reviewed in 2004 audit
2005 Additions	\$ 194,515,981	\$ 119,534,060	61%	Reviewed in 2005 audit
December 31, 2005	\$ 712,816,184	\$ 465,077,579	65%	

(DR 143, DR 149)

The 2005 expenditures reviewed were found to properly relate to the Mountainview plant.

In December 2005, Mountainview's Unit 3 and common went into commercial operation. The plant sold 241,598 MWh to SCE during 2005 (DR 56) for which Mountainview billed SCE \$5,543,342. (DR 179) Baryenbruch & Company reviewed the backup detail and calculations for this amount and found the charges to be in accordance with the power purchase agreement. (DR 144)

Southern California Edison Company
2005 Affiliate Transactions Audit
2005 Affiliate Transaction Audit Work For Mountainview Project

Rule	Sub-Rule	Impact On 2005 ATR Audit Work Scope
I. Definitions	A through G – Definitions	No additional work required.
II. Applicability	A through I – Applicability	No additional work required.
III. Non-Discrimination	A – Preferential treatment	No additional work required. Mountainview is contractually obligated to sell power to only SCE. Unit 3 and common went into commercial operation in 2005 and all of the plant's output was purchased by SCE. (DR 56, DR 185)
	C – Tying of services	
	D – Assignment of customers	
	F – Affiliate discount report	
IV. Disclosure and Information	A – Customer information	No additional work required. Mountainview's only customer is SCE so there are no retail customers to be influenced through information and advice covered by these rules. (DR 185)
	C – Service provider information	
	D – Supplier information	Confirm that records are being kept of all transactions between SCE and Mountainview. (The Mountainview work order was analyzed and a sample of 2005 transactions were reviewed and found to be appropriate) (DR 142, DR 143)
	E – Affiliate-related advice or assistance	
	F – Recordkeeping	
	G – Maintenance of Affiliate Contracts and Related Bids	Confirm that a record is kept of all contracts and related bids associated with products and services between SCE and Mountainview. (The Power Purchase Agreement [PPA] is the definitive document that guides SCE's contractual relationship with Mountainview) (DR 8, DR 144)
H – FERC reporting requirements	Review the FERC order approving the PPA to determine what must be reported. Confirm that information has been or will be reported in the future. (The FERC order was reviewed during the 2004 audit. There were no other Mountainview-related FERC rulings during 2005 that interfered with SCE's compliance with the ATR) (DR 156)	
V. Separation	A – Corporate entities	Confirm that Mountainview Power Company, LLC is a separate corporate entity. (Mountainview's incorporation papers were reviewed during the 2004 audit) (DR 36)
	B – Books and records	Confirm that Mountainview has separate financial records. (Mountainview's 2005 income statement and December 31, 2005 balance sheet were reviewed. A sample of 2005 charges to the Mountainview work order were reviewed and found to be appropriate) (DR 138, DR 141, DR 142, DR-143, INT 34)
	H – Transfer of goods and services (all sections except .5)	V.H.1: Confirm on a sample basis that goods and services offered on the open market that are provided by SCE to Mountainview are priced at fair market value (the same price as that offered to unaffiliated customers). (During 2005, ESI performed a very small recalibration task for Mountainview that was found to be appropriate work for an affiliate) (INT 25, DR 64) V.H.2: Confirm that power provided by Mountainview to SCE was priced in accordance with the PPA. (A review of Mountainview's December 2005 invoice to SCE for power produced after Unit 3 and common went into commercial operation showed the charges were in accordance with the PPA) (DR 179)

Southern California Edison Company
2005 Affiliate Transactions Audit
2005 Affiliate Transaction Audit Work For Mountainview Project

Rule	Sub-Rule	Impact On 2005 ATR Audit Work Scope
V. Separation (cont'd)	H – Transfer of goods and services (all sections except .5) (cont'd)	V.H.3: Confirm that tariffed products and services provided by SCE to Mountainview are priced at the regulated rates. (Electric service provided by SCE to Mountainview during construction was found to be provided at a standard tariff rate) (INT 34, DR 186) V.H.4: Confirm that SCE goods and services offered on the open market are provided to Mountainview and unaffiliated customers on a non-discriminatory basis. (No instances were noted in 2005 where SCE gave preferential treatment to Mountainview over other unaffiliated customers) (INT 19, INT 20, INT 37, INT 38) V.H.5. Mountainview is exempt from this rule which would otherwise require SCE to charge Mountainview with a premium of 5% direct labor for work performed for Mountainview. (In spite of this exemption, a 2005 sample of SCE labor charges and material transfers to Mountainview were reviewed to determine that SCE's typical capitalization guidelines are being followed) (INT 34, DR 142) V.H.6: No additional work required since Mountainview offers no goods and services "not produced, purchased or developed for sale." (INT 21, INT 34)
VI. Regulatory Oversight	A – Compliance plans	No additional work required.
	B – New affiliate compliance plans	Confirm that the CPUC was notified by Advice Letter within 60 days of the creation of Mountainview (When Mountainview Unit 3 and common went into commercial operation in December 2005, it was reclassified as a Class A affiliate. An advice letter was properly sent informing the CPUC of this change) (DR 35)
	C – Affiliate audit	No additional work required.
	D – Witness availability	No additional work required.
VII. Utility Products and Services	A – General rule	No additional work required.
	B – Definitions	No additional work required.
	C – Utility products and services that may be offered	No additional work required.
	D – Conditions precedent to offering utility products and services	No additional work required.
	E – Requirements to file an advice letter	No additional work required.
	F – Existing offerings	No additional work required.
	G – Section 851 application	No additional work required.
	H – Periodic reporting of non-tariffed products and services	No additional work required.
	I – Offering of non-tariffed products and services to affiliates	Confirm on a sample basis that non-tariffed products provided by SCE (e.g., ESI) to Mountainview are priced at the market rates (same testing work as V.H.3). (during 2005, ESI performed a very small recalibration task for Mountainview that was found to be appropriate work for an affiliate--INT 25, DR 64)
VIII. Complaint Procedures and Remedies	A – Enforcement of CPUC rules	No additional work required.
	B – Standing	No additional work required.
	C – Procedures	No additional work required.
	D – Remedies	No additional work required.

Rule I – Definitions

CPUC Rule

Unless the context otherwise requires, the following definitions govern the construction of these Rules:

I.A. “Affiliate” means any person, corporation, utility, partnership, or other entity 5 per cent or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly either by a utility or any of its subsidiaries, or by that utility’s controlling corporation and/or any of its subsidiaries as well as any company in which the utility, its controlling corporation, or any of the utility’s affiliates exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership. For purposes of these Rules, “substantial control” includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of 5% or more by the utility in an entity’s company creates a rebuttable presumption of control.

For purposes of this Rule, “affiliate” shall include the utility’s parent or holding company, or any company which directly or indirectly owns, controls, or holds that power to vote 10% or more of the outstanding voting securities of a utility (holding company) to the extent the holding company is engaged in the provision of products or services as set out in Rule II.B. However, in its compliance plan filed pursuant to Rule VI, the utility shall demonstrate both the specific mechanism and procedures that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding company or another utility affiliate not covered by these Rules as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules, (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as conduit to circumvent any of these Rules.

Regulated subsidiaries of a utility, defined as subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate. However, these Rules apply to all interactions any regulated subsidiary has with other affiliated entities covered by these rules.

I.B. “Commission” means the California Public Utilities Commission or its succeeding state regulatory body.

I.C. “Customer” means any person or corporation, as defined in Sections 204, 205 and 206 of the California Public Utilities Code, that is the ultimate consumer of goods and services.

I.D. “Customer Information” means non-public information and data specific to a utility customer which the utility acquired or develop in the course of its provision of utility services.

I.E. “FERC” means the Federal Energy Regulatory Commission.

I.F. “Fully Loaded Cost” means the direct cost of good or service plus all applicable indirect charges and overheads.

I.G. “Utility” means any public utility named as a respondent to Rulemaking 97-04-011/Investigation 97-04-012, and any other public utility subject to the jurisdiction of the Commission as an Electric Corporation or Gas Corporation, as defined in California Public Utilities Code Sections 218 and 222, which the Commission by subsequent decision or order requires to comply with these Rules.

Audit Criteria

- SCE properly interprets ATR definitions
- Information on affiliate transaction rules is widely distributed, easily accessible and continuously communicated throughout SCE and its affiliates

Rule I – Definitions

Audit Steps

- Verify that SCE has properly interpreted Rule I definitions
- Determine that these definitions have been adequately publicized among those involved in affiliate transactions

Conclusions

SCE is in compliance with Rule I.

The terms defined in Rule I are restated verbatim in SCE’s 2005 Affiliate Transaction Compliance Plan (CP05) and Affiliate Transaction Rule (ATR) Manual. In addition, SCE defines the key terms, listed in the table below, in Chapter 2 of the ATR.

Affiliate	Controlling Corporation	Intangible Asset	Sale of Property
Affiliate QF Contract	Corporate Governance	Labor	Securities
Affiliated Investees	Corporate Support	Leads	Service Providers
Affiliates Compliance Manager	Corporation	Merchant Function	Significant Unaffiliated Third Party
Affiliates Officer	Cost of Sales	Net Book Value	SCE
Affiliate Third Party	Cross Subsidy	Parent Company	Subsidiaries
Affiliate Transaction	Customer	Parent Holding Company	Tariffed Service
Rulemaking/ Investigation (ATRI)	Designated Controller	Permissible Shared Support	Transaction
Allocated Cost	Designated Counsel	Person	Transfer Price
ATRs	Directly Requested Services	PGACT	Transfer of Goods and Services
ATR Manual	Energy Marketing Affiliate	PGACT 88	Type 1-2-3 Rules
Commission	Fair Market Value	Policy	Utility
Company	FERC	PROACT	Utility Investee
Contracts	Fully Loaded Cost	Property	Utility Third Parties

DR 5

We found the ATR Manual’s definitions of these terms to be consistent with the CPUC’s ATR. Our audit work also showed that in the course of implementing the ATR, SCE has been careful to consider the broad intent of the rules.

SCE maintains an appropriate level of awareness of Affiliate Transaction Rules through a variety of reference and training materials, including:

- ATR Manual, in which SCE documents its policies and procedures developed to implement the ATR
- Training presentations developed by RP&A and delivered to business units and work groups
- Intranet availability of the ATR Manual and training materials, accessed through MyEdison.net by SCE and affiliate employees. This website also includes copies of SCE’s most recent compliance plans, ATR-related officer memos and other relevant information
- “Employee Self Test,” available on MyEdison.net, to allow employees to quiz themselves on key aspects of the ATR.
- Periodic communications with employees.

Rule I – Definitions

- Members of the Affiliate Compliance Organization act as ATR subject matter experts, available to SCE and affiliate personnel to answer questions and provide advice
- Telephone and email information hotlines available for affiliate compliance questions
- Articles and information developed by individual business units for inclusion in their hard-copy and electronic communications (DR 109)

As specified by Rule I.A, the CP05 contains a letter from SCE's Affiliates Officer and the EIX Vice President and Controller verifying that "the specific mechanisms and procedures described in SCE's Compliance Plan for 2005 are believed to be sufficient to ensure that Southern California Edison is not using its holding company or any of its affiliates not covered by the Rules as a conduit to circumvent any of the Rules." (DR 5 Appendix B)

Under the "5 percent" threshold established by Rule I.A, there are several hundred entities that must be considered affiliates of SCE. It became evident in the course of our review, however, that SCE conducts transactions with only a handful of those entities. Most affiliates are subsidiaries of Edison Mission Energy and Edison Capital, and many affiliates have a very specific, limited purpose.

Rule II – Applicability

CPUC Rule

- II.A.** These Rules shall apply to California public utility gas corporations and California public utility electrical corporations identified in Rule I.G.
- II.B.** For purposes of a combined gas and electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted below. For purposes of an electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity.
- For purpose of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or the provision of services that relate to the use of gas.
- II.C.** These Rules apply to transactions between a Commission-regulated utility and another affiliated utility, unless specifically modified by the Commission in addressing a separate application to merge or otherwise conduct joint ventures related to regulated services.
- II.D.** These Rules do not apply to the exchange of operating information, including the disclosure of customer information to its FERC-regulated affiliate to the extent such information is required by the affiliate to schedule and confirm nominations for the interstate transportation of natural gas, between a utility and its FERC-regulated affiliate, to the extent that the affiliate operates an interstate natural gas pipeline.
- II.E. Existing Rules:** Existing Commission rules for each utility and its parent holding company shall continue to apply except to the extent they conflict with these Rules. In such cases, these Rules shall supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent holding company from adopting other utility-specific guidelines, with advance Commission approval.
- II.F. Civil Relief:** These Rules shall not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.
- II.G. Exemption (Advice Letter):** A Commission-jurisdictional utility may be exempted from these Rules if it files an advice letter with the Commission requesting exemption. The utility shall file the advice letter within 30 days after the effective date of this decision adopting these Rules and shall serve it on all parties to this proceeding. In the advice letter filing, the utility shall:
- II.G.1.** Attest that no affiliate of the utility provides services as defined by Rule II B above, and
- II.G.2.** Attest that if an affiliate is subsequently created which provides services as defined by Rule II B above, then the utility shall:
- II.G.2.a.** Notify the Commission, at least 30 days before the affiliate begins to provide services as defined by Rule II B above, that such an affiliate has been created; notification shall be accomplished by means of a letter to the Executive Director, served on all parties to this proceeding; and
- II.G.2.b.** Agree in this notice to comply with the Rules in their entirety.
- II.H. Limited Exemptions (Application):** A California utility which is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application, served on all parties to this proceeding, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates. The applicant has the burden of proof.
- II.I.** These Rules should be interpreted broadly, to effectuate our stated objectives of fostering competition and protecting consumer interests. If any provision of these Rules, or the application thereof to any person, company, or circumstance, is held invalid, the remainder of the Rules, or the application of such provision to other persons, companies, or circumstances, shall not be affected thereby.

Rule II – Applicability

Audit Criteria

- A proper determination has been made as to whether affiliates are involved in “the provision of a product that uses electricity or provision of services that relate to the use of electricity” (this designation determines the applicability of ATR)

Audit Steps

- Determine if SCE’s designation of affiliates as either Class A or B comports with Rule II
- Assess how broadly SCE has interpreted the ATR in term of fostering competition and protecting customer interests

Conclusions

SCE is in compliance with Rule II.

Applying the requirements set forth in D.97-12-088, SCE has categorized its affiliates as either covered (“Class A”) or not covered (“Class B”) by the ATR. The Class A affiliates, which provide products that use electricity or services that relate to the use of electricity. Class B affiliates are subject to transaction rules set out in D.88-01-063. (DR 5)

A complete list of all Edison International entities is provided in the Annual Report of Affiliated Company Transactions. (DR 2) Exhibit 4 presents an analysis of SCE’s Class A affiliates throughout the EIX corporate structure.

During 2005, the following changes occurred with respect to SCE’s principle affiliates:

- Edison O&M Services, which ceased operations on November 26, 2003, was reclassified from a Class A to a Class B affiliate on March 28, 2005.
- Edison Mission Group Inc. was reclassified from Class B to Class A in connection with the reorganization of EME and Edison Capital, which consolidated the management into one team.
- Mountainview Power Company, LLC Class B designation was changed to Class A when the plant went into commercial operation in 2005 (December 10, 2005 for Unit 3 and common and January 19, 2006 for Unit 4) (DR 187). Before this, Mountainview was classified as a Class B affiliate because it was under construction and not generating electricity.
- Several Class A affiliates were sold in connection with EME’s divestiture of international power plant assets. (INT 10, INT 28, DR 113)

Exhibit 4

Southern California Edison Company
2005 Affiliate Transactions Audit
Analysis Of Class A Affiliates

Note (A)	Level					Number of Underlying Class A Subsidiaries
	0	1	2	3	4	
	Edison International					
		Southern California Edison Company				
			Mountainview Power Company LLC (A)			
		Edison Mission Group Inc. (A)				
			Edison Enterprises (B)			
			Edison Source (A)			
			Edison Source Norvik Company (A)			
		Edison Capital (B)				
			Edison Funding Company (B)			
				Mission Funding Epsilon (B)		6
				Mission Funding Zeta (B)		71
				Mission Iowa Wind Company (B)		1
		Mission Energy Holding Company (B)				
			Edison Mission Energy (A)			
				Aguila Energy Company (A)		1
				Anacapa Energy Company (A)		1
				Camino Energy Company (A)		1
				Chester Energy Company (A)		
				Del Mar Energy Company (A)		1
				Edison Mission Energy Fuel (A)		1
				Edison Mission Energy Funding Corp. (A)		
				Edison Mission Energy Interface Ltd. (A)		1
				Edison Mission Energy Services, Inc. (A)		
				Edison Mission Marketing & Trading, Inc. (A)		
				Edison Mission Holding Co. (B)		4
				Edison Mission Operation & Maintenance, Inc. (A)		
				Edison Mission Wind, Inc. (B)		1
				EME Eastern Holdings Co. (B)		6
				EMOM Services, Inc. (A)		
				Midwest Generation EME, LLC (B)		2
				Mission Capital, LP (A)		
				Mission Del Cielo, Inc. (B)		1
				Mission Energy Construction Services, Inc. (A)		
			Mission Energy Holdings, Inc. (A)			
				Mission Energy Holdings International, Inc. (A)		7
				Mission Energy Singapore Pte. Ltd. (A)		
				Pleasant Valley Energy Company (A)		1
				San Joaquin Energy Company (A)		1
				San Juan Energy Company (A)		1
				Silverado Energy Company (A)		1
				Southern Sierra Entergy Company (A)		1
				Viejo Energy Company (A)		1
				Western Sierra Energy Company (A)		1

Note A: The letter in parentheses after the corporation name designates its affiliate class

Source: DR 178

Rule II – Applicability

The following Edison Capital Class B affiliates were established in 2005:

- Edison Mission Midwest, Inc. (formed September 29, 2005) – Holds membership interests in various LLCs which will own and operate wind generating turbines in Illinois and Wisconsin.
- Edison Mission Wind, Inc. (formed August 25, 2005) – Holds membership interests in various LLCs which will build, own and operate wind generating turbines.
- Mission Bingham Lake Wind LLC (formed August 12, 2005) – Holds membership interests in various LLCs which will own and operate wind generating turbines in Minnesota.
- Mission Wind Maine, Inc. (formed August 24, 2005) – Holds membership interests in various LLCs which will own and operate wind generating turbines in Maine.
- Mission Wind New Mexico, Inc. (formed September 15, 2005) – Holds membership interests in various LLCs which will own and operate wind generating turbines in New Mexico. (DR 35)

We concur with the Class B designations given to these new affiliates.

As part of the audit, we reviewed the business activities of affiliates and found no instances where a Class B affiliate provides a product that uses electricity or services that relate to the use of electricity. (DR 2)

Rule III – Nondiscrimination

CPUC Rule

III.A. No Preferential Treatment Regarding Services Provided by the Utility: Unless otherwise authorized by the Commission or the FERC, or permitted by these Rules, a utility shall not:

III.A.1. represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers; or

III.A.2. provide its affiliates, or customers of its affiliates, any preference (including but not limited to terms and conditions, pricing, or timing) over non-affiliated suppliers or their customers in the provision of services provided by the utility.

Audit Criteria

- SCE does not represent that it will provide preferential treatment to affiliates or affiliates' customers compared to treatment provided to non-affiliates or their customers
- Terms, conditions, and pricing offered by SCE to affiliates or affiliate customers are comparable (non-preferential) to those available to non-affiliates or their customers

Audit Steps

- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Monitor actual customer conversations with SCE Customer Call Center representatives, both residential and commercial & industrial, to determine if affiliates or customers of affiliates are being provided preference over other customers. Also monitor calls to determine that the representatives are not promoting affiliates' business relationships with SCE.
- Review billing inserts to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Review marketing/advertising materials targeted or sent to SCE customers to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Sample SCE presentations to large commercial and industrial customers to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Sample account manager/account executive journal entries to determine there is no representation that affiliates or affiliates' customers will be given preferential treatment
- Review SCE proposals responding to requests for proposal (RFPs) from major customers to assure there is no preferential treatment being offered for any such customer who also purchases services from an affiliate of SCE
- Review Customer Information Service Requests (CISR) processing times to assure no preferential treatment was given to affiliates or affiliates' customers and sample actual CISRs to assure processing times have been accurately reflected

Rule III – Nondiscrimination

- Review SCE's process for handling Direct Access Service Requests (DASR) to affirm that no DASRs were processed in 2005. If there are DASRs, assure no preferential treatment was given to affiliates or affiliates' customers.
- Where applicable, compare terms, conditions, pricing, and timing for services provided to a sample of affiliate customers to ensure they are the same as those offered to non-affiliates' customers
- Review all non-tariffed service agreements and contracts between SCE and affiliates and compare terms, conditions, pricing and timing for services provided to ensure they are the same as those offered to non-affiliates
- Review Edison ESI's (ESI) billing practices to assure that neither affiliates nor their customers are provided preferential treatment. ESI is a regulated subsidiary of SCE

Conclusions

SCE is in compliance with Rule III.A.

We found SCE's process to comply with the requirements of this Rule to be adequately documented and properly executed. Our review of data associated with this Rule confirmed SCE's compliance.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule III.A. (DR 1, DR 5)

In evaluating SCE's compliance with Rule III.A, we reviewed the key informational channels by which SCE communicates with its customers. The results of this assessment are described below:

Customer Call Centers. We listened in on a large sample of residential and commercial customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls to SCE's Customer Call Centers did we note preferential treatment related to SCE's affiliates being discussed or provided. (DR 98)

Billing Inserts & Advertisements. We reviewed all billing inserts, Power Bulletins, and Business Solutions Newsletters provided to both commercial and residential customers during 2005. (DR 20, DR 92). We examined all mass market advertisements sponsored by SCE during 2005. (DR 18, DR 104). In none of these materials did we see evidence of preferential treatment related to SCE's affiliates being offered or provided.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Business Customer Division provided us access to all presentations available for use with customers during 2005. (DR 19, DR 92)

Rule III – Nondiscrimination

We also sampled the online diary notes of Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 93). These notes document meetings held with large customers in 2005. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2005.

Nothing in the presentations to large customers or the sample of diary notes indicated SCE would provide preferential treatment to affiliates or affiliates' customers.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2005, and to indicate which, if any, resulted in an SCE proposal. SCE received no RFPs from customers in 2005. SCE did revise one proposal, the original version of which responded to a 2004 RFP. We reviewed this revised proposal, which related to possible privatization of a government-owned electric system, and found no evidence of preferential treatment being offered. (DR 94)

We saw no evidence that terms, conditions and pricing offered affiliates or their customers were better or different than those offered to others.

DASRs and CISRs. A second area of inquiry for preferential treatment was the processing of requests for information and services. Specifically, we determined if there were any preferences given affiliates in SCE's handling of Direct Access Service Requests (DASRs) and Customer Information Service Requests (CISRs).

DASRs are the communication tool that would be used by an Electric Service Provider (ESP) to notify SCE of a customer's request to initiate, cancel, or modify their Direct Access account. Essentially, Rule III.A says that SCE may not provide preferential treatment to any customer that is obtaining direct access from an SCE affiliate. Such preferential treatment, if it existed, might show up in quicker turnaround times for DASRs sent to SCE by its affiliates compared to other ESPs.

SCE measures the number of days to process the DASR and compares turnaround times for affiliate customers and other customers. While this procedure is still in place at SCE, it has not been used since 2001, when the Direct Access program in California was suspended by the Commission. (DR 22)

CISRs are the communication tool used to obtain/approve release of customer information to a third party. For example, if a customer retains an energy management firm to help identify opportunities for energy cost reduction, the customer might use a CISR to ask SCE to release data about their energy usage amounts and patterns to the third party energy management firm.

Under Rule III.A, SCE cannot process such requests more quickly for affiliates or affiliates' customers than for others. SCE's procedure for handling CISRs includes the measurement of the number of days to process them. Comparisons of turnaround times would possibly show whether any preference was being given to affiliates/affiliates' customers. The table below shows the results of our analysis of 2005

Rule III – Nondiscrimination

CISR processing times. SCE processed over 900 CISRs during 2005 affecting over 18,000 customer accounts. The average processing time for these CISRs was 3.94 days. (DR 27, DR 91)

CISR Statistics and Processing Times Table

Quarter	Total CISR Request	Total CISR Accounts	Average Processing (Days)	CISR Requests Involving Affiliates	Average Processing Affiliate Requests (Days)
1 st	240	4,888	2.60	0	NA
2 nd	185	3,439	2.92	0	NA
3 rd	355	4,127	5.89	0	NA
4 th	158	6,023	2.77	0	NA
All Year	938	18,477	3.94	0	NA

There were no CISR forms relating to affiliates processed in 2005. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 28). Based on this analysis, we conclude that no preferential treatment was given to affiliates through the expedited processing of CISRs during 2005.

Service Agreements and Contracts, Including Edison ESI (ESI) We also reviewed all of the service agreements and contracts in effect during 2005 between SCE and its affiliates. (DR 6). A summary of these agreements is provided in Rule III.B below. In none of the non-tariffed service agreements or contracts did we identify preferential treatment extended to affiliate entities.

No affiliates submitted bids to SCE during 2005. (DR 51) Also, SCE entered into no agreements contracts to provide or purchase power, capacity, transmission capacity, ancillary services, or generation fuels to/from its affiliates during 2005. (DR 56, DR 57, DR 58, DR 99, DR 100, DR 101)

We reviewed all 2005 affiliate work performed by ESI, a regulated subsidiary of SCE that performs various services for affiliates and non-affiliate third parties. In 2005 ESI performed work for affiliates Mountainview Power, Watson Cogeneration Plant, Kern River Cogeneration Plant and Sycamore Cogeneration Plant. All invoices for this work were reviewed and found to be priced out at ESI’s standard rates per its price list, which is also used to price out non-affiliate third party customers. Thus, we can conclude there was no discrimination in favor of affiliates. (INT 25, DR 64)

CPUC Rule

III.B. Affiliate Transactions: Transactions between a utility and its affiliates shall be limited to tariffed products and services, the sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, or as provided for in

Rule III – Nondiscrimination

Sections V.D and V.E (joint purchases and corporate support) and Section VII (new products and services) below, provided the transactions provided for in Section VII comply with all of the other adopted rules.

Audit Criteria

- Affiliate transactions are limited to: (1) tariffed products and services, (2) the sale or purchase of goods, property, products, or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, (3) joint purchases or corporate support as defined by Sections V.D. and V.E. of the Rules or (4) new products and services as defined by Section VII of the Rules.

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Evaluate SCE's procurement practices to determine that competitive bidding is used where goods, services, property or products are procured from affiliates. Assess the monitoring and control processes of SCE's Procurement and Materials Management Department that ensure compliance with this provision.
- Review all service agreements and contracts between SCE and affiliates to determine if the competitive bidding requirements of this Rule have been followed and that the tariff limitations have been followed
- Review list of parties to wholesale power agreements and sample wholesale power transactions to assure requirements of this rule have been followed
- Review any gas and coal contracts between SCE and affiliates to assure requirements of this rule have been followed
- Review any transmission contracts between SCE and affiliates to assure requirements of this rule have been followed
- Review joint purchases to assure that no transactions were made other than those allowed under Rule V.D
- Review a sample of SCE transactions (including intercompany billings) with affiliates and affiliate customers to determine they were limited to the type allowed in this ATR
- Review property sales between SCE and affiliates to assure the sales were the result of a competitive bidding process

Conclusions

SCE is in compliance with Rule III.B.

Nature of SCE's Affiliate Transactions

SCE's process to comply with the requirements of this Rule is appropriately documented and well executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

Rule III – Nondiscrimination

SCE's Affiliate Transaction Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the competitive bidding requirements imposed by this Rule. (DR-1, DR-5) SCE purchases from affiliates (except those made under Rules V.D, V.E and VII, as permitted) are required to be made through an open, competitive bidding process.

CPUC decision D.02-10-062, dated October 24, 2002, placed a moratorium on power procurement transactions with affiliates. But later, on December 16, 2004, the CPUC issued decision D.04-12-048 which lifted the ban on long-term power procurement contracts with a utility's affiliates provided the contract is the result of "an open and transparent solicitation process". This decision retained the ban on short-term contracts with affiliates. (DR 123, DR 137, DR 163)

D.04-12-048 requires safeguards for long term solicitations by (1) continuing the Procurement Review Groups (PRG) process (established in D.02-08-071, DR 176) and (2) establishing the use of independent third party evaluators (IE) for all procurements. The Rule III.B competitive bidding requirement is another guiding principle for power procurement arrangements with its affiliates.

However, our review of SCE's two primary affiliate rule guidance documents reveals that SCE, in light of potential forthcoming affiliate power procurements, needs to expand and clarify its delegations of authority to improve safeguards. Two sections of the ATR Manual related to this Rule delegate responsibility for competitive bidding to the Procurement and Material Management Department (PAMM). The Chapter 5 section entitled Nondiscrimination – Types of Transactions Permitted says "SCE purchases from affiliates ... are required to be made through an open, competitive bidding process. SCE's Procurement and Material Management Department will ensure compliance with this provision". The Chapter 16 section entitled Separation – Transfer of Goods and Services – Competitive Bidding Required says much the same thing, except it reads "SCE's Procurement Department will ensure compliance ..."

The CP05 compliance plan, under the section for Rule III.B, uses the same wording as did ATR Manual Chapter 16. When this guidance was written, SCE likely never anticipated the possibility of making power purchase agreements with its affiliates. The guidance therefore was slanted toward the competitive bidding that would be required for purchasing items such as engineering services or hard goods from affiliates. PAMM clearly has responsibility for assuring competitive bidding in transactions of this nature.

But given the increasing likelihood that SCE might solicit bids for long-term power from its affiliates, SCE needs to review the aforementioned guidance and make appropriate revisions. Specifically, SCE should add a supplemental delegation in each piece of guidance that names the SCE Power Procurement Business Unit (PPBU) as being responsible for Rule compliance when it relates to bulk power transactions. Delegations to PAMM would be retained but clarified to relate only to non-power related goods and services. Refer to recommendation #1 below.

Rule III – Nondiscrimination

In evaluating SCE's compliance with the broad requirements of Rule III.B, we first defined and then reviewed the full range of SCE's transactions with affiliates in 2005. The Commission's definition of an affiliate transaction is "the provision of any good, property, service, privilege, or act between any two parties for which compensation normally would be provided if each party was independent of the other and acting in its best financial interests" (DR 12). Using this definition, the Rules, and various Commission decisions, rulings and orders, we developed the following table of allowable categories of affiliate transactions.

<p>A. SCE Tariffed Products and Services to Affiliates (e.g., distribution services to affiliate end-users; energy and capacity to affiliate end-users without Direct Access; wholesale power to/from an affiliate, including Qualifying Facilities; QF related services to an affiliate subject to transmission owner tariffs; transmission and/or ancillary services to/from an affiliate, etc.)</p> <p>B. SCE Non-tariffed Products and Services to Affiliates (1) Rule VII.F allows SCE to continue offering those non-tariffed products and services in effect prior to 12/16/97, the date the new affiliate rules were established, to affiliates so long as the terms, conditions, prices, etc. do not favor the affiliate over others and the conditions in Rule VII.C and VII.D are met. Such products and services might include: use of communications and computing systems; secondary use of office space; operation and maintenance of generation, transmission, and distribution related facilities and equipment, etc. See ATR Manual, pp.17-11 to 17-20 (DR 5) and Advice Letters 1286-E and 1286-E-A (DR 11) (2) Any new non-tariffed products and services offered by SCE must meet the conditions of Rules VII.C and VII.D and be approved by the Commission</p> <p>C. Affiliate Products and Services to SCE Products & services by affiliates to SCE only through an open, competitive bidding process including long-term contracts for wholesale energy and capacity. (DR 163) See also Affiliate Transactions Compliance Plan CP05 (DR 1) and Affiliate Transaction Rule Manual (DR 5).</p> <p>D. Joint Purchases by SCE and Affiliates Covered also by Rule V.D (e.g., Joint Contracts such as database software; Single Party – Joint Use Contracts, such as national energy data; Joint Negotiation – Separate Contracts, such as office supplies; etc.)</p> <p>E. Shared Corporate Support Shared corporate oversight, governance, support systems and personnel. Covered also by rule V.E</p> <p>F. Sales of Assets The transfer of tangible and intangible assets between SCE and affiliates.</p> <p>G. Mountainview Power Company LLC Related Contracts Power purchase and service agreements between SCE and its Mountainview Power Company, LLC affiliate</p>

Using this basic framework, we reviewed or sampled affiliate transactions from calendar year 2005, and the agreements/contracts/tariffs under which they were authorized or prescribed.

We reviewed service agreements and contracts with affiliates. (DR 6, DR 34, DR 47). As a result of that review, we verified that during 2005, all of SCE's agreements and contracts with Class A affiliates fell under one of the allowable transaction categories shown in the table above. Making up this list are:

Rule III – Nondiscrimination

- Four SCE power supply contracts with affiliated Qualifying Facilities (QFs) which pre-date the Rules (Category A). One of these contracts expired on August 8, 2005.
- One new SCE “standard offer” power supply contract with an affiliated Qualifying Facility that was mandated by the CPUC in D.04-01-050 (DR 164) (Category A)
- Four SCE contracts with affiliated QFs for services other than power supply, pursuant to transmission owner tariffs and wholesale distribution access tariffs (Category A)
- One ITCC indemnity agreement between SCE and a Qualifying Facility (Category A)
- Four non-tariffed general service agreements and seven underlying project agreements for Edison ESI to provide services such as inspection and testing to affiliates (Category B)
- One tax-sharing agreement between Edison International, SCE and the Mission Group (Category E)
- One power purchase agreement between SCE and Mountainview Power LLC (Category G)
- One interconnection facilities agreement between SCE and Mountainview Power Company LLC (Category G)
- Two project agreements for Edison ESI to provide services such as calibrations to Mountainview Power LLC (Category G)

SCE provides Category A tariffed products and services to affiliates on the same terms it offers to outside customers. Two tariffs, available to all customers regardless of affiliation, provide Category A services: Schedule GS-1 (General Service – Non-Demand) and Schedule GS-2 (General Service – Demand). (DR 11)

As to other Category A tariffed services, during 2005 we found four allowable QF power supply contracts with affiliates (DR 6, DR 58). One of these contracts, the 1984 QF power purchase agreement with Kern River Cogeneration expired on August 9, 2005. A new five-year agreement with Kern River Cogeneration for the period from August 10, 2005 to August 10, 2010 was executed on or about August 5, 2005. (DR 165) This contract was made pursuant to the CPUC’s “Interim Opinion” in Rulemaking R.01-10-024 dated January 26, 2004, decision D.04-01-050. (DR 164) D.04-01-050 ordered SCE to extend the contract of any QF whose original contract expired before January 1, 2005, using a “Standard Offer 1” contract and short-run avoided cost (SRAC) pricing.

In addition, we found four open and acceptable agreements with affiliates for system impact studies which were structured under the terms of SCE’s Transmission Owner Tariffs and Wholesale Distribution Access Tariffs. The final Category A agreement we reviewed was an ITCC Indemnity Agreement with an affiliate QF that was executed in 1997 pursuant to CPUC decision D.94-06-038.

Rule III – Nondiscrimination

Of the four contracts for Category B non-tariffed products & services in effect during the year (DR 6, DR 47), we reviewed seven underlying projects, six of which were new in 2005. (DR 34) The seven projects covered SCE Edison ESI work done for SCE affiliates Watson Cogeneration Company, Sycamore Cogeneration and Kern River Cogeneration. (DR 6, DR 47) All of these contracts are allowable under the ATRI Rules.

We identified two other allowable Category B projects where Edison ESI was performing work for Mountainview Power Company LLC. (DR 34) We found no other Category B non-tariffed products and services contracts between SCE and its affiliates. (DR 6, DR 47, DR 101)

There were no short or long term Category C wholesale power agreements / contracts between SCE and any of its Class A affiliates during 2005. (DR 56, DR 57, DR 124, DR 126). Previously banned, on December 16, 2004, the CPUC ordered in D.04-12-048 to allow long-term, but not short-term, arrangements so long as they were conducted “through an open and transparent solicitation process.” (DR 163) The original ban had been in effect since January 1, 2003 in connection with the CPUC’s decision D.02-10-062. (DR 123) The ban on short-term procurement of power from affiliates continues.

Furthermore, we could find no fuel (e.g., natural gas, coal or nuclear) or fuel transportation or storage contracts between SCE and an affiliate (DR 6), nor were there any joint fuel purchases or sales. (DR 99, DR 100)

In 2005, we encountered several Category D contracts pertaining to joint purchasing arrangements between SCE and affiliates. All were allowable under Rule V.D. This is discussed further in Section V.D, below. (DR 50)

We documented one allowable Category E tax-sharing agreement between EIX, SCE and Edison Mission Group in 2005. (DR 6)

SCE also has the following office lease arrangements with its affiliates that are appropriate as Category E Shared Corporate Support.

1. SCE with EIX: EIX leases around 20,000sf of office space in the GO 1 building. (INT 16, DR 116)
2. EIX with SCE: SCE subleases office space from EIX in its Washington DC office where SCE has 8 employees. (INT 9, DR 72)
3. EME with SCE: Members of SCE’s audit staff occupy space in EME’s office in Irvine. (DR 72)

With respect to Category F transactions, there were a very small amount of asset transfers between SCE in affiliates during 2005. (DR 42)

Finally, there are two Category G agreements between SCE and Mountainview Power Company, LLC. As discussed earlier in this report, Mountainview is a subsidiary of SCE. The first Category G agreement is the Power Purchase Agreement (PPA) between SCE

Rule III – Nondiscrimination

and Mountainview. The PPA was approved by both the CPUC and FERC and calls for SCE to take all of the plant’s output. (DR 144) The second agreement is an interconnection facilities agreement between SCE and Mountainview. (DR 6) This agreement was originally established with the previous owners of Mountainview and was among the assets SCE acquired when it purchased Mountainview in 2004.

Billing and Reporting Affiliate Transactions

The table below shows who in SCE is responsible for billing affiliates for these transactions.

Allowed Affiliate Transactions	Who Bills Affiliates
Tariffed products and services	SCE Customer Services Business Unit
Goods/services available to open market/third parties	SCE department performing the work
Joint purchases	Controller’s Department
Shared corporate support (A)	Controller’s Department
Non-tariffed products and services	SCE business unit performing the work

Note A: these make up the majority of SCE’s affiliate charges
DR 128

For joint purchases and shared corporate support, the Controller’s Department charges the affiliates shown in the table below.

Edison Mission Group	EO&MS
Edison Mission Energy	Edison Enterprises
Edison Capital	Edison Insurance Services
Mission Land	Mission Energy Holding Company
EIX	Mountainview Power Company, LLC
Edison Source	

DR 115

The Controller’s Department maintains the “Intercompany Transactions with Nonutility Affiliates” report which shows charge detail by month for shared corporate support and joint purchases for each of these affiliates. (DR 105) In response to a 2002 Affiliate Transaction Audit recommendation, SCE began preparing a summary of affiliate transactions as of June 30. This report includes year-to-date total transactions by principal affiliates and by type of transaction and is distributed to the SCE Affiliates Officer and the SCE Affiliates Controller. This report provides a preview of affiliate transactions that can be analyzed before the end of the year. (DR 157)

SCE is obligated by D.93-02-019 to provide the CPUC with an Annual Report of Affiliate Company Transactions. SCE charges to affiliates and affiliate charges to SCE are summarized and shown by affiliate and FERC account in Volume III of the Annual Report of Affiliate Company Transactions. (DR 2)

Implementation of 2004 Recommendation #2. In the 2004 Affiliate Transactions Audit, we recommended that SCE “Add the Credit Group of SCE Risk Control to the Internal Distribution List for New Affiliate Notification Letters to the CPUC – The addition of this

Rule III – Nondiscrimination

organization to the distribution list should provide an earlier awareness of the changing affiliate status of an existing counterparty on the Power (or Gas) Counterparty Report”.

SCE agreed with this recommendation, saying “SCE accepts this recommendation. The Director of SCE’s Risk Control group, and/or designee, will be added to the internal distribution list for future new affiliate notification letters to the CPUC.”

We verified that SCE Risk Control has been added to this distribution list. (DR 35)

Recommendation

1. Expand Compliance Plan and ATR Manual Guidance to Include the Power Procurement Business Unit. In anticipation of the participation of affiliates in solicitations for long-term power procurements, the Affiliate Transaction Compliance Plan and Affiliate Transaction Rule Manual sections related to ensuring an open, competitive bidding process should be expanded to include a second delegation of responsibility. Specifically, a delegation to the Power Procurement Business Unit (PPBU) should be added to SCE Compliance section of Rule III.B in the Compliance Plan. And similar additions should be made to the ATR Manual sections entitled Nondiscrimination – Types of Transactions Permitted (Chapter 5) and Separation – Transfer of Goods and Services – Competitive Bidding Required (Chapter 16).

CPUC Rule

III.B.1. Provision of Supply, Capacity, Services or Information: Except as provided for in Sections V.D, V.E, and VII, provided the transactions provided for in Section VII comply with all of the other adopted Rules, a utility shall provide access to utility information, services and unused capacity or supply on the same terms for all similarly situated market participants. If a utility provides supply, capacity, services, or information to its affiliate(s), it shall contemporaneously make the offering available to all similarly situated market participants, which include all competitors serving the same market as the utility’s affiliates.

Audit Criteria

- SCE provides access to information, services and unused capacity or supply on the same terms for all similarly situated market participants
- If SCE provides supply, capacity, services, or information to its affiliate(s), it contemporaneously makes the offering available to all similarly situated market participants

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Review instances where unused SCE supply or capacity, information, or services were made available to affiliate(s)
- Determine, in such instances, if offerings were on the same terms for all market participants and if it made the offerings available to all market participants

Rule III – Nondiscrimination

Conclusions

SCE is in compliance with Rule III.B.1.

We found SCE's process to comply with the requirements of this Rule to be well documented and properly executed. Our review of transactions associated with the Rule confirmed there were no instances in which SCE provided affiliates discriminatory access to information, services, or unused capacity or supply. (DR 96)

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule III.B.1. (DR 1, DR 5) Both documents clearly lay out the requirement that any information, goods or services subject to this rule and offered to affiliates would be priced at fair market value and would be offered to non-affiliates on the same terms.

Notice of any such offerings to affiliates would be given to the market in which the affiliate operates by posting an "Affiliate Transaction Compliance Notice for Provision of Supply, Capacity, Services or Information (3B Report)" on the SCE Affiliate Notices website entitled "Supply / Capacity / Services / Info Offered to Affiliates" ([www.sce.com/About SCE/Regulatory/affiliatenotices/supplycapacity.html](http://www.sce.com/About_SCE/Regulatory/affiliatenotices/supplycapacity.html)) (DR 96) and by providing notice in at least one trade magazine serving that market. This approach is supported by Commission Resolution E-3539, Finding 27. (DR 3)

The ATR Manual and CPUC Resolution E-3539, Finding 31, confirm that Rule III.B does not apply to tariffed services. (DR-5, DR-3)

The non-discriminatory release of customer data is a requirement of this Rule. One way SCE ensures compliance is through its Customer Service Business Unit's policies and procedures for handling requests for information by outside parties, including affiliates. (DR 26)

Under these procedures, the turnaround times for handling Customer Information Service Requests (CISRs) are tracked in order to assure that no preference is inappropriately given to affiliates. (DR 27, DR 91) CISRs requested by affiliates are posted to SCE's Affiliate Notices website entitled "Notice of Release of Customer Information to Affiliates – List of Customer Information Service Requests" ([http://www.sce.com/About SCE/Regulatory/affiliate notices/notice of release.htm](http://www.sce.com/About_SCE/Regulatory/affiliate_notices/notice_of_release.htm)). (DR 28)

We performed a number of transaction reviews to determine that SCE was in compliance with Rule III.B.1. The outcome of these reviews is summarized below.

- Unused capacity / supply. We found no instances in 2005 where SCE made unused capacity or supply available to affiliates. (DR 96). And we verified that SCE sold no wholesale energy or capacity to affiliates during 2005. (DR 56, DR 57, DR 58, DR 124, DR 126) Any retail energy or capacity sold to affiliates

Rule III – Nondiscrimination

during 2005 was made available under approved tariffs and is not subject to this rule.

- Services. Similarly, none of the services provided to affiliates by SCE in 2005 are applicable because of exclusions written into this Rule. Non-tariffed services fall under the Rule VII exclusion. Joint purchases fall under the Rule V.D exclusion. And shared corporate governance and support services fall under the Rule V.E exclusion.
- Information. We verified that no CISRs and no 3B Reports were posted to the SCE Affiliate Notices website in 2005. (DR 27, DR 28, DR 91, DR 96) The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001.

Implementation of 2004 Recommendation #3. In the 2004 Affiliate Transactions Audit, we recommended that SCE *“Update Affiliate Notices Website References to Reflect New Website Location – The web address of SCE’s affiliate notices changed along with the redesign of SCE’s main website. Formerly located at five locations under the umbrella address www.sce.com/affiliatebb/index.shtml, the new affiliate notices are now found in five locations under the umbrella address of www.sce.com/AboutSCE/Regulatory/affiliatenotices. Outdated references exist in the prevailing Affiliate Transaction Compliance Plan sections for Rules III.B.1, III.F, IV.B (Advice 1278-E-F and Advice1278-E-I), IV.C, and the Affiliate Transactions Rules Manual. Outdated references may also exist in other RP&A training materials. This affects CISR Notices, 3B Reports, 3F Reports, 4B Reports, and Service Provider Lists. SCE should update all related materials.”*

SCE agreed with this recommendation, saying *“SCE accepts this recommendation. SCE has chosen to retain the original URL (www.sceaffiliatebb.com) that was established for the required affiliate postings and reported to the CPUC, as required at the inception of the affiliate transaction rules. Periodic web designs and subsequent URL changes have occurred since the CPUC’s notification of the URL. Because of the need for uninterrupted access to this information at any time, it was requested and initially agreed to that the URL for affiliate-related posting information would not be changed, however, it was later determined that was not possible, so an alternative process was instituted to automatically re-route access made through the original URL, to any future new affiliate-related URL addresses. This was found to be an acceptable process, which eliminated the need for CPUC re-notifications and continual updates to all of the compliance-related documentation.”* (DR 7)

We verified that both the Compliance Plan – 2005 Update and the ATR Manual were updated to reflect this recommendation. (DR 1, DR 5)

Implementation of 2004 Recommendation #4. In the 2004 Affiliate Transactions Audit, we recommended that SCE *“update the Affiliate Transactions Compliance Plan and the Affiliate Transaction Rules (ATR) Manual to reflect affiliate related portions of CPUC D.04-12-048. This decision modifies the two year old ban on power procurement by lifting prohibitions against long-term procurement from affiliates. In conjunction with the*

Rule III – Nondiscrimination

lifting of the ban, the CPUC cautioned that “utilities, and in particular their risk management committees, must maintain complete procurement planning independence from their affiliates”. Likewise, Rules III.B.1, III.E.4, and IV.B either prohibit or prescribe close management of situations where an affiliate might gain unfair advantage from the transfer of information from SCE to the affiliate. Consequently, we believe the guidance provided to SCE employees and managers relative to these three rules should be expanded to address the requirements of D.04-12-048 as it applies to the conduct of power procurement activities. The Affiliate Transaction Compliance Plan and relevant portions of the Affiliate Transaction Rule Manual should also be updated. For the ATR Manual, this includes the topics in Chapter 4 entitled “Information – Non-Customer Specific, Non-Public”, “Information – Non-Customer Specific, Non-Public – Modeling Data”, and “Information – Non-Customer Specific, Non-Public – Proprietary Information” and the topic in Chapter 5 entitled “Nondiscrimination – Types of Transactions Permitted.”

SCE agreed with the recommendation, saying: “SCE accepts this recommendation. The update has been incorporated into the reference chapters in the ATR Manual filed with the CPUC in May 2005. The information will also be included in the next Affiliate Transactions Compliance Plan filed with the CPUC in 2005.” (DR 7)

We verified that both the Compliance Plan – 2005 Update and the ATR Manual were updated to reflect this recommendation. (DR 1, DR 5)

CPUC Rule

III.B.2. Offering of Discounts: Except when made generally available by the utility through an open, competitive bidding process, if a utility offers a discount or waives all or any part of any other charge or fee to its affiliates, or offers a discount or waiver for a transaction in which its affiliates are involved, the utility shall contemporaneously make such discount or waiver available to all similarly situated market participants. The utilities should not use the “similarly situated” qualification to create such a unique discount arrangement with their affiliates such that no competitor could be considered similarly situated. All competitors serving the same market as the utility’s affiliates should be offered the same discount as the discount received by the affiliates. A utility shall document the cost differential underlying the discount to its affiliates in the affiliate discount report described in Rule III.F.7 below.

Audit Criteria

- If it offered a discount or waiver to its affiliates, SCE made the discounts or waivers available to all similarly situated market participants

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Review instances where discounts or waivers were offered to affiliates
- Determine, in such instances, if similar offerings were made available to non-affiliate customers
- Monitor a sample of Customer Call Center customer calls, both residential and commercial, to determine that the tariffs, discounts, or waivers offered to affiliates or affiliates’ customers are the same as those offered to non-affiliate customers

Rule III – Nondiscrimination

Conclusions

SCE is in compliance with Rule III.B.2.

SCE's process to comply with the requirements of this Rule is satisfactorily documented and properly executed. Our review of transactions associated with the Rule confirmed there were no instances during 2005 in which SCE provided affiliates with waivers or discounts.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule III.B.2 and assign responsibilities for its application.

The Finance Division of the SCE Customer Services Business Unit is responsible for reviewing any proposed pricing for offerings, including any proposed discounts and fee waivers. Any pricing plans that might include a discount or waiver to tariffed products and services are reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs (RP&A) and are subject to approval by the Commission. Any discounted pricing proposed for non-tariffed products and services would be subject to Rule III.B criteria discussed above.

We determined that during 2005, no discounts or waivers were offered to affiliates. (DR 83)

In addition, we listened to a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any discounts or waivers being discussed or offered. (DR 98)

If any discounts or waivers had been offered, they would have been documented by the posting of "Affiliate Discount Reports (3F Reports)" on SCE's Affiliate Notices website. No such reports were posted. (DR 83) See Rule III.F below for more information on "3F Reports".

CPUC Rule

III.B.3. Tariff Discretion: If a tariff provision allows for discretion in its application, a utility shall apply that tariff provision in the same manner to its affiliates and other market participants and their respective customers.

III.B.4. No Tariff Discretion: If a utility has no discretion in the application of a tariff provision, the utility shall strictly enforce that tariff provision.

Audit Criteria

- SCE applies and enforces all tariffs fairly and provides no preferential treatment to its affiliates or its affiliates' customers

Rule III – Nondiscrimination

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers
- Monitor a sample of Customer Call Center calls, both residential and commercial & industrial, to determine that the tariffs offered to affiliates and affiliates' customers are applied in the same way as those offered to non-affiliate customers

Conclusions

SCE is in compliance with Rule III.B.3 and Rule III.B.4.

We found SCE's process to comply with the requirements of this Rule to be adequately documented and properly executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rules III.B.3 and III.B.4. (DR 1, DR 5)

SCE confirmed for us that in no instances during 2005 did the company fail to meet the requirements of these Rules. (DR 108)

We listened to a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any preferential treatment in application of tariffs being discussed or provided. (DR 98)

CPUC Rule

III.B.5. Processing Requests for Services Provided by the Utility: A utility shall process requests for similar services provided by the utility in the same manner and within the same time for its affiliates and for all other market participants and their respective customers.

Audit Criteria

- SCE processes service requests from all market participants in the same manner and within the same time frame as it does for its affiliates

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Note that ATR Manual, employee communications and training materials prohibit preferential treatment for affiliates or their customers

Rule III – Nondiscrimination

- Review Customer Information Service Requests (CISR) processing times to assure no preferential treatment was given to affiliates or affiliates' customers and sample actual CISRs to assure processing times have been accurately reflected
- Review SCE's process for handling Direct Access Service Requests (DASR) and determine whether any DASRs were processed. If DASRs were processed, assure no preferential treatment was given to affiliates or affiliates' customers.

Conclusions

SCE is in compliance with Rule III.B.5.

SCE's process to comply with the requirements of this Rule is well documented and effectively executed. Our review and sampling of certain affiliate transactions under Rule III.A, particularly those having to do with service requests, led us to conclude that SCE is complying with the rule. This Rule is similar to Rule III.A.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule III.B.5. (DR 1, DR 5). Employees are referred to the essentially identical Rule III.A and are reminded that "SCE will neither claim, nor provide preferential treatment to, its affiliates or its affiliates' customers" and "employees may not give preference to its affiliates or its affiliates' customers when providing utility services." This is a key element of RP&A's training efforts.

Another way SCE ensures compliance is through its Customer Service Business Unit's policies and procedures for handling requests for information by outside parties, including affiliates. (DR 26) Under these procedures, the turnaround times for handling Customer Information Service Requests (CISRs) are tracked in order to assure that no preference is inappropriately given to affiliates. (DR 27, DR 91) CISRs requested by affiliates are posted to SCE's Affiliate Notices website entitled "Notice of Release of Customer Information to Affiliates – List of Customer Information Service Requests". See Rule III.B.1 for more information on web postings of CISRs. (DR 28)

In evaluating SCE's compliance with Rule III.B.5 (and Rule III.A), we evaluated SCE's processing of two kinds service/information requests: Direct Access Service Requests (DASRs) and the above mentioned Customer Information Service Requests (CISRs).

DASRs are the communication tool that would be used by an Electric Service Provider (ESP) to notify SCE of a customer's request to initiate, cancel, or modify their Direct Access account. Essentially, Rule III.B.5 (and Rule III.A) says that SCE may not provide preferential treatment to any customer that is obtaining direct access from an SCE affiliate. Such preferential treatment, if it existed, might show up in quicker turnaround times for DASRs sent to SCE by its affiliates compared to other ESPs.

SCE measures the number of days to process the DASR and compares turnaround times for affiliate customers and other customers. While this procedure is still in place

Rule III – Nondiscrimination

at SCE, it has not been used since 2001, when the Direct Access program in California was suspended by the Commission. (DR 22)

CISRs are the communication tool used to obtain/approve release of customer information to a third party. For example, if a customer retains an energy management firm to help identify opportunities for energy cost reduction, the customer might use a CISR to ask SCE to release data about their energy usage amounts and patterns to the third party energy management firm.

Under Rule III.B.5 (as well as Rule III.A and Rule III.B.1), SCE cannot process such requests more quickly for affiliates or affiliates' customers than for others. SCE's procedure for CISR handling also includes the measurement of the number of days to process the CISR. (DR 27, DR 91)

As discussed under Rule III.A above, there were no CISRs involving affiliates in 2005, thus there was no discrimination in favor of affiliates. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 28)

Based on this analysis, we have concluded that no preferential treatment was given to affiliates through the expedited processing of CISRs or DASRs.

CPUC Rule

III.C. Tying of Services Provided by a Utility Prohibited: A utility shall not condition or otherwise tie the provision of any services provided by the utility, nor the availability of discounts of rates or other charges or fees, rebates, or waivers of terms and conditions of any services provided by the utility, to the taking of any goods or services from its affiliates.

Audit Criteria

- The terms, conditions and pricing of SCE services are not conditioned on the use of an affiliate's services

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Monitor actual customer conversations with SCE Customer Call Center representatives, both residential and commercial & industrial, to determine SCE does not condition its service on taking goods or services from affiliates
- Review billing inserts to determine SCE does not condition its service on taking goods or services from affiliates
- Review a sample of marketing/advertising materials targeted or sent to SCE customers to determine SCE does not condition its service on taking goods or services from affiliates
- Sample SCE presentations to large customers to determine SCE does not condition its service on taking goods or services from affiliates

Rule III – Nondiscrimination

- Sample account manager/account executive journal entries to determine SCE does not condition its service on taking goods or services from affiliates
- Review SCE proposals responding to RFPs from major customers to assure the terms, conditions, and pricing of SCE services are not conditioned on the use of an affiliate's services

Conclusions

SCE is in compliance with Rule III.C.

We found SCE's process to comply with the requirements of this Rule to be appropriately documented and properly executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule III.C. (DR 1, DR 5)

In evaluating SCE's compliance with Rule III.C, we conducted a variety of reviews to affirm that SCE does not condition or tie provision of its services to the taking of goods or services from an affiliate. Included in the review were: Call Center calls, bill inserts, mass market advertisements, presentations to large customers, account manager/executive contacts, and SCE proposals responding to Requests for Proposals (RFP) from major customers.

Customer Call Centers. We listened in on a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we see any evidence of SCE tying terms, conditions, or pricing to the taking of services from an affiliate. (DR 98)

Billing Inserts & Advertisements. We reviewed all billing inserts, Power Bulletins, and Business Solutions Newsletters provided to both commercial and residential customers during 2005. (DR 20, DR 92). We examined all mass market advertisements sponsored by SCE during 2005. (DR 18, DR 104) In none of the inserts or advertisements did we see any evidence of SCE tying terms, conditions, or pricing to the taking of services from an affiliate.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to all presentations available for use with customers during 2005. SCE's Business Customer Division provided us access to all presentations available for use with customers during 2005. (DR 19, DR 92)

We also sampled the online diary notes of Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 93). These notes

Rule III – Nondiscrimination

document meetings held with large customers in 2005. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2005.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2005, and to indicate which, if any, resulted in an SCE proposal. SCE received no RFPs from customers in 2005. SCE did revise one proposal, the original version of which responded to a 2004 RFP. We reviewed this revised proposal, which related to possible privatization of a government-owned electric system. (DR 94)

Neither the presentations to large customers nor the sample of diary notes or the SCE proposals for privatization provided any evidence of SCE tying terms, conditions or pricing to the taking of services from an affiliate.

Furthermore, in evaluating SCE's compliance with Rule III.C, we specifically asked SCE to identify for us any instances where SCE tied its products/services to a customer's use of an affiliate's products/services. There were none identified for 2005. (DR 23)

CPUC Rule

III.D. No Assignment of Customers: A utility shall not assign customers to which it currently provides services to any of its affiliates, whether by default, direct assignment, options or by any other means, unless that means is equally available to all competitors.

Audit Criteria

- SCE customers are not directed to be served by an affiliate

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Determine that SCE has not assigned its customers to affiliates

Conclusions

SCE is in compliance with Rule III.D.

SCE's process to comply with the requirements of this Rule is satisfactorily documented and properly executed. Our review confirmed SCE's compliance with Rule III.D.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe Rule III.D's prohibition of "assigning" customers of SCE to those of an affiliate. (DR 1, DR 5)

In evaluating SCE's compliance with Rule III.D, we could identify no instances in 2005 in which SCE assigned its customers to affiliates. (DR 24)

Rule III – Nondiscrimination

CPUC Rule

III.E. Business Development and Customer Relations: Except as otherwise provided by these Rules, a utility shall not:

- III.E.1. provide leads to its affiliates;
- III.E.2. solicit business on behalf of its affiliates;
- III.E.3. acquire information on behalf of or to provide to its affiliates;
- III.E.4. share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates'
- III.E.5. request authorization from its customers to pass on customer information exclusively to its affiliates;
- III.E.6. give the appearance that the utility speaks on behalf of its affiliates or that the customer will receive preferential treatment as a consequence of conducting business with the affiliate; or

Audit Criteria

- SCE does not provide leads to its affiliates or solicit business on behalf of its affiliates (III.E.1, E.2)
- SCE does not acquire information for affiliates, share proprietary or non-public information with affiliates, or request its customers to authorize release of customer information exclusively to affiliates (III.E.3, E.4, E.5)
- SCE does not give any appearance that the utility speaks on behalf of affiliates or give any appearance that the affiliate speaks on behalf of SCE (III.E.6, III.E.7)

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Sample/monitor Customer Call Center calls from both residential and commercial customers to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review billing inserts to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review marketing/advertising materials of both SCE and affiliates to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Sample SCE presentations to large commercial and industrial customers to determine (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE

Rule III – Nondiscrimination

- Sample account manager/account executive journal entries contained in Major Customer Division's contact management system to determine that: (1) business was not solicited on behalf of affiliates; (2) there is no appearance that SCE speaks on behalf of affiliates, or provides them preferential treatment and (3) SCE gives no appearance that the affiliate speaks on behalf of SCE
- Review SCE proposals responding to RFPs from major customers to assure business is not being solicited on behalf of affiliates, or that SCE speaks on behalf of affiliates
- Review trade shows, conferences, and marketing events attended by both SCE and affiliates to assure elements of the rule were followed
- Review R&D Projects and EPRI target purchases and usage to assure that proprietary information was not shared with affiliates

Conclusions

SCE is in compliance with Rule III.E.

We found SCE's process to comply with the requirements of this Rule to be appropriately documented and effectively executed. We reviewed and sampled a wide range of affiliate transactions to conclude that SCE is complying with Rule III.E and its sub-parts.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule III.E. (DR 1, DR 5)

For Rules III.E.1 and III.E.2, SCE reiterates its strict policy prohibiting employees from giving leads to affiliates, providing affiliates' phone numbers/addresses (even when specifically requested by a customer), or encouraging/suggesting that customers consider purchasing goods and services from affiliates. We believe SCE properly interprets Rule III.E.1 in that it does not apply to third parties who are not customers requesting information (e.g., regulatory or governmental agencies).

Similarly, for Rule III.E.3, SCE expresses the appropriate prohibition to employees and notes that this Rule should not apply to the acquisition and exchange of information necessary to perform corporate support functions authorized by Rule V.E.

Rule III.E.4 and Rule IV.B are closely related. SCE implements these rules by generally prohibiting the sharing of market analysis or other types of proprietary or non-publicly available reports. Where the sharing of such information is allowed, the requirements of Rule IV.B prevail. That is, notice must be given to the market that the sharing has occurred. Any such shared information would be posted on SCE's Affiliate Notices website entitled "Non-Customer Specific, Non-Public Information Offered to Affiliates". (DR 29) See Rule IV.B later in this report for more information on "4B Reports".

Rule III.E.5 is related to Rules V.F.1 and V.F.4, which prohibit SCE from trading upon, promoting, or advertising its affiliates' relationship with SCE, and which prohibit joint advertising or marketing. The Rule III.E.5 prohibition against asking a customer for

Rule III – Nondiscrimination

permission to pass customer information to affiliates is simply an extension of the other two rules.

For Rules III.E.6 and III.E.7, SCE prohibits all conflicts of interest and the appearance of conflict of interest. SCE employees are specifically instructed to not serve in a representative capacity on behalf of affiliates.

In evaluating SCE's compliance with Rule III.E and its sub-parts, we conducted a variety of data reviews to affirm that SCE does not develop business for affiliates, acquire/provide information from its customers or from proprietary sources for its affiliates, or give the appearance that SCE speaks on behalf of affiliates, or vice-versa. Included in the year 2005 data samples were customer calls, bill inserts, mass market advertisements, presentations to large customers, account manager/account executive contacts, SCE proposals responding to Requests for Proposals (RFP) from major customers, trade shows / conferences attended by both SCE and affiliate personnel, EPRI research products, and Intercompany Service Requests (ISRs). The results of our review are described below.

Customer Call Centers. We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE's Customer Call Centers, did we note any business being solicited on behalf of an affiliate, any appearance that SCE was speaking on behalf of affiliates, or any appearance that the an affiliate speaks on behalf of SCE. (DR 98)

Billing Inserts, Advertisements, Promotions & Giveaways. We reviewed all billing inserts, Power Bulletins, and Business Solutions Newsletters provided to both commercial and residential customers during 2005. (DR 20, DR 92). We examined all mass market advertisements, promotions, and giveaways sponsored by SCE or affiliates during 2005. (DR 18, DR 104) No affiliates sponsored ads or promotions in 2005. There were no giveaways by affiliates to customers or potential customers in California. In none of the inserts or advertisements did we see any evidence that business was being solicited on behalf of affiliates, any appearance that SCE was speaking on behalf of affiliates or any appearance that the an affiliate speaks on behalf of SCE.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we also reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Business Customer Division provided us access to all presentations available for use with customers during 2005. (DR 19, DR 92)

We also sampled the online diary notes of Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 93, DR 190) These notes document meetings held with large customers in 2005. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2005.

Rule III – Nondiscrimination

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2005, and to indicate which, if any, resulted in an SCE proposal. SCE received no RFPs from customers in 2005. SCE did revise one proposal, the original version of which responded to a 2004 RFP. We reviewed this revised proposal, which related to possible privatization of a government-owned electric system. (DR 94)

We found no evidence in the presentations to large customers, the sample of diary notes, or the SCE proposals for privatization that SCE solicited business on behalf of an affiliate, spoke on behalf of an affiliate or made it appear that an affiliate spoke on behalf of SCE.

Trade shows, conferences and marketing events. SCE confirmed that at no time in 2005 did representatives of SCE participate with its affiliates in joint advertising or joint marketing at trade shows, conferences, or other information/marketing events in California. (DR 86, DR 168).

EPRI and R&D. SCE is a member of the Electric Power Research Institute (EPRI). Through its paid membership, SCE is able to access a large amount of EPRI research material. We evaluated the availability of these research information ‘deliverables’ to affiliates in 2005. Some of the EPRI deliverables describe state-of-the-art approaches to utility operations and maintenance and might contain information valuable for affiliate business development. We confirmed that none of the EPRI research products had been made available for use by affiliates, or acquired on behalf of affiliates. (DR 107, DR 54, DR 55, INT 11). We also concluded there were no R&D projects underway during 2005 which have demonstrated commercial viability to affiliates, or whose end products were recognized as beneficial to affiliates. (DR 88, DR 89)

In our review of 2005 Intercompany Service Requests (ISRs), we noted no instances where SCE employees performed business development-related work for Class A affiliates. (DR 40)

Finally, we determined there were no instances in 2005 in which SCE provided leads to affiliates, solicited business for affiliates, acquired information for affiliates, shared proprietary or non-publicly available information with affiliates or requested authorization from its customers to pass information exclusively to affiliates. (DR 25, DR 106). And we verified there were no instances in 2005 where SCE had given any appearance that it spoke for an affiliate, or that one of the affiliates spoke for SCE. (DR 97).

Implementation of 2004 Recommendation #5. In the 2004 Affiliate Transactions Audit, we recommended an expansion of the EIX Business Conduct Guide to spell out in more detail a few of the most important elements of the AT Rules. This recommendation was in response to an April 9, 2004, incident which we documented in our 2004 report. Specifically we recommended that the Guide should mention (1) “SCE employees may not promote affiliates, even at customer request,” (2) “release of SCE customer information requires prior written consent,” (3) “work for affiliates by SCE employees requires consent of Affiliates Officer,” (4) “SCE and affiliates may not participate in joint

Rule III – Nondiscrimination

sales, marketing, or communication to existing or potential customers,” and (5) “SCE transactions with affiliates must be thoroughly documented.” We verified that SCE completed the recommended revisions to the EIX Business Conduct Guide in 2005. (DR 17)

CPUC Rule

III.F. Affiliate Discount Reports: If a utility provides its affiliates a discount, rebate, or other waiver of any charge or fee associated with services provided by the utility, the utility shall, within 24 hours of the time at which the service provided by the utility is so provided, post a notice on its electronic bulletin board providing the following information:

1. the name of the affiliate involved in the transaction;
2. the rate charged;
3. the maximum rate;
4. the time period for which the discount or waiver applies;
5. the quantities involved in the transaction;
6. the delivery points involved in the transaction;
7. any conditions or requirements applicable to the discount or waiver, and a documentation of the cost differential underlying the discount as required in Rule III B 2 above; and
8. procedures by which a nonaffiliated entity may request a comparable offer.

A utility that provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee associated with services provided by the utility shall maintain, for each billing period, the following information:

9. the name of the entity being provided services provided by the utility in the transaction;
10. the affiliate’s role in the transaction (i.e., shipper, marketer, supplier, seller);
11. the duration of the discount or waiver;
12. the maximum rate;
13. the rate or fee actually charged during the billing period; and
14. the quantity of products or services scheduled at the discounted rate during the billing period for each delivery point.

All records maintained pursuant to this provision shall also conform to FERC rules where applicable.

Audit Criteria

- If it offered a discount, waiver, or rebate to any of its affiliates, SCE posted notice such within 24 hours and maintained the prescribed billing information for each billing period

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees’ compliance with this rule
- Review instances where affiliates were offered discounts, waivers, or rebates
- Determine, in such instances, if notices were posted to SCE’s electronic bulletin board

Conclusions

SCE is in compliance with Rule III.F

Rule III – Nondiscrimination

SCE's process to comply with the requirements of this Rule is adequately documented and properly executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule III.F. (DR 1, DR 5)

As noted in Rule III.B.2 above, the Finance Division of the SCE Customer Services Business Unit is responsible for reviewing any proposed pricing for offerings, including any proposed discounts and fee waivers. Any pricing plans that might include a discount or waiver to tariffed products and services must be reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs (RP&A) and are subject to approval by the Commission. Any proposals for discounted non-tariffed products and services would be subject first to Rule III.B.2 criteria, and then Rule III.F.

We determined that, during 2005, SCE offered no discounts, waivers or rebates to affiliates. (DR 83) If any discounts or waivers had been offered, they would have been documented by the posting of Affiliate Discount Reports (3F Reports) on SCE's Affiliate Notices website entitled "SCE Discounts Offered to Affiliates" (<http://www.sce.com/AboutSCE/Regulatory/affiliatenotices/scediscounts.htm>). No reports of this kind were posted in 2005. (DR 83)

Rule IV – Disclosure and Information

CPUC Rule

IV.A. Customer Information – A utility shall provide customer information to its affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior affirmative customer written consent.

Audit Criteria

- SCE does not discriminate in providing customer information to affiliates and non-affiliates. Such information is only provided with the customer's written consent

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review SCE's process for authorizing and supplying customer information to affiliates and non-affiliates to determine that affiliates are not given preferences. Determine that: (1) the customer has given written, affirmative consent to the release of information and (2) the information is made available, subject to the customer's authorization, to both affiliates and their competitors
- Review a sample of Customer Information Service Request (CISR) forms associated with affiliate and non-affiliate customer information requests
- Review CISR postings to determine that notices have been posted to the SCE Affiliate Notices website whenever SCE receives CISR forms authorizing release of customer information to a Class A affiliate

Conclusions

SCE is in compliance with Rule IV.A.

SCE's process to comply with the requirements of this Rule is suitably documented and well executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

Policies and procedures for handling the approval and release of customer information to affiliates and non-affiliates are maintained by the Customer Service Business Unit. These procedures cover the use of the Customer Information Standardized Request (CISR-S) form – the primary mechanism by which third parties request SCE customer information. Customers are required to give written, affirmative consent on a CISR-S form before their information is released. SCE's Customer Services Business Unit – Pricing and Load Management Group – is responsible for administering this process. (DR 26)

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule IV.A. (DR 1, DR 5)

Both describe the role of the Affiliate Compliance Organization relating to the release of customer information to an affiliate. In such an event, after the receipt of a customer's written authorization, the Affiliate Compliance Organization arranges for the posting of a

Rule IV – Disclosure and Information

notice on SCE's Affiliate Notices website, entitled "Notice of Release of Customer Information to Affiliates – List of Customer Information Service Requests" See Rule III.B.1 above for more information on web postings of CISRs. (DR 28)

As discussed earlier in Sections III.A, III.B.1 and III.B.5, another way SCE ensures there is no preference given to affiliates with regard to customer information is through the tracking of turnaround times for handling CISRs. (DR 27, DR 91)

There were no CISR forms relating to affiliates processed in 2005. The SCE Affiliate Notices website shows that the most recent affiliate CISR was processed in April 2001. (DR 28)

CPUC Rule

IV.B. Non-Customer Specific Non-Public Information – A utility shall make non-customer specific non-public information, including but not limited to information about a utility's natural gas or electricity purchases, sales, or operations or about the utility's gas-related goods or services, electricity-related goods or services, available to the utility's affiliates only if the utility makes that information contemporaneously available to all other service providers on the same terms and conditions, and keeps the information open to public inspection. Unless otherwise provided by these Rules, a utility continues to be bound by all Commission-adopted pricing and reporting guidelines for such transactions. Utilities are also permitted to exchange proprietary information on an exclusive basis with their affiliates, provided the utility follows all Commission-adopted pricing and reporting guidelines for such transactions, and it is necessary to exchange this information in the provision of the corporate support services permitted by Rule V E below. The affiliate's use of such proprietary information is limited to use in conjunction with the permitted corporate support services, and is not permitted for any other use. Nothing in this Rule precludes the exchange of information pursuant to D.97-10-031.

Audit Criteria

- Non-customer, non-public information is made available to affiliates and non-affiliates on the same terms and conditions. Any such information made available must be open for public inspection

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review instances where requests for non-customer, non-public information were made available to affiliates, and then determine if equal access was given to non-affiliates
- Determine that notices of the transfer to affiliates of non-customer, non-public information have been posted to SCE's Affiliate Notices website

Conclusions

SCE is in compliance with Rule IV.B.

We found SCE's process to comply with the requirements of this Rule to be appropriately documented and properly executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

Rule IV – Disclosure and Information

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule IV.B. (DR 1, DR 5)

Notice of any such offerings is required to be given to the market in which the affiliate operates by posting a Provision of Non-Customer Specific, Non-Public Information (4B Report) on SCE's Affiliate Notices website entitled "Non-Customer Specific, Non-Public Information Offered to Affiliates"

(<http://www.sce.com/AboutSCE/Regulatory/affiliatenotices/noncustomerspecific.htm>).

(DR 29)

We found no instances in 2005 where SCE made non-customer specific, non-public information available to affiliates and verified that no "4B Reports" were posted to the SCE Affiliate Notices website. (DR 29)

CPUC Rule

IV.C. Service Provider Information:

IV.C.1 Except upon request by a customer or as otherwise authorized by the Commission, or approved by another governmental body, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities. A utility shall submit lists approved by other governmental bodies in the first semi-annual advice letter filing referenced in Rule IV.C.2 following such approval, but may provide customers with such lists pending action on the advice letter.

IV.C.2 If a customer requests information about any affiliated service provider, the utility shall provide a list of all providers of gas-related, electricity-related, or other utility-related goods and services operating in its service territory, including its affiliates. The Commission shall authorize, by semi-annual utility advice letter filing, and either the utility, the Commission, or a Commission-authorized third party provider shall maintain on file with the Commission a copy of the most updated lists of service providers which have been created to disseminate to a customer upon a customer's request. Any service provider may request that it be included on such list, and, barring Commission direction, the utility shall honor such request. Where maintenance of such list would be unduly burdensome due to the number of service providers, subject to Commission approval by advice letter filing, the utility shall direct the customer to a generally available listing of service providers (e.g., Yellow Pages). In such cases, no list shall be provided. If there is no Commission-authorized list available, utilities may refer customers to a generally available listing of service providers (e.g., the Yellow Pages). The list of service providers should make clear that the Commission does not guarantee the financial stability or service quality of the service providers listed by the act of approving this list.

Audit Criteria

- SCE maintains a process by which vendors may request to be added to an SCE-maintained list of service providers
- SCE files a semi-annual advice letter with the Commission which includes the SCE-maintained list of service providers
- When a customer requests information about affiliated service providers, SCE either (1) provides the SCE-maintained list as approved by the Commission or (2) directs the customer to "generally available" lists or to the Internet
- When a customer requests information about non-affiliated service providers, SCE provides only lists that have been approved by the Commission or other government bodies

Audit Steps

Rule IV – Disclosure and Information

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Review SCE's process for handling service provider self-nominations for lists to assure that the requirements of Rule IV.C.2 are met
- Note that SCE files semi-annual advice letters related to these Rules
- Review all service provider lists to assure appropriate disclaimers are included
- Determine how SCE resolves customer questions and requests for recommendations for providers of electricity-related or other utility related goods and services, including SCE affiliates
- Monitor actual customer conversations with SCE Customer Call Center representatives to determine that requests for service provider lists are handled appropriately
- Review billing inserts and marketing/advertising materials to determine that requests for service provider lists are handled appropriately
- Review a sample of SCE presentations to major customers and account manager/account executive journal entries documenting meetings with major customers to determine that requests for service provider lists are handled appropriately

Conclusions

SCE was in partial compliance with Rule IV.C during 2005.

While SCE adequately documents a process to assure compliance with this Rule, three instances of less than full compliance with Rule IV.C were discovered by the utility in 2005. Our subsequent review of other similar materials resulted in no additional findings.

The three incidents discovered by SCE during 2005 resulted in the issuance of "self-reporting letters" to the CPUC. First, on April 14, 2005, SCE reported the discovery of vendor lists that had been provided on a website used to promote the Southern California Lighting Technology Center (SCLTC). One was a list of 22 lighting designers and manufacturers who donated resources in support of the SCLTC and the other was a list of winning designers of the "Lighting for Tomorrow" national fixture design competition organized by the American Lighting Association, the Consortium for Energy Efficiency, and the U.S. Department of Energy. No affiliates of SCE were on either list and the information has been removed from the website and is no longer available. (DR 139)

Second, on July 26, 2005, SCE reported the discovery of list of exhibitors participating in SCE's 2005 Demand Response Emerging Technologies Showcase (DRETS). The list was posted on www.calpoweredge.com and included "twenty-four businesses with new, cutting edge, demand response services for California customers". No affiliates of SCE were on the list and it has been removed from the website. (DR 139)

Rule IV – Disclosure and Information

Last, on November 10, 2005, SCE reported the discovery of a publicly available document at its Refrigeration and Thermal Test Center (RTTC) that lists the names of two non-affiliated vendors/consultants who had “helped in the collaborative research development of energy efficiency refrigeration products for customers”. The document is no longer available. (DR 139)

These incidents, we believe, had little or no impact on the marketplace the Rule was designed to protect. However, it does illustrate the need for SCE to expand its efforts to educate employees and vendors about the limitations imposed by Rule IV.C. See recommendation #2 below.

SCE maintains a formal process to manage service provider lists. The Affiliate Transactions Compliance Plan – 2005 Update (CP05) and the Affiliate Transaction Rule (ATR) Manual describe the policies, procedures and types of service provider lists SCE uses to meet the requirements of Rule IV.C. (DR 1, DR 5)

SCE is required to follow strict guidelines covering information it gives out to customers who request the name of qualified vendors and service providers. There are several types of lists, including:

For customers requesting information about affiliated service providers:

- Self-nominated service provider list (Internet-Based Service Provider List)
- Generally available service provider list

For customers requesting information about non-affiliated vendors or service providers:

- Focused lists of non-affiliated service providers (vendors not related to energy efficiency)
- Focused lists of non-affiliated service providers for residential & nonresidential energy efficiency products
- Government approved lists of service providers

Self-Nominated Service Provider List (Internet-Based Service Provider List). Before 2002, no contractors had requested to be included on SCE’s list of service providers. Customers asking for a list were referred to the Generally Available Service Provider Lists discussed below.

In December 2002, SCE’s Semi-Annual Filing Regarding Service Provider Lists (Advice 1491-E-E), notified the CPUC of SCE’s first instance of a self-nomination. Since then the number of providers requesting to be included on the list has expanded to eleven. Because providing this short a list of contractors might create a false impression that the Company or the CPUC endorses those providers, SCE asked the CPUC in the most current advice letter (Advice 1904-E-A, December 16, 2005) to continue the practice of referring customers to the Generally Available Service Provider Lists should a customer ask for such a list. (DR 162)

Rule IV – Disclosure and Information

However, those service providers who have requested to be included on the self-nominated list do also appear in SCE's regulatory / affiliate notices website. The process by which a vendor may be added to the list, as well as the list itself appear in the Affiliate Notices website named "Service Provider Lists" (<http://www.sce.com/AboutSCE/Regulatory/affiliatenotices/serviceproviderlists.htm>) . (DR 14).

Generally Available Service Provider Lists. With so few self-nominated service providers, SCE has opted to follow the part of Rule IV.C that allows it to alternately furnish customers with referrals to "generally-available" lists of providers, like the Yellow Pages, Internet keyword search engines. This practice was authorized by the CPUC in its approval of Advice 1342-E-B in February 2000. (DR 13)

Focused Lists of Non-Affiliated Service Providers (not related to energy efficiency). By approving Advice Letter 1904-E, the CPUC authorized SCE to distribute, on customer request, these "focused lists" of non-affiliated service providers. The lists cover providers of specific goods (e.g., food service equipment vendors, uninterruptible power suppliers, etc.) and of services (e.g., contractors that perform underground construction and sub-station work). (DR 162, DR 189)

Focused Lists of Non-Affiliated Service Providers for Residential & NonResidential Energy Efficiency Products. By approving Advice Letter 1904-E, the CPUC authorized SCE to also distribute, on customer request, these "focused lists" of non-affiliated energy efficiency product providers.. (DR 162, DR 189)

Government-Approved Lists of Service Providers. The three government-approved lists permitted by the CPUC are: (1) Electric Service Providers (ESPs) registered with the CPUC and listed on their website (www.cpuc.ca.gov/published/ESP_Lists/esp_udc.htm), (2) Suppliers of Water-Based Cleaning Materials and/or Equipment as approved by the South Coast Air Quality Management District (no web link provided) and (3) List of Firms Qualified by CEC Staff to participate in the Transitional Incentives Programs, Technical Assistance Incentive. (DR 14, DR 15, DR 162)

We examined all focused lists of non-affiliated suppliers and we reviewed the "list of eleven" self-nominees from the Internet-Based Process provided in the most recent Advice Letter to determine if appropriate disclaimers had been used. In every case, all lists contained appropriate disclaimers. (DR 162)

As required by Rule IV.C.2, SCE submitted the following two Advice Letters regarding lists to the Commission during 2005:

- Advice 1904-E, "Semi-Annual Filing Regarding Service Provider Lists Pursuant to Affiliate Transaction Rule IV.C.2", dated July 21, 2005. (DR 162) This filing was approved by the CPUC on February 27, 2006. (DR 189)
- Advice 1904-E-A, "Semi-Annual Filing Regarding Service Provider Lists Pursuant to Affiliate Transaction Rule IV.C.2", dated December 16, 2005. (DR 162) This filing has not yet been approved by the CPUC.

Rule IV – Disclosure and Information

We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls did we note any lists being requested or provided to customers. (DR 98).

We reviewed all billing inserts, Power Bulletins, and Business Solutions Newsletters provided to both commercial and residential customers during 2005. (DR 20, DR 92). We also examined all mass market advertisements and websites sponsored by either SCE or its affiliates during 2005. (DR 18, DR 21) In no instance did we see any evidence of lists being provided.

We also reviewed materials relating to major customers. SCE's Business Customer Division provided us access to all presentations used for customer updates during 2005. (DR 19, DR 92). We sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 93). These notes document meetings held with large customers in 2005. Nothing in the presentations or the sample of diary notes indicated that lists of service providers had been provided to major customers.

We reviewed flyers, brochures, data sheets, etc., which SCE told us were publicly available during 2005 at SCE's various technology and demonstration centers. (DR 147, DR 160, DR 161) The list of centers includes AgTAC, CTAC, Refrigeration and Thermal Test Center, Southern California Lighting Technology Center, EV Tech Center, EV Maintenance & Repair Center, and S.E.A. Laboratory. Other than the issues identified in SCE's Self Reporting Letters and discussed above, we found no other Rule IV.C concerns.

The company maintains and communicates appropriate processes for complying with Rule IV.C. Also, our evaluation of specific elements of the Rule and testing of a series of transactions led us to conclude that, except for the self-reporting incidents described above, SCE met the requirement of the Rule in 2005.

Implementation of 2004 Recommendation #6. In the 2004 Affiliate Transactions Audit, we recommended that SCE "Utilize the AgTAC Incident in Future Affiliate Rules Training Sessions – Incorporate the incident of the AgTAC flyer as an example of the kinds of lists which must be avoided in order that SCE maintain compliance with Rule IV.C of the ATRs." SCE accepted the recommendation, adding, "the Affiliate Rules Training materials will be updated to incorporate the AgTAC incident in future Training Sessions." (DR 7)

We verified that additional training was undertaken and that the AgTAC incident was used as an example. (INT 1, INT 38)

Rule IV – Disclosure and Information

Recommendation

2. Utilize the 2005 Self-Reporting Incidents in Future Affiliate Rules Training Sessions – Incorporate the SCLTC and DRETS website incidents and the RTTC document as examples of the kinds of lists which must be avoided in order that SCE maintain compliance with Rule IV.C.

CPUC Rule

IV.D. Supplier Information: A utility may provide non-public information and data which has been received from unaffiliated suppliers to its affiliates or non-affiliated entities only if the utility first obtains written affirmative authorization to do so from the supplier. A utility shall not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.

Audit Criteria

- Non-public information SCE receives from unaffiliated suppliers is only provided to affiliates after receiving written authorization from the supplier

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Identify instances where non-public information and data from unaffiliated suppliers was provided by SCE to affiliates or non-affiliates
- In any such instances determine that the supplier provided written authorization for the release of this information

Conclusions

SCE is in compliance with Rule IV.D.

SCE's process to comply with the requirements of this Rule is well documented and effectively executed. In all instances, we determined that the appropriate authorizations had been received.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule IV.D. (DR 1, DR 5)

Both documents clearly note the need to obtain a supplier's authorization before releasing that supplier's information to SCE affiliates. The SCE Procurement and Materials Management Department (PAMM) is designated to obtain such authorizations and keep them on file.

PAMM documents this requirement in its "Joint Procurement Acquisition Process" and "Doing Business in Compliance with the Affiliate Transaction Rules" guidelines, both detailed internal compliance procedures. (DR 121).

Rule IV – Disclosure and Information

One key control of PAMM's process involves the completion and approval of a Joint Procurement Notification (JPN) Form prior to release of a Request for Proposal (RFP). Another key control is a "Consent Form" included in RFP documentation asking potential bidders on joint arrangements to approve in advance SCE's release of bid information to its affiliates.

One new joint purchasing arrangement was made by SCE in 2005. It was categorized as a Joint Negotiation Resulting in Separate [Affiliate] Contracts. (DR 50) We verified that a JPN Form had been executed for this arrangement. (DR 49)

We also verified that written supplier authorization for the sharing of bid information with affiliates was appropriately received from this vendor. (DR 30)

CPUC Rule

IV.E. Affiliate-Related Advice or Assistance: Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers.

Audit Criteria

- SCE does not offer or provide advice or assistance to its customers regarding its affiliates or other service providers

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Monitor actual customer conversations with SCE Customer Call Center representatives to determine that SCE does not offer or provide advice or assistance to its customers regarding affiliates or other service providers
- Sample SCE presentations to major customers to assure no advice or assistance was offered or given regarding affiliates or other service providers
- Sample account manager/account executive journal entries to determine that no advice or assistance was offered or given regarding affiliates or other service providers

Conclusions

SCE is in compliance with Rule IV.E.

We found SCE's process to comply with the requirements of this Rule to be suitably documented and properly executed. There were no instances during 2005 in which SCE offered or provided advice or assistance to its customers regarding its affiliates or other service providers.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe SCE's Rule IV.E prohibition against providing advice and assistance regarding affiliates or other service providers. (DR 1, DR 5)

Rule IV – Disclosure and Information

SCE confirmed its policy against providing advice or assistance regarding specific energy service providers. (DR 85)

We listened to a large sample of customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls did we note advice or assistance given regarding affiliates or other service providers. (DR 98)

We also reviewed materials relating to the large commercial and industrial customer markets. SCE's Major Customer Division provided us access to presentations used in customer updates during 2005. (DR 19, DR 92).

We sampled the online diary notes of Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 93, DR 190) These notes document meetings held with large customers in 2005.

Nothing in these presentations or the sample of diary notes indicated that any advice or assistance was given to major customers regarding affiliates or other service providers during 2005.

CPUC Rules

IV.F. Record-Keeping: A utility shall maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates, including but not limited to, all waivers of tariff or contract provisions and all discounts. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. The utility shall make such records available for third party review upon 72 hours' notice, or at a time mutually agreeable to the utility and third party.

If D.97-06-110 is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 request for confidentiality within 24 hours of service.

IV.G. Maintenance of Affiliate Contracts and Related Bids: A utility shall maintain a record of all contracts and related bids for the provision of work, products or services to and from the utility to its affiliates for no less than a period of three years, and longer if this Commission or another government agency so requires.

Audit Criteria

- SCE maintains a record of all contracts and bids for work, products and services to/from the utility to affiliates for no less than three years
- SCE maintains contemporaneous records of all tariffed and non-tariffed transactions with affiliates. This information is maintained for at least three years and is kept in such a manner as to be produced quickly

Rule IV – Disclosure and Information

Audit Steps

- Review internal communication, business practices and management controls to assure compliance with the Rules
- Sample service agreements, contracts, and bid documents between SCE and affiliates to determine that records are maintained for at least three years
- Review requests for affiliate transaction information to ensure they were fulfilled within the 72-hour deadline
- Sample affiliate transactions to determine that they have been properly recorded in SCE's accounting records

Conclusions

SCE is in compliance with Rules IV.F and IV.G

SCE's process to comply with the requirements of this Rule is appropriately documented and properly executed. Samples of service agreements, contracts, bids, joint purchases and transaction records resulted in our concluding that SCE maintains such records for three years or more.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rules IV.F and IV.G. (DR 1, DR 5)

Business units of SCE that conduct transactions with affiliates must maintain the associated records for three years. They are required to forward such documentation (or summaries of it) to the Affiliate Compliance Organization annually. Requests by third parties for affiliate transaction information which invoke the 72-hour requirements of Rule IV.F are coordinated by the Affiliate Compliance Organization.

Additional procedural guidance for record keeping is provided in manuals of the Power Procurement Business Unit and the Procurement and Materials Management department (PAMM). (DR 121, DR 125, DR 134)

The transaction reviews associated with these Rules included sampling for the existence and completeness of various service agreements, contracts, bids, joint purchases and transaction records. Reviews also considered whether SCE had complied with the 72-hour turnaround requirement of Rule IV.F. (DR 6, DR 172, DR 183)

To verify that SCE maintains records of contracts and related bids for work between SCE and affiliates, we randomly selected for review several joint purchases, service agreements/contracts and bids listed in responses to document requests from the 2005, 2004, and 2003 Affiliate Transaction Audits. Sample items were selected from the following categories:

Rule IV – Disclosure and Information

- Joint purchasing arrangements (DR 50, DR 172, DR 183, 2004 DR-53, 2003 DR-65)
- QF and QF-related service agreements/contracts (DR 6, DR 165, 2004 DR-8, 2003 DR-10)
- Agreements between ESI and affiliates (DR 6, DR 34, 2004 DR-8, 2003 DR-10)

For each of the selected items, we physically inspected the available records. We found documentation to be complete and we were therefore able to conclude that the 3-year records maintenance requirement of Rule IV.G was met

No affiliates submitted bids to SCE during 2005. (DR 51) And SCE entered into no contracts for power, capacity, transmission capacity, ancillary services, or generation fuels with affiliates during 2005. (DR 56, DR 57, DR 58, DR 99, DR 100, DR 101)

SCE verified for us that during 2005 there were no requests to provide affiliate transaction information that would be covered under the 72-hour requirements of Rule IV.F. (DR 33)

With regard to record keeping requirements for waivers, discounts, or price concessions offered or given to affiliates, we determined that no such waivers, discounts, or price concessions were offered or given in 2005. Thus, there was no documentation to review. (DR 83)

We reviewed a sample of intercompany billings and noted that SCE charges to affiliates for corporate support were ultimately recorded to intercompany receivable and payable accounts, as shown in the general ledger summary trial balance. (INT 31, DR 105) This is an indication of the contemporaneous maintenance of affiliate transaction records.

CPUC Rule

IV.H. FERC Reporting Requirements: To the extent that reporting rules imposed by the FERC require more detailed information or more expeditious reporting, nothing in these Rules shall be construed as modifying the FERC rules.

Audit Criteria

- SCE has not used the ATR to modify more detailed FERC recordkeeping and reporting requirements
- SCE is in compliance with Mountainview reporting requirements established by FERC in its order approving the SCE/Mountainview power purchase agreement

Audit Steps

- Assess whether SCE has taken appropriate steps to assure that their plan for meeting the ATR does not modify FERC rules
- Review Mountainview's Form 1 filed with the FERC

Rule IV – Disclosure and Information

Conclusions

SCE is in compliance with Rule IV.H.

We found no instances where SCE's implementation of ATR was in conflict with FERC standards for recordkeeping and reporting. SCE has analyzed the requirements of the ATR and FERC in the development of the ATR Manual. Both sets of rules are listed in the Manual (ATR - Chapter 18, FERC Standards – Chapter 19). The Manual effectively delineates SCE's recordkeeping and reporting requirements. (DR 5, DR 133).

During review of these materials, we discovered no instances in which SCE's procedural response to the ATR modified FERC's requirements. (DR 1, DR 3, DR 5).

In its order dated February 25, 2004, the FERC conditionally accepted the purchase power agreement between SCE and Mountainview. One condition required SCE to follow all FERC reporting requirements, including the annual filing of a Form 1 for Mountainview. Since the plant went into commercial operation in 2005, SCE must file a Form 1 for the year 2005. (DR 136)

Rule V – Separation

CPUC Rule

V. Separation

V.A. Corporate Entities: A utility and its affiliates shall be separate corporate entities.

Audit Criteria

- SCE and its affiliates are organized as separate corporate entities

Audit Steps

- Examine incorporation papers evidencing that SCE and its affiliate are separate corporate entities

Conclusions

SCE is in compliance with Rule V.A.

Each of SCE's principal affiliates is a separate corporation, limited liability company or trust (DR 110). We determined this by examining the articles of incorporation for SCE and its affiliates, including the following:

- Edison Capital (January 1996)
- Edison Enterprises (June 1997)
- Edison Insurance Services (September 1997)
- Edison Mission Energy (August 2001)
- Edison O&M Services (August 1999)
- EIX (May 1996)
- Mission Energy Holding Company (June 2001)
- Mission Land Company (March 1987)
- Edison Mission Group Inc. (April 2003)
- Mountainview Power Company, LLC (acquired March 2004) (a subsidiary of SCE) (DR 36)

CPUC Rule

V.B. Books and Records: A utility and its affiliates shall keep separate books and records.

V.B.1. Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Principles (GAAP).

V.B.2. The books and records of affiliates shall be open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Section 314.

Audit Criteria

- SCE and its affiliates maintain separate accounting records
- SCE's records are maintained in accordance with applicable Uniform System of Accounts and Generally Accepted Accounting Principles

Rule V – Separation

Audit Steps

- Review accounting records and reports and note that financial information is maintained separately for SCE and its affiliates
- Review Internal Audit reports for evidence that SCE and its affiliates maintain separate books and financial records
- Confirm with Internal Audit management that SCE and its affiliates maintain separate books and records in accordance with Rule V.B
- Note that the financial statements of EIX and SCE have been certified as being prepared in accordance with generally accepted accounting principles by an outside auditing firm
- Interview accounting personnel and review accounting transactions to ensure that separate records are maintained by SCE and its affiliates

Conclusions

SCE is in compliance with Rule V.B.

SCE was found to maintain accounting records separate from its affiliates. We were able to develop this conclusion based on evidence discussed below.

First, the ATR Manual states that “Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Procedures [Principles] (GAAP).” (DR 5)

EIX’s 2005 annual report breaks out separate results for its major business units, including SCE, Edison Mission Energy, Mission Energy Holding Company, Edison Capital and EIX parent company and other. Information presented by business unit includes: revenues, earnings(loss), earnings(loss) per share contribution, assets and equity. The ability to produce financial reports by business unit is indicative of a separation of the underlying books and records. EIX financial statements are subject to audit by the public accounting firm of PricewaterhouseCoopers (PwC). In its Report of Independent Registered Public Accounting Firm, PWC reached the following conclusion:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, cash flows and common shareholders’ equity present fairly, in all material respects, the financial position of Edison International and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. (DR 10)

We reviewed a sample of intercompany billings and noted that SCE charges to affiliates for corporate support were ultimately recorded to intercompany receivable and payable

Rule V – Separation

accounts, as shown in the general ledger summary trail balance. (INT 31, DR 105)
This is another indication of separate accounts and records.

Finally, we conducted several interviews with Audit Services and Accounting personnel that covered financial recordkeeping. Based on these discussions, it was clear SCE and its affiliates maintain separate books and records. (INT 6, INT 7, INT 13, INT 21, INT 31, INT 34)

SCE appears to ensure that the books and records of affiliates are open to examination by the Commission and its staff. In 2002, the Office of Ratepayer Advocates (ORA) conducted an audit of SCE in connection with the Company's General Rate Case. Among other things, the audit's scope covered affiliate transactions that impact ratepayers. There was no indication in their report that ORA was prohibited from viewing the records of affiliates in connection with this audit. (2002 Affiliate Transactions Audit DR 34)

CPUC Rule

V.C. Sharing of Plant, Facilities, Equipment or Costs: A utility shall not share office space, office equipment, services, and systems with its affiliates, nor shall a utility access the computer or information systems of its affiliates or allow its affiliates to access its computer or information systems, except to the extent appropriate to perform shared corporate support functions permitted under Section V E of these Rules. Physical separation required by this rule shall be accomplished preferably by having office space in a separate building, or, in the alternative, through the use of separate elevator banks and/or security-controlled access. This provision does not preclude a utility from offering a joint service provided this service is authorized by the Commission and is available to all non-affiliated service providers on the same terms and conditions (e.g., joint billing services pursuant to D.97-05-039).

Audit Criteria

- Except as it relates to corporate support functions, SCE does not share office space, equipment, services or systems with affiliates. There is appropriate physical separation. SCE's information systems cannot be accessed by affiliates except where it relates to corporate support functions.

Audit Steps

- Identify the location of SCE and affiliate buildings and facilities
- Examine select SCE facilities to verify appropriate physical separation from affiliates
- Interview IT security personnel to determine how SCE manages access to its business applications and IT infrastructure
- Verify a sample of affiliate personnel to determine if their access to SCE's information systems is controlled and is associated with their shared corporate support-related activities

Conclusions

SCE is in compliance with Rule V.C.

Rule V – Separation

Facilities – Affiliate Sharing

The ATR Manual states that SCE shall not share office space and office equipment with its Class A affiliates except where there is appropriate physical separation. “Shared office space” is defined as facilities that do not have separate security controlled access for utility- and affiliate-occupied space. (DR 5)

SCE occupies 69 non-electric facilities. As shown in the table below, two affiliates occupy a small portion of SCE facilities.

Facility Types	SCE Owned/Leased Facilities Occupied By			
	SCE		EIX	
	Number	Sq. Feet	Number	Sq. Feet
Office	7	1,363,471	1	20,045
Service Centers	37	1,469,097		
Computer/Phone Center	4	374,024		
Local Offices	2	7,925		
Other	13	1,122,162		
Leased	6	296,751		155
Total	69	4,633,430	1	20,200

Source: DR 116

SCE leases space in its Rosemead General Office #1 building to EIX, its parent company, a Class B affiliate. 33 EIX executives and staff maintain their offices here and are involved in corporate support-related activities. We inspected this space and noted that there was hard-walled separation between EIX and SCE offices. There were a few adjoining doors, which were kept closed and locked. (DR 38, DR 72)

EIX is the leaseholder of the Washington, D.C. office which is shared by EIX, EME, SCE and one non-affiliate third-party. Eight SCE employees work in this location. (DR 72) The office has a common lobby and separate office suites for each entity. The suites are separated by floor-to-ceiling walls. Access to SCE’s office is card controlled, so EIX and EME personnel cannot enter SCE’s suite. (DR 38) We confirmed this arrangement by reviewing the office blueprints. (DR 72, DR 80) We also evaluated the basis for allocating the Washington, D.C. office and found it to be reasonable. (INT 9, INT 17, DR 81)

There was one other instance where SCE personnel are located in affiliate offices. During 2005, SCE’s Audit Services Department had 11 auditors and 1 administrative staff located in an Edison Mission Energy facility in Irvine. Also, SCE’s Vice President and General Auditor and four senior audit managers have office space in the same location. The SCE auditors’ presence in this EME facility is allowed under Rule V.E (corporate support) because audits are performed for purposes of safeguarding assets, ensuring that transactions are properly recorded, determining that accounting records for the preparation of consolidated financial statements are reliable, and ensuring compliance with regulatory and legal requirements. Separate offices and filing systems are maintained for this audit staff to ensure that confidential information is not

Rule V – Separation

transferred from SCE to an affiliate. (DR 72) We agree with SCE's interpretation that this arrangement is allowable under Rule V.C.

SCE maintains temporary office space (also known as "hotels") in one room of its Rosemead General Office #1 building. This space is outfitted with desks and PCs and is available only to SCE employees who are visiting the General Office. We inspected this office and noted signs throughout indicating that the space is restricted to SCE personnel. The PCs require a SCE-specific logon ID and password, thus are not accessible by affiliate employees. (INT 16, DR 5)

Facilities – Affiliate Access

The ATR Manual specifies that Class A affiliate personnel are prohibited from visiting SCE facilities except:

- to perform shared corporate oversight, governance and support functions pursuant to Rule V.E (corporate support),
- to attend a meeting pursuant to provision of Rule V.F.4.a (joint meeting requested by a customer), or
- where attendance is open to non-affiliates. (DR 5)

In general, authorized affiliate personnel visiting the General Office must be accompanied by an SCE employee. SCE has granted an exception to this rule for a select Class A affiliate executives (5 from Edison Mission Group and 1 from Midwest Generation) who are provided General Office ground floor parking spots. (DR 159) Affiliate badges are a different color than those of SCE employees so they can be easily distinguished. (INT 18)

Access to the Rosemead General Office is controlled as described below:

- Buildings #1 and #4 (corporate offices) – These adjoining buildings have four access points, each requiring electronic badge-in for SCE and EIX employees and contractors. Visitors, including affiliate employees, must sign-in with security guards at one of two access points. The other two entrances have revolving doors that are activated by scanning an EIX or SCE identification badge. Video cameras allow security to monitor these revolving door entrances. Affiliate employee identification badges do not permit entry through these doors.
- Building #2 (data center and office space) – Access is limited to SCE employees who work in or are authorized to be in Building #2. Building #2 has revolving doors with badge-in access.
- Building #3 (IT, T&D Engineering, Customer Services Business Unit) – badge-in entry. (INT 18)

We reviewed a sample of 10 affiliate employee visits to the Rosemead General Office Buildings 1-2-3-4 during the month of May 2005. We noted that in all instances, the

Rule V – Separation

affiliate employees were escorted to their meetings by an SCE employee or a security guard. (DR 59)

Information Systems and IT Infrastructure

In accordance with Rule V, the ATR Manual specifies that SCE and Class A affiliates are prohibited from accessing each other's computing systems except:

- to perform shared corporate oversight, governance and support functions pursuant to Rule V.E (corporate support), or
- where access is open to non-affiliates. (DR 5)

Access to SCE's systems and IT infrastructure is also managed through the use of standards, security mechanisms, and procedures. (DR 5) IT security procedures are described in SCE's IT Policies, covering the following topics:

- Administrative security
- Applications and data security
- Electronic mail
- General information
- Network security
- Physical security
- Security controls. (DR 67)

Security hardware and software, including firewalls, protect SCE's IT assets from outsider access. With the exception of Class B affiliates, EIX and Edison Capital, the IT assets of all other affiliates reside outside of SCE's network perimeter. SCE's Rosemead data center hosts all of EIX's servers and SCE's Irvine data center hosts three Edison Capital servers. In both instances, affiliate IT personnel only access their servers through a controlled network connection. They are not permitted physical entry into the SCE data centers. If there is the need to touch these servers, SCE's IT personnel perform that work. The server hosting arrangements with EIX and Edison Capital were approved by SCE's Affiliates Officer. SCE is reimbursed for this service via a chargeback arrangement. (INT 24)

Each EIX company maintains a separate communications infrastructure. SCE and some Class A affiliates use Lotus Notes/Domino as their email system. However SCE and Class A affiliates maintain separate mail servers and use different network to route messages to addressees. (DR 5) Thus, it is not possible for any affiliate employee to somehow hack into SCE email in an effort to gain information that is prohibited by the ATR. (INT 24)

In 2005, there were no instances in which affiliate employees had access to SCE business applications other than for Corporate Support-related purposes as allowed by Rule V.E. 348 affiliate employees (DR 39) have access to 38 SCE applications and tools (DR 61), as shown in Exhibit 5. This is an increase over 2004 when 207 affiliate

Rule V – Separation

employees had access to 33 SCE applications and tools. The increase came about when several affiliates provided more employees with access to the corporate time reporting system so they could enter time themselves rather than having an administrative person do so. (INT 24) After reviewing the 2005 list and description of SCE's applications and tools to which affiliate employees have access, we found them to be related to shared corporate support.

Requests for network and application access are processed by SCE's IT Access Administration unit using the Information Systems Security Menu (ISSM). (DR 60) An affiliate employee fills in the online ISSM form with personal information and designates which business applications they must access. The employee's supervisor electronically approves the form and sends it on to the affiliate human resources unit who routes it for necessary approvals. An affiliate employee must have approvals from the following to gain access to SCE applications:

- President of the affiliate company
- SCE's Affiliates Officer or his/her designee
- IT Affiliate Compliance Manager. (INT 24)

Once all approvals have been received, the employee's data is entered into the Global Database System, IT Access Administration's central database of all users, their IDs and their application access. IT Access Administration then activates the employee for their approved access to the SCE network and applications. A note is sent to the employee asking them to call IT Security to obtain an ID and a password to enable their access. (INT 24) Once a year, IT Access Administration reviews their files to ensure that all approvals have been obtained for affiliate employees with access to SCE applications. We selected a sample of affiliate employees with access to SCE applications and determined that they had received all necessary approvals. (DR 130)

When an affiliate employee is leaving or no longer requires access, their supervisor notifies the affiliate human resources unit who enters the termination into the Global Database System. The system produces a "Former Report" from which IT Access Administration creates an ISSM form for the employee. The employee access is then suspended and their supervisor is contacted to confirm that the person's access should be terminated. After suspension, the person cannot access SCE's systems. Once confirmation is received from the supervisor, the employee's access is permanently terminated. (INT 24)

Desktop Support

Resolution E-3539 specified that SCE is not permitted to perform hands-on desktop maintenance and troubleshooting as a corporate support function for fear that confidential SCE information could be passed to an affiliate. However, SCE is permitted to provide telephone support to affiliate personnel. We obtained statistics for 2005 affiliate employee calls to SCE's Help Desk and determined that all were resolved as Tier 1, Tier 2 or Tier 3 issues. (DR 62) This support is conducted over the telephone

Rule V – Separation

and does not involve on-site troubleshooting. This Help Desk support is permissible under Rule V.E., as described in SCE’s Compliance Plan (“IT Service Center Support [not including Desktop Support]”). (DR 1)

Southern California Edison Company
2005 Affiliate Transactions Audit of SCE
Analysis Of Affiliate Personnel Access To SCE Applications

Application	Application or Tool?	EIX	EME	Mission O&M	EME Homer City	Edison Mission M&T	Midwest Gen EME, LLC	Midwest Gen, LLC
A & I (Approval & Inquiry) - Automated system that routes employee job data changes. For affiliates, any job data changes must be made directly in the PeopleSoft application.	A	6	7	3	3	4	9	13
ATSLAN (Distributed Time Keeping) - Required for processing employee time sheets.	A	14	4	9	7	87	48	131
ATSSD002 (ATSLAN System Test) - Test region for ATSLAN	A	-	-	-	-	-	2	-
BADGE - Represents access to IT-controlled areas in GO2, GO3 & IOC	T	3	-	-	-	-	-	-
BASE EMAIL - Place-holder ID using email format - reserves the ID format for applications	T	-	-	-	1	-	2	2
CICS - An extension to the operating system of IBM mainframe computers. An ID created for each person accessing the mainframe computer. This does not mean that the ID owner has access to SCE customer data.	A	13	3	5	6	4	5	31
APS ALL (Accounts Payable) - Application used by the Accounts Payable department.	A	2	-	-	-	-	-	-
CICS SO - Customer Information/Service Order	A	1	-	-	-	-	-	-
CRD ALL (Credit Card Recon) - Application used for reconciling credit card data.	A	4	-	-	-	-	-	-
CSS All Customer Service System	A	1	-	-	-	-	-	-
DRS ALL (R/DARs) - Required for viewing the RDARS reports on the host system. This application allows payroll personnel to view payroll information, i.e., time sheet errors, paycheck data, etc.	A	1	3	5	6	4	5	31
FAR ALL - Financial Reporting	A	9	-	-	-	-	-	-
FAS ALL - Corporate Accounting	A	9	-	-	-	-	-	-

Source: DR 61

Southern California Edison
2005 Affiliate Transactions Audit of SCE
Analysis Of Affiliate Personnel Access To SCE Applications

Application	Application or Tool?	EIX	EME	Mission O&M	EME Homer City	Edison Mission M&T	Midwest Gen EME, LLC	Midwest Gen, LLC
DOMINO MAIL - Domino Mail (SCE)	T	30	2	-	-	-	-	-
DOMINO - Server where Domino application resides	T	30	2	-	-	-	-	-
DSS HR (Decision Support Sys HR) - Dynamic system which allows users to generate reports on a range of data, limited by access privileges, that includes time keeping, payroll, and demographic tables.	A	2	8	5	6	4	14	19
EDISONPORTAL - Web application	T	1	-	-	-	-	-	-
FACTIVA - Dow Jones Interactive: Dow Jones web site; access is tracked in Global database.	T	4	18	-	-	-	6	-
INETALIAS 2 - Alias for internet ID	T	1	-	-	-	-	-	-
LANDIAL - remote access dialup	T	19	-	-	-	-	-	-
LAW-WIN2K - Windows 2000 Domain - Law (aka XP)	T	2	-	-	-	-	-	-
MEMO1 - Note field in the database for informational notations	T	-	1	-	-	1	1	-
MTS ALL - Material Management	A	7	-	-	-	-	-	-
NUCLEUS - Energy & Gas Trading subsystem ID (still requires separate ID)	A	1	-	-	-	-	-	-
PAS (Payroll Adjustment Sys) - Required to adjust past payroll information to reflect time or rate changes.	A	4	3	9	7	4	8	33
PSOFT (Peoplesoft) - Required to maintain and update a variety of personnel information including: benefit; in?service dates; emergency contacts; job history; vacation and sick?time balances; and education level.	A	4	6	5	6	4	14	22

Source: DR 61

Southern California Edison
2005 Affiliate Transactions Audit of SCE
Analysis Of Affiliate Personnel Access To SCE Applications

Application	Application or Tool?	EIX	EME	Mission O&M	EME Homer City	Edison Mission M&T	Midwest Gen	Midwest Gen LLC
SCE-NT - NT domain: desktop access	T	26	2	-	-	1	1	-
SCE-WIN2K - Windows 2000 domain (aka XP)	T	29	-	-	-	-	-	-
SECURID - Two-factor authentication token fob for remote access	T	5	-	-	-	-	-	-
SYBP002 - SThe server where ATSLAN resides. This is a system generated application that is created whenever an ATSLAN ID is assigned.	A	14	4	9	7	87	48	131
SYBS001 - The server where ATSSD002 resides. This is a system?generated application that is created whenever an ATSSD002 ID is assigned.	A	-	-	-	-	-	2	-
TPX7 - Terminal Productivity eXecutive: an application that allows clients to work on severnal mainframe applications at the same time	T	1	-	-	-	-	-	-
TPXR/NONTSOG - Required for TPX access	T	1	-	-	-	-	-	-
TSOD - TSO – System D: This mainframe ID is required for clients to access DSS HR. It is also a region used by project/program managers or developers for test purposes.	A	4	8	5	6	4	16	19
UNIXACCT - Unique acct number associated with an individual for accessing Unix applications	T	18	-	-	-	-	1	-
UNIXID - Unique user ID associated with an individual for accessing Unix applications.	T	18	-	-	-	-	1	-
VPN CHCKPT - Virtual Private NetworkK (remote access) utilizing Checkpoint technology	T	9	-	-	-	-	-	-
Wireless LAN - Wireless LAN Access (Remote access)	T	5	-	-	-	-	-	-

Source: DR 61

Rule V – Separation

CPUC Rule

V.D. Joint Purchases: To the extent not precluded by any other Rule, the utilities and their affiliates may make joint purchases of goods and services, but not those associated with the traditional utility merchant function. For purposes of these Rules, to the extent that a utility is engaged in the marketing of the commodity of electricity or natural gas to customers, as opposed to the marketing of transmission and distribution services, it is engaging in merchant functions. Examples of permissible joint purchases include joint purchases of office supplies and telephone services. Examples of joint purchases not permitted include gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. The utility must insure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions of such purchases, and in accordance with applicable Commission allocation and reporting rules.

Audit Criteria

- SCE and its affiliates engage in no joint purchases of the following items: electricity for resale, gas, gas transportation, coal, coal transportation, electric transmission, system operations, or marketing services
- When SCE and its affiliates make joint purchases of goods and services, SCE ensures that joint purchases are priced, reported and conducted in a manner that makes utility and affiliate portions of the purchase clearly identifiable

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review the process for joint purchases
- Identify the types of goods and services that are purchased jointly by SCE and affiliates. Review all service agreements and contracts, including purchases of bulk power, fuel, fuel transportation, transmission and marketing services.
- Sample/evaluate the methodology for allocating the costs of joint purchases to ensure SCE is not subsidizing affiliates

Conclusions

SCE is in compliance with Rule V.D.

We found SCE's process to comply with the requirements of this Rule to be adequately documented and properly executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule V.D. (DR 1, DR 5)

Joint purchases of goods and services associated with the utility merchant function are specifically prohibited. Joint purchases of other goods and services, under specific conditions, are allowable. Particularly important are conditions that payments for joint purchases, and reporting of those payments, clearly identify/segregate the portions that pertain to SCE and affiliates. Although not explicitly stated in the wording of this Rule,

Rule V – Separation

the spirit of other Rules establishes an expectation that SCE and an affiliate would share equally in any benefit derived from a joint purchase.

Our transaction reviews for Rule V.D included an evaluation of all joint purchase arrangements initiated in 2005 or in effect during 2005. (DR 50, DR 129, DR 169) The list of joint purchases includes:

- Three single party joint contracts involving SCE for which the supplier has a contract with either SCE or an EIX affiliate and agrees to extend the terms of the contract to other affiliate(s).
- Thirteen jointly negotiated agreements which subsequently resulted in separate SCE and affiliate contracts. (DR 50, DR 129)

None of these agreements involved goods and services associated with the traditional utility merchant function.

For further verification of compliance with this part of the Rule, we reviewed wholesale power transactions, fuel purchases, and transmission purchases. During 2005 there were no wholesale power contracts in existence between SCE and an affiliate except for: the Mountainview Power Plant contract, four allowable and preexisting QF contracts (one of which expired in 2005) and one new QF “standard offer” contract ordered by the CPUC to extend the term of the expiring contract (see Rule III.B). No joint purchases of wholesale power with affiliates were conducted. (DR 56, DR 57, DR 58, DR 124, DR 126). Additionally, there were no transmission contracts between SCE and an affiliate nor were there any joint purchases or sales of transmission services. (DR 6, DR 101). And finally, no fuel (e.g., natural gas or coal) or fuel transportation contracts were in existence between SCE and an affiliate (DR 6), nor were there any joint fuel purchases or sales. (DR 99, DR 100).

We also verified that all allowable joint purchase arrangements initiated in 2005 followed the internal procedure that requires RP&A to provide preliminary approval of the arrangement using Joint Procurement Notification Forms. (DR 49, DR 169)

To test SCE’s adherence to the part of Rule V.D requiring “clear identification of utility and affiliate portions” of joint purchases, we reviewed the methodology/formulas used to allocate costs between SCE and affiliates in the case of the three joint contracts. In all cases, SCE was able to distinguish between SCE and affiliate portions of the payments and explain the methodology/formulas used. (DR 95, DR 173)

We also sampled payments for goods and services made under the terms of the thirteen joint negotiations that ultimately resulted in separate contracts between (1) the vendor and SCE and (2) the vendor and affiliate. By their nature, these kinds of arrangements automatically meet the “clear identification of utility and affiliate portions” requirements of Rule V.D. The following standard language is inserted in “joint-negotiation-resulting-in-separate contracts”:

Rule V – Separation

If sales to any other Affiliate of an Edison International Company are consummated, the services requested by such company shall be made pursuant to a separate Purchase Order or Letter Agreement. If any sales of any services to an Edison International Company or an Affiliate of an Edison International Company include a greater discount or incentive than has been previously provided with respect to the prior sales of the same services to another Edison International Company or an Affiliate of an Edison International Company, the discount or incentive thereafter used to compute the price payable for such services shall be the same as the largest discount or incentive provided to any Edison International Company or an Affiliate of an Edison International Company for such services.

Vendors risk a breach of contract if, after the negotiations, they offer better terms to an affiliate compared to SCE.

We sampled and compared SCE invoices with affiliate invoices when the product or service received was comparable. In our sampling of invoices for 2005, we noted no instances where advantage was being gained in pricing or terms by affiliates. (DR 184) In addition we note that SCE's Audit Services department has now completed an audit that addresses these same issues and that was recommended by us in our 2002 Recommendation 6. (DR 171) The results of this audit were consistent with our findings.

CPUC Rule

V.E. Corporate Support: As a general principle, a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems, and personnel. Any shared support shall be priced, reported and conducted in accordance with the Separation and Information Standards set forth herein, as well as other applicable Commission pricing and reporting requirements.

As a general principle, such joint utilization shall not allow or provide a means for the transfer of confidential information from the utility to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of the specific mechanisms and procedures in place to ensure the utility follows the mandates of this paragraph, and to ensure the utility is not utilizing joint corporate support services as a conduit to circumvent these Rules.

Examples of services that may be shared include: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment practices), employee records, regulatory affairs, lobbying, legal, and pension management.

Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing.

Audit Criteria

- Shared corporate services involve allowed joint corporate oversight, governance, support systems and personnel; services specifically precluded by Rule V.E are not shared

Rule V – Separation

- The basis for allocating shared corporate support expenses is equitable and does not cross-subsidize affiliates
- Corporate support arrangements are not used to transfer confidential information from SCE to affiliates or create unfair opportunities for affiliates

Audit Steps

- Review shared corporate services and determine that they meet the specifications of Rule V.E
- Evaluate the allocation methods for shared corporate support
- Determine that there are safeguards against inappropriate sharing of confidential SCE information with affiliates who participate in shared corporate services

Conclusions

SCE is in compliance with Rule V.E.

Corporate Support Services

We found SCE's definition of corporate support services is in line with the requirements of Rule V.E.

The CP05 Compliance Plan and the ATR Manual, SCE defines in detail what it considers allowable corporate support functions under Rule V.E. (DR 1, DR 2) We reviewed the description of the more than 60 functions and found SCE's interpretation met the following guidelines as to what qualifies as corporate support:

- Activities that are integral to corporate governance and oversight necessary to meet management's fiduciary responsibilities,
- Activities that are essential to maintain corporate, regulatory and other critical standards and policies, or
- Activities that produce economies of scale by serving the entire enterprise and that ultimately benefit ratepayers (DR 2)

In addition to clearly defining corporate support activities, SCE has further delineated such work by specifying areas of the company that may provide these services to affiliates. For each of the 60 or so corporate support functions, organizational units (called Core Areas of Responsibility or Core AORs) are named in the ATR Manual as authorized to provide that service. For example, Human Resources and Treasurer's are designated as the Core AORs that perform the corporate support activity "pension management". If, for instance, the Treasurer's Department required assistance from a statistician in the ES&M Department in the provision of pension management services to an affiliate, then the ES&M Department would be required to complete a Corporate Support Authorization Form (CSR) to obtain the necessary approvals before performing the work. Once a year, RP&A sends an email to departments that have performed

Rule V – Separation

directly charged corporate support to affiliates in the past, reminding them of the need to submit a CSR if they will continue to provide the services in the next year.

We reviewed the six CSRs completed in 2005 and found them to be appropriate for the circumstances involved. (DR 79)

Each month, the Controller’s Department prepares an exception report showing charges for corporate support by non-Core AORs. (DR 69) This report is used to verify that the charges were appropriate and that a CSR form was prepared, if necessary. It provides a detective control over corporate support charges. (DR 2)

The CP05 and ATR Manual, SCE specifies it will not provide affiliates with the services precluded by Rule V.E. Those are employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. (DR 1, DR 2) We found no instances where these services were being provided to affiliates by SCE. (DR 79)

Under Rule V.C, we determined there were adequate controls over affiliate personnel with access to business applications and networks in connection with shared corporate services. We also cover the issue of transfer of confidential information under Rule IV.

As specified by Rule V.E, the CP05 contain a letter from SCE’s Affiliates Officer and Vice President and Controller verifying that “specific mechanisms and procedures in place are believed to be sufficient to ensure: a) that SCE follows the mandates of Rule V.E., and b) that SCE is not utilizing joint corporate support services as a conduit to circumvent the Rules.” (DR 1 Appendix B)

Allocation of Corporate Support Expenses

We found SCE’s methodology for allocating corporate support expenses is appropriate and meets the requirements of Rule V.E.

The analysis below shows the trend in corporate support charges to affiliates during the past several years.

	2001	2002	2003	2004	2005
Directly Charged Services	\$ 6,269,838	\$ 6,403,777	\$ 6,937,080	\$ 6,772,449	\$ 9,241,905
Allocated Corporate Support	\$ 9,853,471	\$ 8,034,851	\$ 9,954,406	\$ 10,350,242	\$ 7,567,317
Total	\$16,123,309	\$14,438,628	\$16,891,486	\$17,122,691	\$16,809,222

Note: Audit Services charges are included in 2002, 2003, 2004 and 2005, but not in 2001

(DR 102)

Shared corporate support expenses are assigned to affiliates based on the nature of the underlying work, as described below.

Rule V – Separation

- **Directly Charged** – Work is performed for one affiliate who is charged with the cost of the service. It is possible to readily identify the amount of time spent on these activities and the affiliate(s) benefiting from the activities. Examples of this type of work include internal audits, preparation of tax returns and legal work.
- **Time-Identified** – Work that benefits affiliates but whose cost cannot be directly associated and assigned to specific affiliates. Time-identified costs are allocated to affiliates. Examples of this type of work include cash management, corporate accounting, tax department support, legal work and information technology.
- **Automatically Allocated** – Work that indirectly benefits affiliates. Examples of this type of work include corporate governance, corporate security, equal opportunity, mail services and corporate communications. (DR 5)

The following factors are used to allocate the cost of corporate support services that cannot be directly charged to affiliates:

- **Multi-Factor Method** – This formula is based on each company's share of operating revenues, operating expenses (excluding income taxes and cost of sales), number of employees and total assets. Each factor is given equal weight in calculating the composite multi-factor ratio. This is the most common method. Examples of departments whose costs are allocated this way include IT (telephone operators), Corporate Communications, Community Involvement, Corporate Security and Corporate Mail. (DR 5)
- **Equity Investment and Advances Method** – This formula is based each company's share of equity as calculated for Edison International consolidated financial statements. Examples of departments whose costs are allocated this way include Shareholder Meetings, Corporate Governance and Controller's (Outside Services). (DR 5)
- **Number of Employees Method** – This formula is based on each company's number of regular employees. Examples of departments whose costs are allocated this way include Equal Opportunity (Equal Opportunity Division), Treasurer's (Investments) and Controller's (Outside Services and Benefits Accounting). (DR 5)

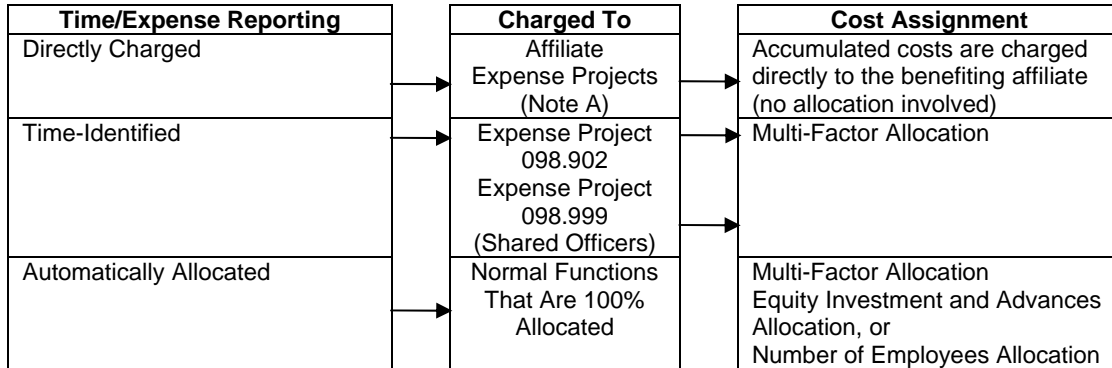
The allocation factors are recalculated every month. (INT 31) We believe these allocation factors are appropriate. Our conclusion is supported by a 2002 examination by the Office of Ratepayer Advocates (ORA) related to SCE's General Rate Case. ORA assessed the basis for allocating Corporate Support costs and concluded:

Based on the documents received from SCE and information on the methodology used by SCE when calculating the allocation factors, ORA concludes that SCE's allocations formulas and calculations used to allocate costs of certain shared support services appear reasonable. (2002 Affiliate Transaction Audit, DR 34)

The "expense project" is SCE's accounting mechanism for accumulating and assigning many corporate support expenses to affiliates. Over 90 expense projects have been

Rule V – Separation

established for this purpose. (DR 70) Essentially, employees charge time and expenses to the appropriate expense project. Every month, the accumulated charges are then assigned to affiliates. (INT 31) The table below summarizes this process.



Note A: Beginning in December 2005, SCE employees working at the Mountainview Station charge specific functions rather than affiliate expense projects. Costs accumulated in these functions are charged directly to the benefiting affiliate. (DR 117)

Expense project costs are reported on the monthly intercompany invoices presented to affiliates. This provides them with detail they need to validate the charges. (INT 31)

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.1. A utility shall not trade upon, promote, or advertise its affiliate’s affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:

V.F.1.a. The affiliate “is not the same company as [i.e. PG&E, Edison, the Gas Company, etc.], the utility,” and the affiliate “is not regulated by the California Public Utilities Commission

V.F.1.b. In the case of energy service provider affiliates, the disclaimer will be:

The affiliate “is not the same company as [i.e., PG&E, Edison, the Gas Company, etc.], the utility and the California Public Utilities Commission does not regulate the terms of [the affiliate’s] products and services.”

The application of the name/logo disclaimer is limited to the use of the name or logo in California.

Audit Criteria

- SCE does not trade upon, promote or advertise affiliate’s connection with SCE
- Affiliates do not trade upon, promote or advertise their affiliation with SCE
- Affiliate publications do not incorporate SCE’s name, logo, or taglines, except where they appropriately disclose that the affiliate is not the same company as SCE and not regulated by the CPUC.

Rule V – Separation

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure compliance with this rule
- Review billing inserts to assure they have not been used to promote affiliate's business, and to assure affiliations with SCE are not promoted without proper name/logo disclaimers.
- Review SCE and affiliate marketing/advertising/promotional/website materials (e.g., publications, advertisements, web pages) to assure affiliations with SCE are not promoted without proper name/logo disclaimers
- Sample SCE presentations to large commercial and industrial customers to assure affiliations with SCE are not promoted without proper name/logo disclaimers
- Sample account managers' diary entries to assure SCE is not promoting business for affiliates

Conclusions

SCE is in compliance with Rule V.F.1.

SCE's process to comply with the requirements of this Rule is appropriately documented and adequately executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule V.F.1 and its sub-parts. (DR 1, DR 5)

Corporate Communications manages the set of pages on the EIX main intranet site which discusses Corporate Identity Standards, the standards manual for the system of company signatures and graphics standards used in any communications from SCE or its EIX affiliates. Topics include "media communications", "branded merchandise / advertising promotions", "business cards and stationery", and "external web design". (DR 17)

In evaluating SCE' compliance with Rule V.F.1, we conducted a variety of data reviews to affirm that SCE does not trade upon, promote, or advertise its affiliates' affiliation, or allow its affiliates to imply an affiliation with SCE. The outcome of these reviews is summarized below.

Affiliate Websites. We reviewed websites for eleven affiliates with business in California. Only two affiliates had website addresses outside the umbrella www.edison.com address of SCE's parent company, Edison International. All of the other nine affiliate websites under that umbrella carry appropriate and standard disclaimers informing the user that the affiliate is a separate company from SCE and is not regulated by the CPUC.

Rule V – Separation

One of the two affiliate websites with addresses outside the www.edison.com umbrella was Edison Mission Marketing & Trading (www.emmt.com). Accessing that website had the effect of immediately transferring the user to the Edison International website mentioned above. The other website, for Edison Source Norvik Company's "Minit-Charger" product line, www.minit-charger.com, contained all appropriate disclaimers.

Billing Inserts, Advertisements, Promotions & Giveaways. We reviewed all billing inserts, Power Bulletins, and Business Solutions Newsletters provided to both commercial and residential customers during 2005. (DR 20, DR 92). We examined all mass market advertisements, promotions, and giveaways sponsored by either SCE or its affiliates during 2005. (DR 18, DR 104). All of the inserts and advertisements complied with Rule V.F.1.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Business Customer Division provided us access to all presentations available for use with customers during 2005. (DR 19, DR 92)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 93, DR 190) These notes document meetings held with large customers in 2005. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2005.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2005, and to indicate which, if any, resulted in an SCE proposal. SCE received no RFPs from customers in 2005. SCE did revise one proposal, the original version of which responded to a 2004 RFP. We reviewed this revised proposal, which related to possible privatization of a government-owned electric system. (DR 94)

We found SCE to be in compliance with Rule V.F.1 with respect to all of these methods used to communicate with large commercial and industrial customers.

Implementation of 2004 Recommendation #7. In the 2004 Affiliate Transactions Audit, we recommended that SCE "Formally communicate the new policy regarding use of disclaimers on affiliate websites – The policy developed in response to 2003 Recommendation Number 8 needs to be better communicated to SCE affiliates via (1) the intranet-based Corporate Identity Standards section on "External Web Design" and (2) ATR Manual Chapter 9 regarding "Separation – Advertising & Marketing – Utility Name and Logo (Disclaimers)."

SCE agreed with the recommendation, saying, "SCE accepts this recommendation. As of March 31, 2005, the new policy regarding the use of disclaimers on affiliate websites can be found on SCE's intranet-based Corporate Identity Standards section. The text of

Rule V – Separation

the new policy regarding use of disclaimers on affiliate websites was included in Chapter 9 regarding “Separation – Advertising & Marketing – Utility Name and Logo (Disclaimers)” section in the ATR Manual filed with the CPUC in May 2005.” (DR 7)

We verified that both the Corporate Identity section on the SCE intranet and the ATR Manual were updated to reflect this recommendation. (DR 1, DR 5, DR 17)

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.2. A utility, through action or words, shall not represent that, as a result of the affiliate's affiliation with the utility, its affiliates will receive any different treatment than other service providers.

Audit Criteria

- SCE does not represent that its affiliates will receive different treatment than other service providers

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Monitor actual customer conversations with SCE Customer Call Center representative, both Residential and Commercial & Industrial, to determine affiliates are not being provided preferential treatment
- Review billing inserts to determine there is no representation that affiliates receive different treatment than other service providers
- Review SCE and affiliate marketing and advertising materials (e.g., publications, advertisements, web pages) to assure there is no representation that affiliates receive different treatment than other service providers
- Sample SCE presentations to large commercial and industrial customers to assure there is no representation that affiliates receive different treatment than other service providers
- Sample account manager/account executive journal entries to determine there is no representation that affiliates customers will be given preferential treatment

Conclusions

SCE is in compliance with Rule V.F.2.

We found SCE's process to comply with the requirements of this Rule to be satisfactorily documented and properly executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule V.F.2. (DR 1, DR 5)

Rule V – Separation

We performed a number of transaction reviews to assess SCE’s compliance with Rule V.F.2. The outcome of these reviews is summarized below.

Customer Call Centers. We listened in on a large sample of actual customer calls being handled by Customer Specialists and Customer Solution Representatives. In none of these calls, which covered both residential and commercial customers at SCE’s Customer Call Centers, did we note any preferential treatment being discussed or provided. (DR 98)

Billing Inserts, Advertisements & Websites. We reviewed all billing inserts, Power Bulletins, and Business Solutions Newsletters provided to both commercial and residential customers during 2005. (DR 20, DR 92). We examined all mass market advertisements sponsored by SCE during 2004. (DR 18, DR 104) . We also linked to SCE and affiliate websites. (DR 21) In none of the inserts, advertisements, or websites did we see any evidence of preferential treatment being offered, or given, to any of SCE’s affiliates or their customers.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE’s channels to the large commercial and industrial customer markets. SCE’s Business Customer Division provided us access to all presentations available for use with customers during 2005. (DR 19, DR 92)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 93). These notes document meetings held with large customers in 2005. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2005.

Nothing in the presentations to large customers or the sample of diary notes indicated SCE would provide preferential treatment to affiliates. And there was no evidence that terms, conditions, and pricing offered affiliates or their customers were better or different than those offered to others.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.3. A utility shall not offer or provide to its affiliates advertising space in utility billing envelopes or any other form of utility customer written communication unless it provides access to all other unaffiliated service providers on the same terms and conditions.

Audit Criteria

- Affiliates advertise using SCE’s bill inserts only if the same opportunity is available to unaffiliated service providers for the same terms and conditions

Rule V – Separation

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review all billing inserts and other forms of written communication to customers to determine if they have been used to promote affiliate's business. If so, determine that non-affiliate suppliers were offered the same terms and conditions to utilize bill inserts to advertise.

Conclusions

SCE is in compliance with Rule V.F.3.

SCE's process to comply with the requirements of this Rule is well documented and properly executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule V.F.3. (DR 1, DR 5)

We reviewed all billing inserts, Power Bulletins, and Business Solutions Newsletters provided to both commercial and residential customers during 2005. (DR 20, DR 92). In none of these materials did we see any evidence of affiliate advertising or promotion.

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.4. A utility shall not participate in joint advertising or joint marketing with its affiliates. This prohibition means that utility may not engage in activities which include, but are not limited to the following:

V.F.4.a. A utility shall not participate with its affiliates in joint sales calls, through joint call centers or otherwise, or joint proposals (including responses to requests for proposals (RFPs)) to existing or potential customers. At a customer's unsolicited request, a utility may participate, on a nondiscriminatory basis, in non-sales meetings with its affiliates or any other market participant to discuss technical or operational subjects regarding the utility's provision of transportation service to the customer;

V.F.4.b. Except as otherwise provided for by these Rules, a utility shall not participate in any joint activity with its affiliate. The term "joint activities" includes, but is not limited to, advertising, sales, marketing, communications and correspondence with any existing or potential customer;

V.F.4.c. A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.

Audit Criteria

- SCE does not participate in joint advertising or marketing with affiliates including joint sales calls, proposals, or trade shows

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule

Rule V – Separation

- Review billing inserts to determine there is no joint advertising or marketing with affiliates
- Review SCE and affiliate marketing/advertising/promotional materials (e.g., publications, advertisements, web pages) to assure there is no joint advertising or marketing with affiliates
- Sample SCE presentations to large commercial and industrial customers to assure there is no joint advertising or marketing with affiliates
- Sample calendar and journal information contained in Major Customer Division's contact management system to assure that SCE does not make joint sales calls with affiliates
- Review SCE proposals responding to RFPs from major SCE customers to assure there is no joint marketing with affiliates
- Review trade shows, conferences, and marketing events attended by both SCE and affiliates to assure elements of the rule were followed

Conclusions

SCE is in compliance with Rule V.F.4.

We found SCE's process to comply with the requirements of this Rule to be adequately documented and properly executed. Our review of transactions associated with the Rule confirmed SCE's compliance with this Rule.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule V.F.4 and its sub-parts. (DR 1, DR 5)

In addition to the overall prohibitions, the ATR Manual provides examples of proper and improper acts under Rule V.F.4. For example, the ATR Manual instructs affiliate employees to never raise marketing issues in meetings where SCE employees are present. It instructs any SCE employee attending such meetings to explain the prohibition on joint marketing included in this Rule if marketing or sales promotion issues are raised unexpectedly by a third party.

SCE confirmed that in 2005 there were no instances in which SCE participated in joint advertising or marketing with an affiliate. (DR 84). And SCE confirmed there were no joint call centers used by both SCE and affiliates. (INT 23)

We performed a number of transaction reviews to determine if SCE was in compliance with Rule V.F.4 and its sub-rules. The outcome of these reviews is summarized below.

Billing Inserts, Advertisements, Promotions & Giveaways. We reviewed all billing inserts, Power Bulletins, and Business Solutions Newsletters provided to both commercial and residential customers during 2005. (DR 20, DR 92). We examined all mass market advertisements, promotions, and giveaways sponsored by either SCE or its affiliates during 2005. (DR 18, DR 104). There were no giveaways to customers in California. In

Rule V – Separation

none of the inserts or advertisements did we see any evidence of joint advertising or marketing between SCE and any affiliate.

Web Pages. We reviewed all websites maintained by SCE and its affiliates. (DR 21) No evidence of joint advertising or marketing was apparent on any of the sites.

Large and Industrial Account Interaction. In addition to the mass market channels discussed above, we reviewed materials relating to SCE's channels to the large commercial and industrial customer markets. SCE's Business Customer Division provided us access to all presentations available for use with customers during 2005. (DR 19, DR 92)

We also sampled the online diary notes of the Account Managers and Executives from the AccountTrak system maintained by the Major Customer Division. (DR 93, DR 168) These notes document meetings held with large customers in 2005. We randomly sampled about 15% of the AccountTrak notes created by Account Managers/Executives during 2005.

We asked SCE to provide us a list of Requests for Proposal (RFP) for energy services or products that were sent to SCE by any of its major customers in 2005, and to indicate which, if any, resulted in an SCE proposal. SCE received no RFPs from customers in 2005. SCE did revise one proposal, the original version of which responded to a 2004 RFP. We reviewed this revised proposal, which related to possible privatization of a government-owned electric system. (DR 94)

Nothing in the presentations to large customers, the sample of diary notes or the SCE proposals provided any evidence of joint advertising or marketing, joint sales calls or joint proposals.

Trade shows, conferences and marketing events. SCE confirmed that at no time in 2005 did representatives of SCE participate with its affiliates in joint advertising or joint marketing at trade shows, conferences, or other information/marketing events in California. (DR 86, DR 168).

CPUC Rule

V.F. Corporate Identification and Advertising:

V.F.5. A utility shall not share or subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research.

Audit Criteria

- SCE's funding of research and development and advanced technologies does not subsidize affiliates

Rule V – Separation

Audit Steps

- Review internal communications, business practices, and management controls used by SCE to assure employees' compliance with this rule
- Review R&D projects to assure they are not funded by affiliates

Conclusions

SCE is in compliance with Rule V.F.5.

SCE's process to comply with the requirements of this Rule is appropriately documented and well executed. Our review of data associated with the Rule showed no evidence of SCE sharing or subsidizing R&D costs, fees, or payments with its affiliates.

SCE's Affiliate Transactions Compliance Plan – 2005 Update (CP05) and its Affiliate Transaction Rule (ATR) Manual describe the requirements of Rule V.F.5. (DR 1, DR 5)

During 2005, twenty-nine internal research, development and demonstration projects were active within SCE. (DR 54) In addition, SCE participated in research conducted by the Electric Power Research Institute (EPRI).

We evaluated whether any of this research information was relevant to affiliates. Some of the EPRI deliverables describe state-of-the-art approaches to utility operations and maintenance and definitely would be of value to affiliates. (DR 55) However, we confirmed that none of the EPRI research products had been made available for use by affiliates. (DR 107)

We confirmed that none of the twenty-nine research projects or the EPRI research were jointly funded by SCE and an affiliate. (DR 87) We established that SCE and its affiliates did not share or subsidize any costs, fees, or payments for research and development activities, or for advanced technology research. (DR 90)

We also verified that none of the research projects conducted in 2005 were undertaken with the intent to benefit any affiliate. (DR 88) And SCE validated that it has not transferred or licensed to any of its affiliates any end products or rights associated with any of its R&D projects. (DR 89)

CPUC Rule

V.G. Employees: Joint Directors, Officers and Employees

V.G.1. Except as permitted in Section V E (corporate support), a utility and its affiliates shall not jointly employ the same employees. This Rule prohibiting joint employees also applies to Board Directors and corporate officers, except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to affiliates that operate within California. In the case of shared directors and officers, a corporate

Rule V – Separation

officer from the utility and holding company shall verify in the utility's compliance plan the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules. In its compliance plan required in Rule VI, the utility shall list all shared directors and officers between the utility and affiliates. No later than 30 days following a change to this list, the utility shall notify the Commission's Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 of any change to this list.

Audit Criteria

- SCE does not jointly employ personnel with affiliates
- Directors and officers of SCE do not serve as officers and directors of Class A affiliates except where they provide corporate support activities defined by Rule V.E
- SCE has monitoring and reporting mechanisms that prevent prohibited sharing of directors and officers, and joint employment of personnel with affiliates

Audit Steps

- Review the Annual Report of Affiliated Company Transactions to identify instances of shared officers and directors in 2005
- Review the list of directors and officers of EIX, SCE and affiliates for positions held during 2005
- Search for instances where personnel were jointly employed by SCE and affiliates

Conclusions

SCE is in compliance with Rule V.G.1.

Shared Officers and directors of SCE and affiliates are listed in the Annual Report of Affiliated Company Transactions (DR 2), as required by Rule V.G.1. The accuracy of the 2004 Annual Report of Affiliated Company Transactions was affirmed by SCE's Affiliates Officer, who signed that the report is complete and accurate with no material omissions. In 2005, there was one change in the list that required 30-day notification of the CPUC and applicable parties. It was noted that an advice letter was submitted to the CPUC within the 30-day period. (DR 73)

No instances were found in which a director of SCE was also a director of a Class A affiliate during 2005 (DR 10). There was one instance where an officer of SCE was also an officer of one Class A affiliate. This is SCE's Vice President and Corporate Secretary who also serves as the Corporate Secretary of Edison Source and Edison Source Norvik, both Class A affiliates. Rule V.G.1 specifies that an officer of SCE may not be an officer of a Class A affiliate. SCE petitioned the CPUC for clarification of this rule to allow such arrangements where the officer's duties constituted a shared corporate support function allowed by Rule V.E. In Decision D.98-08-035 (DR 3), the CPUC ruled in SCE's favor, stating:

We clarify that Rules V.E and V.G.1, when read together, can provide for limited sharing of directors and officers not only as explicitly set forth in

Rule V – Separation

Rule V.G.1, but also in their performance of the corporate support functions set forth in Rule V.E, and as set forth in the examples cited above which Edison has provided, namely, the Chief Financial Officer or General Counsel. (DR 3)

The MCP (DR 1) and the ATR Manual (DR 5) both state that the joint employment of the same person by SCE and a Class A affiliate is prohibited. “Joint employment” exists when an employee earns wages simultaneously from SCE and an affiliate (i.e., such that those earnings would be recorded toward W-2 earnings from both SCE and an affiliate during the same time period). We noted no such instances where an employee of SCE was also an employee of Class A affiliate. SCE also affirmed this in response to our data request. (DR 10)

As required by Rule V.G.1., the CP05 contains a letter from SCE’s Affiliates Officer and EIX Vice President and Controller verifying that “specific mechanisms and procedures in place are believed to be sufficient to ensure that SCE is not utilizing shared officers and directors as a conduit to circumvent any of the Rules.” (DR 5 Appendix B)

CPUC Rule

V.G. Employees: Employee Movements

V.G.2. All employee movement between a utility and its affiliates shall be consistent with the following provisions:

V.G.2.a. A utility shall track and report to the Commission all employee movement between the utility and affiliates. The utility shall report this information annually pursuant to our Affiliate Transaction Reporting Decision, D.93-02-016, 48 CPUC2nd 163, 171-172 and 180 (Appendix A, Section I and Section II H.).

V.G.2.b. Once an employee of a utility becomes an employee of an affiliate, the employee may not return to the utility for a period of one year. This Rule is inapplicable if the affiliate to which the employee transfers goes out of business during the one-year period. In the event that such an employee returns to the utility, such employee cannot be retransferred, reassigned, or otherwise employed by the affiliate for a period of two years. Employees transferring from the utility to the affiliate are expressly prohibited from using information gained from the utility in a discriminatory or exclusive fashion, to the benefit of the affiliate or to the detriment of other unaffiliated service providers.

V.G.2.c. When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 25% of the employee’s base annual compensation, unless the utility can demonstrate that some lesser percentage (equal to at least 15%) is appropriate for the class of employee included. In the limited case where a rank-and-file (non-executive) employee’s position is eliminated as a result of electric industry restructuring, a utility may demonstrate that no fee or a lesser percentage than 15% is appropriate. The Board of Directors must vote to classify these employees as “impacted” by electric restructuring and these employees must be transferred no later than December 31, 1998, except for the transfer of employees working at divested plants. In that instance, the Board of Directors must vote to classify these employees as “impacted” by electric restructuring and these employees must be transferred no later than within 60 days after the end of the O&M contract with the new plant owners. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment (i.e. credited to the Electric Revenue Adjustment Account or the Core and Non-core Gas Fixed Cost Accounts, or other ratemaking treatment, as appropriate), on an annual basis, or as otherwise necessary to ensure that the utility’s ratepayers receive the fees. This transfer payment provision will not apply to clerical workers. Nor will it apply to the initial transfer of employees to the utility’s holding company to perform corporate support functions or to a separate affiliate performing corporate support functions, provided that that transfer is made during the initial implementation period of these Rules or pursuant to a §851 application or other Commission proceeding. However, the rule will apply to any subsequent transfers or assignments between a utility and its affiliates of all covered employees at a later time.

Rule V – Separation

V.G.2.d. Any utility employee hired by an affiliate shall not remove or otherwise provide information to the affiliate which the affiliate would otherwise be precluded from having pursuant to these Rules.

Audit Criteria

- Employee movements between SCE and affiliates are tracked, approved and reported to the CPUC in the annual Affiliate Transaction Report
- Movement of employee to affiliates adheres to Rule V.G.2.a-d timing requirements. Employees moving to affiliates are prohibited from using SCE information in a way that provides affiliates with a competitive advantage over unaffiliated service providers.
- Affiliates pay SCE the required fee for the transfer of its employees
- SCE employees are given temporary or intermittent assignments with affiliates, except those involved in marketing power, in a way that complies with the ATR

Audit Steps

- Determine that the proper fees were paid when SCE employees moved to affiliates in 2005
- Determine that affiliate employees who moved to SCE in 2005 had not been employed by SCE for a period of more than one year previous to their move to SCE, unless the affiliate went out of business or significantly scaled back its business (in the case of EO&MS) in which case the one-year residency requirement does not apply. Determine that the movement of affiliate employees to SCE was approved by the SCE affiliates officer.
- Determine that all 2005 employee movements between SCE and affiliates are reported in the Annual Affiliate Transaction Report
- Evaluate the controls in place to ensure that confidential SCE information is not given to an affiliate by a moving employee

Conclusions

SCE is in compliance with Rule V.G.2.a through d.

SCE's Human Resources Department is responsible for processing movements of utility employees to Class A and B affiliates, including obtaining acknowledgement by the employee of restrictions pertaining to use of utility information and of residency requirements. Exit interviews are conducted for all utility employees to remind them of the prohibition against sharing of utility information. All relevant paperwork is reviewed by RP&A to ensure conformity with the ATR. (INT 26, DR 5, DR 53)

During 2005, 4 SCE employees moved to affiliates—3 to Edison Mission Energy (EME), a class A affiliate, and 1 to EIX, a class B affiliate. (DR 41) We reviewed the calculation of the transfer fee paid by EME to SCE and found them to be correct for each individual. (DR 66) We also confirmed that SCE's Affiliates Officer properly approved each transfer.

Rule V – Separation

In 2005, 10 affiliate employees transferred to SCE. (DR 41) We reviewed documentation for a sample of these employee moves and found that all met the residency requirements of Rule V.G.2.b. (DR 103) We noted that each employee signed a letter listing pertinent affiliate transaction rules which they had adhered to in the move. Approval letters from SCE's Affiliates Officer were found for each move. We also found a copy of the Business Unit officer's approval letter for all but one move. In that one instance, the parties involved indicated they recall one being prepared although the letter could not be located. Move documentation is maintained by SCE's Human Resources Department. When these files were first reviewed, approval letters could not be located for several moves while approval letters were found for a few employees who never transferred. Copies of all but one approval letters were eventually obtained from RP&A, which also maintains a record of employee transfers.

SCE properly reports employee movements, which are detailed in its Annual Report of Affiliate Company Transactions, Volume III, Section H – Movement of Employees report to the CPUC. (DR 2)

Recommendation

3. Improve Recordkeeping for Employee Transfers To/From Affiliates – Human Resources should maintain an up-to-date list of employees who are transferring from SCE to affiliates and or affiliates to SCE. Greater attention should be paid to maintaining move-related documentation in the employee files.

CPUC Rule

V.G. Employees: Temporary Assignments

V.G.2.e. A utility shall not make temporary or intermittent assignments, or rotations to its energy marketing affiliates. Utility employees not involved in marketing may be used on a temporary basis (less than 30% of an employee's chargeable time in any calendar year) by affiliates not engaged in energy marketing only if:

V.G.2.e.i. All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 10% of direct labor cost, or fair market value. When the affiliate obtains the services of an executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value.

V.G.2.e.ii. Utility needs for utility employees always take priority over any affiliate request;

V.G.2.e.iii. No more than 5% of full time equivalent utility employees may be on loan at a given time;

V.G.2.e.iv. Utility employees agree, in writing, that they will abide by these Affiliate Transaction Rules; and

V.G.2.e.v. Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers.

Audit Criteria

- SCE employees are not temporarily assigned to marketing affiliates
- SCE personnel involved in marketing cannot be temporarily assigned to Class A affiliates

Rule V – Separation

- SCE employees can be temporarily assigned no more than 30% of their time during calendar year
- Affiliates are charged for temporarily assigned SCE employees at their fully loaded labor costs plus a markup of 10% of direct labor cost for non-executives and 15% of direct labor for executives
- SCE employees agree in writing that they will abide with ATR
- All necessary written approvals obtained from utility and affiliate officers
- No more than 5% of SCE FTEs may be on loan at a given time

Audit Steps

- Review all instances where SCE personnel performed work on a temporary basis for affiliates and determine if there was adherence to Rule V.G.2.e

Conclusions

SCE is in compliance with Rule V.G.2.e.

An Intercompany Service Request (ISR) form must be completed whenever an Affiliate requests services from SCE except for services performed as permissible shared support pursuant to Rule V.E. (DR 5, DR 40) The ISR documents the services being requested, estimated hours required for the task and all required approvals. The ISR process is monitored through the "Loaned Labor Report" which shows every SCE employee who has charged time on a "directly requested" basis. Controller's Department reviews the report to determine that ISRs are in place, where appropriate, for all employees in the report. (INT 30, DR 69)

The following have been determined to be "energy marketing affiliates":

- Coalinga Cogeneration Company
- Edison Mission Marketing and Trading, Inc.
- Kern River Cogeneration Company
- March Point Cogeneration Company
- Midway-Sunset Cogeneration Company, LP
- Mid-Set Cogeneration Company
- Salinas River Cogeneration Company
- Sargent Canyon Cogeneration Company
- Sunrise Power Company, LLC
- Sycamore Cogeneration Company
- Watson Cogeneration Company. (DR 76)

With respect to SCE employees, the terms "marketing" and "involved in marketing" have not been defined by the Commission for purposes of Affiliate Transaction Rule V.G.2.e. In order to comply with the Rules, SCE has itself defined these terms in its ATR Manual and its Compliance Plan. The determination that a particular SCE employee is or is not "involved in marketing" for purposes of Rule V.G.2.e is made in the first instance by the

Rule V – Separation

employee's SCE manager when responding to a affiliate's request for use of that employee pursuant to an ISR. He or she will compare the requested employee's job function(s) with the definitions referred to above. Before the ISR can be processed, the manager is required to attest that the employee is not involved in marketing (Section III of the ISR form). This approval is separate and distinct from the manager's approval of the assignment itself. In reviewing the ISR prior to submittal to the Affiliates Officer for approval, RP&A staff will ensure, first, that this managerial attestation is signed. RP&A personnel will then note the department or division for which the requested employee works, and will inquire further with the employee and/or his or her manager, if there is ambiguity, or if it appears that the employee's SCE responsibilities might be construed to fall under the definition of "involved in marketing" as presented in the ATR Manual and in the current Compliance Plan. RP&A does not maintain a list of individual employees or functions that may be considered "involved in marketing." (DR 1, DR 75)

During 2005, there were 29 ISRs. We examined each ISR and were able to reach the following conclusions:

- No SCE employees were assigned to marketing affiliates
- No SCE personnel involved in marketing were assigned to Class A affiliates
- No SCE employees were temporarily assigned more than 30% of their time during calendar year
- Every SCE employee agreed in writing (on the ISR form) that they will abide with ATR
- All written approvals were obtained from the SCE Affiliates Officer and SCE supervisor. (DR 40)

SCE has more than 13,000 employees (www.SCE.com). Rule V.G.2.e. states that no more than 5%—about 650—may be temporarily assigned to affiliates at one time. SCE had only 29 temporary assignments throughout all 2005 and did not come close to the 5% limit. (DR 40)

We reviewed a sample of the 6 ISRs and were able to determine that:

- The employees' total payroll expense was accurate
- Appropriate payroll overheads (payroll taxes and benefits) were applied
- The appropriate markup and facilities charge was applied
- Fully loaded labor, markup and facilities charges were included on the affiliate invoices. (DR 131)

CPUC Rule

V.H. Transfer of Goods and Services: To the extent that these Rules do not prohibit transfers of goods and services between a utility and its affiliates, and except for as provided in Rule V.G.2.e, all such transfers shall be subject to the following pricing provisions:

V.H.1. Transfers from the utility to its affiliates of goods and services produced, purchased or developed for sale on the open market by the utility will be priced at fair market value.

Rule V – Separation

<p>V.H.2. Transfers from an affiliate to the utility of goods and services produced, purchased or developed for sale on the open market by the affiliate shall be priced at no more than fair market value.</p> <p>V.H.3. For goods or services for which the price is regulated by a state or federal agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods and services, this Commission’s pricing provisions govern.</p> <p>V.H.4. Goods and services produced, purchased or developed for sale on the open market by the utility will be provided to its affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.</p> <p>V.H.5. Transfers from the utility to its affiliates of goods and services not produced, purchased or developed for sale by the utility will be priced at fully loaded cost plus 5% of direct labor cost.</p> <p>V.H.6. Transfers from an affiliate to the utility of goods and services not produced, purchased or developed for sale by the affiliate will be priced at the lower of fully loaded cost or fair market value.</p>

Audit Criteria

- Transfers from SCE to affiliates of goods and services are valued according to the requirements of Rule V.H
- SCE does not discriminate in favor of affiliates in its offering of goods and services
- Transfers from affiliates to SCE of goods and services are valued according to the requirements of Rule V.H

Audit Steps

- Determine the policies and methodology for valuing affiliate transactions
- Examine a sample of 2005 transactions and determine if SCE and affiliates are following the valuation guidelines of Rule V.H
- Determine what management controls exist over the valuation of affiliate transactions
- Evaluate 2005 property transfers to ensure they were properly valued

Conclusions

SCE is in compliance with Rule V.H.

We noted that the ATR Manual correctly specified how a value will be ascribed to each item covered by this Rule. SCE’s guidelines are summarized in the table below.

	Goods & Services Category	Valuation
SCE to Affiliate	V.H.1 For sale on open market (e.g., non-tariffed products & services)	Fair market value; no discrimination in favor of affiliates (V.H.4)
	V.H.3 Regulated by state or fed (e.g., tariffed products & services)	Fair market value (tariffed rate)
	V.H.5 Not for sale on open market (e.g., corporate support services)	Fully loaded costs plus 5% (10% or 15% for requested support)
Affiliate to SCE	V.H.2 For sale on open market (e.g., EO&MS services)	No more than fair market value
	V.H.6 Not for sale on open market (e.g., support services)	Lower of fully loaded cost or fair market value
DR 118		

Rule V – Separation

In the course of our audit work, we reviewed the valuation method for several of these categories of transactions. The results of those reviews are described below.

- V.H.1 SCE Open Market Product/Service Sales to Affiliates - We reviewed all the 2005 affiliate work performed by Energy Services, Inc. (ESI), a regulated subsidiary of SCE and an entity of SCE that performs various services for affiliates and non-affiliate third parties. ESI's affiliate work was priced out using rates from ESI's standard price list, which is also used to price out non-affiliate third party customers. Thus, we can conclude these sales were at "fair market value" and there was no discrimination in favor of affiliates. (INT 25, DR 63, DR 64)
- V.H.3 SCE Tariffed Product/Service Sales to Affiliates – We found no instances where SCE provided affiliates with discounts off their tariffed products and services. The ATR Manual states "SCE will provide no preferential treatment by the utility, such as discounts, in favor of affiliates." There are a number of internal controls in place to guard against such discounts. First, the Finance Division of SCE's Customer Services Business Unit, in consultation with SCE's Controller's Department, is responsible for reviewing the proposed pricing of all customer offerings, including proposed discounts and fee waivers. Pricing plans that may include a discount from the otherwise applicable tariff are also reviewed by the Pricing and Tariffs Group in Regulatory Policy and Affairs (RP&A) and are subject to review and approval by the Commission. All of these reviews ensure that proposed offerings are not discriminatory. Thus, we can conclude these sales were at "fair market value." (INT 36, DR 5)
- V.H.5 SCE Not-For-Sale Services to Affiliates – We reviewed the calculation of SCE corporate support charges to EME and EIX for one month in 2005 and found the proper calculation of fully loaded labor, overheads and the fee. Thus, we can conclude that these transactions were at "fully loaded costs plus 5%." (DR 105)
- V.H.2 – Affiliates Open Market Product/Service Sales to SCE – In previous years, SCE purchases of services from EO&MS fell under this affiliate service category. Since EO&MS ceased to be an operating company effective November 26, 2003, SCE procured no open market services from EO&MS during 2005. (DR 82)
- V.H.5 Affiliates Not-For-Sale Services to SCE – We noted none of these transactions in 2005. If there had been any, it is SCE's stated policy to value them at the lower of fully loaded cost or fair market value. (DR 5)

SCE's ATR manual calls for "fair compensation" for all assets transferred between SCE and its affiliates, regardless of the direction of the transfer. (DR 5) During 2005, SCE transferred with affiliates two printers and two routers with a value of \$1,357. (DR 42)

It should be noted that SCE began to be charged for power from the Mountainview Plant beginning in December 2005, the month Unit 3 and common went into commercial operation. We reviewed the December 2005 invoice and all the backup calculations and found the charges to be in conformity with the power purchase agreement. (INT 40, DR 149, DR 179)

Rule VI – Regulatory Oversight

CPUC Rule

VI.A. Compliance Plans: No later than December 31, 1997, each utility shall file a compliance plan demonstrating to the Commission that there are adequate procedures in place that will preclude the sharing of information with its affiliates that is prohibited by these Rules. The utility should file its compliance plan as an advice letter with the Commission’s Energy Division and serve it on the parties to this proceeding. The utility’s compliance plan shall be in effect between the filing and a Commission determination of the advice letter. A utility shall file a compliance plan annually thereafter by advice letter served on all parties to this proceeding where there is some change in the compliance plan (i.e., when a new affiliate has been created, or the utility has changed the compliance plan for any other reason).

Audit Criteria

- SCE’s compliance plan is filed annually and served on all parties to the proceeding where there has been a reportable change (e.g., creation of a new affiliate subsidiary)

Audit Steps

- Determine that compliance plans in effect during 2004, the period of audit, sufficiently demonstrate that SCE has adequate procedures in place to adhere to the ATR, including prohibitions against sharing of information
- Determine that an updated compliance plan was filed in 2004

Conclusions

SCE is in compliance with Rule VI.A.

As shown in the table below, SCE has followed this Rule’s requirement to file annual updates to its compliance plan from 1998 through 2005. (DR 5)

Compliance Plan	Period Covered
PCP (Preliminary Compliance Plan)	1/1/98 – 1/29/98
SCP (Supplemental Compliance Plan)	1/30/98 – 9/16/98
SCP & Resolution E-3530	9/17/98 – 10/15/98
RCP (Revised Compliance Plan)	10/16/98 – 12/12/01
ARCP (Amended Revised Compliance Plan)	2/5/99 – 11/12/99
UCP (Updated Compliance Plan)	11/12/99 – 12/12/01
ACP (Amended Compliance Plan)	5/9/00 – 12/12/01
MCP (Modified Compliance Plan)	12/12/01 – 12/23/05
CP02 (Compliance Plan Update for 2002)	12/12/02 – 12/23/05
CP03 (Compliance Plan Update for 2003)	12/22/03 – 12/23/05
CP04-I (Compliance Plan – 2004 Interim Update)	2/20/04 – 12/23/05
CP05 (Compliance Plan Update for 2005)	12/23/05 - present

DR 1

Rule VI – Regulatory Oversight

During 2005, the following compliance plans covered the indicated rules:

Rule	Prevailing Compliance Plan	
	1/1/05 – 12/23/05	12/23/05 – 12/31/05
I	MCP	CP05
II.A-B	CP03	CP05
II.C through III.A	MCP	CP05
III.B	CP02	CP05
III.B.1 through III.F	MCP	CP05
IV.A	CP03	CP05
IV.B	CP04-I	CP05
IV.C	CP03	CP05
IV.D through V.D	MCP	CP05
V.E, V.F.1	CP02	CP05
V.F.2 through V.F.5	MCP	CP05
V.G.1	CP03	CP05
V.G.2 through V.H	MCP	CP05
VI.A, VI.B	CP03	CP05
VI.C through VII.G	MCP	CP05
VII.H	CP03	CP05
VII.I	MCP	CP05

DR 1

CP05 incorporated compliance measures included in MCP, CP02, CP03 and CP04-I and made certain other compliance action changes, including:

- Rule III.B Non-Discrimination - Affiliate Transactions: added compliance statements concerning SCE’s Long Term Procurement Plan, which was approved by the CPUC in December 2004.
- Rule IV.B Disclosure and Information - Non-Customer Specific Non-Public Information: added compliance statements concerning SCE’s Long Term Procurement Plan and Mountainview Power Company, LLC, which went into commercial operation on December 9, 2005.
- Rule IV.G Disclosure and Information – Maintenance of Affiliate Contracts and Related Bids: added compliance statements concerning SCE’s Long Term Procurement Plan.
- Rule V.E Separation - Corporate Support: specified that the new Ethics and Compliance Office is a corporate support function that performs governance functions for all EIX companies. Also, several communications activities were added to the list of corporate support functions.
- Rule V.F Separation – Corporate Identification/Advertising – designated that websites of Class A affiliates with a business location in or conducting direct business in California, contain the appropriate disclaimer. (DR 1)

We reviewed the MCP, CP02, CP03, CP04-I and CP05 to assess whether they sufficiently demonstrate that SCE has adequate procedures in place to adhere to the ATR. (DR 1) This review showed SCE’s commitments to be complete and to involve a comprehensive interpretation of the Rules.

Rule VI – Regulatory Oversight

We compared information and commitment statements in the MCP, CP02, CP03 and CP04-I to the contents of the ATR Manual, the resource used by employees for directions on compliance with the ATR. We found the MCP, CP02, CP03 and CP04-I to be consistent with the detailed instructions in the ATR Manual. (DR 1, DR 5) The 2005 update to the ATR Manual is not available until after this report is completed.

CPUC Rule

VI.B. New Affiliate Compliance Plans: Upon the creation of a new affiliate which is addressed by these Rules, the utility shall immediately notify the Commission of the creation of the new affiliate, as well as posting notice on its electronic bulletin board. No later than 60 days after the creation of this affiliate, the utility shall file an advice letter with the Energy Division of the Commission, served on the parties to this proceeding. The advice letter shall demonstrate how the utility will implement these Rules with respect to the new affiliate.

Audit Criteria

- SCE communicates to affiliates the need to be promptly informed when new affiliates are created
- SCE properly reports on a timely basis, the creation of new affiliates which are subject to the ATR

Audit Steps

- Review communications between SCE and affiliates regarding the creation/establishment of new affiliates
- Review new affiliate advice letters to determine that the CPUC was notified of new affiliates in no later than 60 days after their creation

Conclusions

SCE is in compliance with Rule VI.B.

The ATR Manual states that within 60 days after the creation of a new affiliate, SCE must notify the CPUC via an Advice Letter. (DR 5)

The CPUC has not defined “creation” for purposes of this Rule. SCE has therefore determined it will consider an affiliate created “when it [affiliate] begins providing products and services that would render it an affiliate as defined in the Rules.” This may occur some time after the affiliate has been established. (DR 5) We find this position to be reasonable.

The last sentence of this Rule states that each new affiliate advice letter “shall demonstrate how the utility will implement these Rules with respect to the new affiliate.” Taken literally, it would seem this means SCE must have some customized compliance plan for each affiliate. However, SCE has taken the position that the existence of an adequate overall plan of compliance (as called for by VI.A) is sufficient to meet Rule VI.B. We concur with this approach.

Rule VI – Regulatory Oversight

Regulatory Policy and Affairs (RP&A) is responsible for filing advice letters concerning new affiliates. RP&A relies on certain affiliate executives and managers to notify them when new Class A affiliates are created. RP&A checks for unreported new affiliates, by reviewing the EIX Tier List and Affiliated Entity List, both prepared semi-annually by the Law Department.

The following new Class A affiliates were created in 2005:

New Class A Affiliate	Date Created	Date Reported to CPUC
Edison Mission Group Inc.	November 14, 2005	November 17, 2005
Mountainview Power Company, LLC	December 9, 2005	December 12, 2005
San Juan Mesa Wind Project, LLC	December 27, 2005	January 4, 2006

(DR 35)

RP&A notified the CPUC of new Class A affiliates within the 60 days from creation limit of Rule VI.B. New affiliate notices are also posted to SCE's website (<http://www.sce.com/AboutSCE/Regulatory/affiliatenotices/noticeofnewaffiliates.htm>).

CPUC Rule

VI.C. Affiliate Audit: No later than December 31, 1998, and every year thereafter, the utility shall have audits performed by independent auditors that cover the calendar year which ends on December 31, and that verify that the utility is in compliance with the Rules set forth herein. The utilities shall file the independent auditor's report with the Commission's Energy Division beginning no later than May 1, 1999, and serve it on all parties to this proceeding. The audits shall be at shareholder expense.

Audit Criteria

- An annual audit of affiliate transactions is performed by independent auditors whose report is filed with the CPUC by May 1 after the calendar year of the audit
- The audit is conducted at shareholder expense

Audit Steps

- Determine that audits were conducted when required in the past and the reports were filed on time
- Determine that the audits were conducted at shareholder expense

Conclusions

SCE is in compliance with Rule VI.C.

As required by this Rule, SCE has engaged independent auditors to perform the affiliate transaction audits since 1999. Each audit report was filed with the CPUC on a timely basis. The audits were performed at shareholder expense. (DR 74)

The disposition of Baryenbruch & Company's 2004 audit recommendations is shown in Exhibit 6.

Rule VI – Regulatory Oversight

CPUC Rule

VI.D. Witness Availability: Affiliate officers and employees shall be made available to testify before the Commission as necessary or required, without subpoena, consistent with the provisions of the Public Utilities Code Section 314.

Audit Criteria

- Affiliate officers and employees are available to testify before the CPUC without subpoena

Audit Steps

- Determine SCE's level of cooperation on witness availability

Conclusions

SCE is in compliance with Rule VI.D.

The ATR Manual evidences SCE's witness availability commitment by restating verbatim the text of this Rule. (DR 5) During 2005, no requests were made for affiliate officers or employees to testify on an affiliate transaction-related matter before the CPUC. (DR 44)

Southern California Edison
2005 Affiliates Transactions Audit of SCE
Status of 2004 Audit Recommendations

Rule	Recommendation	SCE Disposition
II.A-I	1. <u>Reclassify Edison O&M Services</u> – EO&MS is no longer operational. For this reason, its designation should be changed from Class A to Class B. SCE made this change on March, 28, 2005 and notified the CPUC accordingly.	SCE accepts this recommendation. As stated, SCE notified the CPUC on March 28, 2005 of this change.
III.B	2. <u>Add the Credit Group of SCE Risk Control to the Internal Distribution List for New Affiliate Notification Letters to the CPUC</u> – The addition of this organization to the distributions list should provide an earlier awareness of the changing affiliate status of an existing counterparty on the Power (or Gas) Counterparty Report.	SCE accepts this recommendation. The Director of SCE’s Risk Control group, and/or designee, will be added to the internal distribution list for future new affiliate notification letters to the CPUC.
III.B	3. <u>Update Affiliate Notices Website References to Reflect New Website Location</u> – The web address of SCE’s affiliate notices changed along with the redesign of SCE’s main website. Formerly located at five locations under the umbrella address www.sce.com/affiliatebb/index.shtml , the new affiliate notices are now found in five locations under the umbrella address of www.sce.com/AboutSCE/Regulatory/affiliatenotices . Outdated references exist in the prevailing Affiliate Transaction Compliance Plan sections for Rules III.B.1, III.F, IV.B (Advice 1278-E-F and Advice1278-E-I), IV.C, and the Affiliate Transactions Rules Manual. Outdated references may also exist in other RP&A training materials. This affects CISR Notices, 3B Reports, 3F Reports, 4B Reports, and Service Provider Lists. SCE should update all related materials.	SCE accepts this recommendation. SCE has chosen to retain the original URL (www.sceaffiliatebb.com) that was established for the required affiliate postings and reported to the CPUC, as required at the inception of the affiliate transaction rules. Periodic web designs and subsequent URL changes have occurred since the CPUC’s notification of the URL. Because of the need for uninterrupted access to this information at any time, it was requested and initially agreed to that the URL for affiliate-related posting information would not be changed, however, it was later determined that was not possible, so an alternative process was instituted to automatically re-route access made through the original URL, to any future new affiliate-related URL addresses. This was found to be an acceptable process, which eliminated the need for CPUC re-notifications and continual updates to all of the compliance-related documentation.

(DR 7)

Southern California Edison
2005 Affiliates Transactions Audit of SCE
Status of 2004 Audit Recommendations

Rule	Recommendation	SCE Disposition
III.B	<p>4. <u>Update the Affiliate Transactions Compliance Plan and the Affiliate Transaction Rules (ATR) Manual to Reflect Affiliate Related Portions of CPUC D.04-12-048</u> – This decision modifies the two year old ban on power procurement by lifting prohibitions against long-term procurement from affiliates. In conjunction with the lifting of the ban, the CPUC cautioned that “utilities, and in particular their risk management committees, must maintain complete procurement planning independence from their affiliates”. Likewise, Rules III.B.1, III.E.4, and IV.B either prohibit or prescribe close management of situations where an affiliate might gain unfair advantage from the transfer of information from SCE to the affiliate. Consequently, we believe the guidance provided to SCE employees and managers relative to these three rules should be expanded to address the requirements of D.04-12-048 as it applies to the conduct of power procurement activities. The Affiliate Transaction Compliance Plan and relevant portions of the Affiliate Transaction Rule Manual should also be updated. For the ATR Manual, this includes the topics in Chapter 4 entitled “Information – Non-customer Specific, Non-Public”, “Information – Non-Customer Specific, Non-Public – Modeling Data”, and “Information – Non-Customer Specific, Non-Public – Proprietary Information” and the topic in Chapter 5 entitled “Nondiscrimination – Types of Transactions Permitted.”</p>	<p>SCE accepts this recommendation. The update has been incorporated into the reference chapters in the ATR Manual filed with the CPUC in May 2005. The information will also be included in the next Affiliate Transactions Compliance Plan filed with the CPUC in 2005.</p>
	<p>5. <u>Expand Wording of EIX Business Conduct Guide</u> – In 2004 the scope of annual Business Conduct and Ethics Certification was expanded to include all domestic, non-union employees. This expansion provides an ongoing opportunity for SCE to emphasize the importance of affiliate rule compliance to the employees who have the most contact with customers. The paragraph addressing affiliate rules that is found in the EIX Business Conduct Guide under the section Compliance With Laws and Regulations should be expanded to address a few of the most important elements of the Rules. For example, SCE should mention that (1) “SCE employees may not promote affiliates, even at customer request”, (2) “release of SCE customer information requires prior written consent”, (3) “work for affiliates by SCE employees requires consent of Affiliates Officer”, (4) “SCE and affiliates may not participate in joint sales, marketing, or communication to existing or potential customers”, and (5) “SCE transactions with affiliates must be thoroughly documented.”</p>	<p>SCE accepts this recommendation. SCE is in the process of revamping the entire code and will include the recommended revisions, which provide more detail about compliance with the affiliate rules. The revised code is expected to be completed by June 30, 2005.</p>

(DR 7)

Southern California Edison
2005 Affiliates Transactions Audit of SCE
Status of 2004 Audit Recommendations

Rule	Recommendation	SCE Disposition
IV.C	6. <u>Utilize the AgTAC Incident in Future Affiliate Rules Training Sessions</u> – Incorporate the incident of the AgTAC flyer as an example of the kinds of lists which must be avoided in order that SCE maintain compliance with Rule IV. Of the ATRs.	SCE accepts this recommendation. The Affiliate Rules Training materials will be updated to incorporate the AgTAC incident in future Training Sessions.
V.F	7. <u>Formally communicate the new policy regarding use of disclaimers on affiliate websites</u> – The policy developed in response to 2003 Recommendation Number 8 needs to be better communicated to SCE affiliates via (1) the intranet-based Corporate Identity Standards section on “External Web Design” and (2) ATR Manual Chapter 9 regarding “Separation – Advertising & Marketing – Utility Name and Logo (Disclaimers)”.	SCE accepts this recommendation. As of March 31, 2005, the new policy regarding the use of disclaimers on affiliate websites can be found on SCE’s intranet-based Corporate Identity Standards section. The text of the new policy regarding use of disclaimers on affiliate websites was included in Chapter 9 regarding “Separation – Advertising & Marketing – Utility Name and Logo (Disclaimers)” section in the ATR Manual filed with the CPUC in May 2005.
VII.D	8. <u>Audit Services Should Conduct an Audit of SCE’s Non-Tariffed Products and Services</u> – It has been several years since an audit was conducted on the accounting process for non-tariffed products and services revenues and incremental costs. The scope of this audit should be similar to the last audit (2000 transactions).	SCE accepts this recommendation. Audit Services has included a review of SCE’s Non-Tariffed Products and Services Accounting Process in the Audit Services Department 2005-2006 Audit Plan (May 1, 2005 through April 30, 2006) as a component of the Affiliate Transactions Audit. The scope of the audit will be similar to the last audit (2000 transactions). Audit Services plans to initiate the review in the fourth quarter of 2005.

(DR 7)

Rule VII – Utility Products and Services

CPUC Rule

VII. Utility Products and Services

VII.A. General Rule: Except as provided for in these Rules, new products and services shall be offered through affiliates.

Audit Criteria

- New products and services are only offered by affiliates except where provided by this ATR

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.A
- Determine that new products and services are only offered through affiliates

Conclusions

SCE is in compliance with Rule VII.A.

SCE's current offerings of non-tariffed products and services were conditionally approved by the CPUC on January 6, 2000 when it issued Resolution E-3639 in response to SCE's Advice 1286-E. The CPUC ordered that SCE:

- Reclassify four categories of non-tariffed products and services (customer account management services for non-ESPs; use of general facilities; inspection, operation and maintenance, modification, upgrade, removal, and repair of generation, transmission and distribution related facilities and equipment; and miscellaneous services) so that they comply with the definition established in Rule VII.B.1
- Delete categories "sale of tariffed utility property and equipment/furniture requiring Section 851 application" and "sale of utility property and equipment/furniture (not requiring a section 851 application)" and reclassify the specific line items in each category as appropriate
- Delete the category "trading, buying and selling of emission credits pursuant to RECLAIM" from Attachment A to Advice 1286-E.

SCE implemented this directive and submitted Advice 1286-E-A on April 5, 2000 notifying the CPUC of its actions. On September 29, 2003, the CPUC approved SCE's actions through the issuance of Resolution E-3639, which became effective retroactive to May 15, 2000. (DR 3, INT 36)

In 2003, SCE requested authorization from the CPUC to create one new category of non-tariffed products and services related to the resale of Type II telecommunications circuits. After further consideration, SCE withdrew this request in a letter dated February 23, 2005 to the CPUC. (INT 36, 2004 audit DR 184)

Rule VII – Utility Products and Services

During 2005, SCE did not create any new categories of non-tariffed products and services. (INT 36; DR 45).

Exhibit 7 shows the volume of non-tariffed products and services in 2004 and 2005. The following units of SCE that provided these products and services during 2005:

SCE Unit	2005 Gross Other Op Rev
Customer Service Bus Unit	\$ 8,791,489
Edison Carrier Solutions	\$ 37,668,757
Transmission and Distribution Bus Unit	\$ 20,622,455
Generation Bus Unit - Hydro	\$ 1,340,043
Generation Bus Unit - Power Production	\$ 1,213,703
Shared Services Bus Unit - Corporate Real Estate	\$ 65,855
Shared Services Bus Unit - Transportation Services	\$ 27,917
Edison ESI	\$ 13,858,399
Total	<u>\$ 83,588,618</u>

(DR 151)

During the course of our interviews and data analysis, we found no evidence that SCE was not complying with Rule VII.

Exhibit 7

Southern California Edison Company
2005 Affiliates Transactions Audit of SCE
2004-2005 Non-Tariffed Products and Services

Product/Service Category	2004		2005	
	Revenues	Incremental Costs	Revenues	Incremental Costs
Secondary Use of Transmission Right of Ways, and Land	\$ 18,330	\$ 508	\$ 19,396	\$ 532
Secondary Use of Distribution Right of Ways, Land, Facilities and Substations	\$ 1,867	\$ 681	\$ 2,051	\$ 875
Secondary Use of Utility-Owned Generation Facilities and Land	\$ 220	\$ -	\$ 329	\$ -
Secondary Use of Utility-Owned Office Buildings and Offices	\$ 555	\$ 164	\$ 324	\$ 138
Use of Transmission Towers, Distribution Poles, Facilities, Conduits, Ducts and Streetlight Poles	\$ 1,189	\$ 470	\$ 1,121	\$ 487
Use of Communications and Computing Systems	\$ 28,817	\$ 11,413	\$ 34,272	\$ 15,132
License of Utility Software	\$ 675	\$ 608	\$ 193	\$ 274
Licensing of Utility-Held Patents	\$ -	\$ -	\$ -	\$ -
Property Management, Property Maintenance and Real Property Brokerage Services	\$ 161	\$ 2	\$ 48	\$ -
Recreation, Fish and Wildlife Activities	\$ 1,156	\$ -	\$ 1,164	\$ -
Sales of Timber Stands on Utility-Owned Property	\$ -	\$ -	\$ -	\$ -
Use of Customer Technology Application Center (CTAC) and Agricultural Technology Application Center (AgTAC) Facilities	\$ 78	\$ 58	\$ 55	\$ 32
Electric Vehicle (EV), Battery, and Charger-Related Services	\$ 96	\$ 6	\$ 105	\$ -
Energy Efficiency Engineering, Consulting and Technical Services	\$ -	\$ -	\$ -	\$ -
Billing and Customer Communications Center Services for Non-ESPs	\$ 360	\$ 4	\$ 412	\$ 2
Meter Reading and Field Services for Non-ESPs	\$ 2,687	\$ 1,496	\$ 2,092	\$ 990
Bill Payment Options	\$ 5,287	\$ 159	\$ 6,017	\$ 151
Vehicle Maintenance and Repair	\$ 122	\$ 53	\$ 28	\$ 22
Transportation and Disposal of Hazardous Materials	\$ -	\$ -	\$ -	\$ -
Use of Heavy Equipment and Machinery	\$ -	\$ -	\$ -	\$ -
Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities and Equipment	\$ 3,446	\$ 2,366	\$ 2,585	\$ 1,158
Advanced Testing of Hydraulic Pumps	\$ 57	\$ -	\$ 53	\$ -
Equipment and Machinery Repair, Testing, Maintenance and Calibration	\$ 10,770	\$ 9,891	\$ 12,767	\$ 12,062
Geographic Information Systems (GIS) Services	\$ 220	\$ -	\$ 239	\$ 5
Tariff Sheet Sales	\$ -	\$ -	\$ -	\$ -
Recycling Services	\$ 20	\$ -	\$ 18	\$ -
Training and Technical Certification Services	\$ 288	\$ 1	\$ 355	\$ 35
Material Procurement and Purchasing Services	\$ -	\$ -	\$ -	\$ -
Fuel Oil Pipeline System and Storage Facilities	\$ -	\$ -	\$ -	\$ -
Total	\$ 76,401	\$ 27,880	\$ 83,624	\$ 31,895

(DR 119)

Rule VII – Utility Products and Services

CPUC Rule

VII.B. Definitions: The following definitions apply for the purposes of this section (Section VII) of these Rules:

VII.B.1. “Category” refers to a factually similar group of products and services that use the same type of utility assets or capacity. For example, “leases of land under utility transmission lines” or “use of a utility repair shop for third party equipment repair” would each constitute a separate product or service category.

VII.B.2. “Existing” products and services are those which a utility is offering on the effective date of these Rules

VII.B.3. “Products” include use of property, both real and intellectual, other than those uses authorized under General Order 69-C.

VII.B.4. “Tariff” or “tariffed” refers to rates, terms and conditions of services as approved by this Commission or the Federal Energy Regulatory Commission (FERC), whether by traditional tariff, approved contract or other such approval process as the Commission or the FERC may deem appropriate.

Audit Criteria

- SCE’s definition of these terms is similar to those of this Rule

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.B
- Review the ATR Manual to determine that SCE has properly interpreted the terms included in this rule

Conclusions

SCE is in compliance with Rule VII.B.

The ATR Manual restates verbatim this Rule’s definitions of “category,” “existing,” “products” and “tariff/non-tariffed.” (DR 5) We interviewed the RP&A personnel responsible for monitoring SCE’s compliance with Rule VII.B and found them to be properly interpreting and implementing the requirements of Rule VII concerning non-tariffed products and services. (INT 36)

CPUC Rule

VII.C. Utility Products and Services: Except as provided in these Rules, a utility shall not offer non-tariffed products and services. In no event shall a utility offer natural gas or electricity commodity service on a non-tariffed basis. A utility may only offer for sale the following products and services:

VII.C.1. Existing products and services offered by the utility pursuant to tariff;

VII.C.2. Unbundled versions of existing utility products and services, with the unbundled versions being offered on a tariffed basis;

VII.C.3. New products and services that are offered on a tariffed basis; and

VII.C.4. Products and services which are offered on a nontariffed basis and which meet the following conditions:

VII.C.4.a. The nontariffed product or service utilizes a portion of a utility asset or capacity;

VII.C.4.b. such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility service;

Rule VII – Utility Products and Services

VII.C.4.c. the involved portion of such asset or capacity may be used to offer the product or service on a nontariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;

VII.C.4.d. the products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and

VII.C.4.e. The utility's offering of such nontariffed product or service does not violate any law, regulation, or Commission policy regarding anticompetitive practices.

Audit Criteria

- SCE offers only tariffed products and services except for those non-tariffed products and services that meet the conditions spelled out in this ATR

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.C
- Review the 2004 and 2005 Reports of Utility Non-Tariffed Products and Services
- Verify that non-tariffed products and services offered by SCE meet the requirements of this Rule

Conclusions

SCE is in compliance with Rule VII.C.

SCE does not offer electric commodity service on a non-tariffed basis and only offers non-tariffed products and services that are allowed by Rule VII.C. In 2003, SCE assumed responsibility for energy purchases associated with contracts assigned to it by the Department of Water Resources. Also in 2003, SCE established an energy trading function to meet its power requirements. None of the selling activities of the trading function are deemed by SCE to be a non-tariffed product or service. (INT 36)

We reviewed the non-tariffed work that Edison ESI (ESI) performed for affiliates during 2004. This involved seven jobs whose work properly fell into existing non-tariffed product and service categories. (DR 66)

We interviewed RP&A staff responsible for monitoring SCE's compliance with Rule VII.C and found them to be properly interpreting and implementing the rule. (INT 36)

We reviewed the 2004 and 2005 Periodic Reports of Utility Non-Tariffed Products and Services (DR 77) and noted that 3 of the 29 categories involved the use of more than 1% of applicable utility assets. We did not find this level of use to adversely affect the cost, quality or reliability of tariffed utility products and services, as described below.

- Secondary Use of Transmission Right of Ways and Land (40% in 2005) – These non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services

Rule VII – Utility Products and Services

- Secondary Use of Distribution Right of Ways, Land, Facilities and Substations (8% in 2005) – These non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services
- Secondary Use of Utility-Owned Generation Facilities and Land (52% in 2005) - These non-tariffed products and services generally related to the use of land and did not impair its ability to provide tariffed services (INT 36, DR 77)

SCE created no new categories of non-tariffed products or services in 2005. (INT 36, DR 45)

CPUC Rule

VII.D. Conditions Precedent to Offering New Products and Services: This Rule does not represent an endorsement by the Commission of any particular nontariffed utility product or service. A utility may offer new nontariffed products and services only if the Commission has adopted and the utility has established:

VII.D.1. A mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a non-tariffed basis;

VII.D.2. A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle.

VII.D.3. Periodic reporting requirements regarding pertinent information related to nontariffed products and services; and

VII.D.4. Periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services.

Audit Criteria

- Any new non-tariffed products and services offered by SCE are not cross-subsidized by tariffed products and services, have received approvals from the CPUC as to the cost allocation method, and SCE complies with the associated reporting requirements

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.D
- Evaluate the accounting process for non-tariffed revenues and expenses
- Review any Internal Audit work pertaining to Rule VII.D

Conclusions

SCE is in compliance with Rule VII.D.

Since the CPUC issued Decision 99-09-070 on September 16, 1999, SCE has followed the guidelines for the Gross Revenue Sharing Mechanism called for in that decision. SCE shareholders receive the first \$16.7 million of annual NTP&S revenue. Thereafter,

Rule VII – Utility Products and Services

SCE’s shareholders and ratepayers split the revenues from non-tariffed products and services according to the following percentages:

Type of Activity	Sharing Percentage	
	Shareholder	Ratepayer
Passive	70%	30%
Active	90%	10%

(INT 36)

Shareholder’s revenues are offset by the incremental costs associated with non-tariffed products and services activities. The determination of incremental costs is made by the areas of SCE that provide these services. (INT 36)

An automated accounting system was established in 2000 to collect revenue and incremental cost data from the various areas of SCE that provide non-tariffed products and services. Non-tariffed products and services revenues are recorded as Other Operating Revenues in accounts 451, 454 and 456. A recordkeeping process also exists to track the number of contracts and the percent of utility assets used by NTP&S category. (INT 36, DR 5)

We reviewed the monthly report prepared by the Controller’s Department showing a detailed tabulation of non-tariffed revenues and the calculation of gross revenue sharing. We noted that the sharing was properly calculated based on whether the revenue was passive or active. (DR 132)

We interviewed the RP&A personnel responsible for monitoring SCE’s compliance with Rule VII.D and found them to be interpreting and implementing this rule correctly. (INT 36)

In the past several years, SCE’s non-tariffed products and services recordkeeping process has been subjected to periodic evaluation. In its 2002 General Rate Case examination, the Office of Ratepayer Advocate’s (ORA) reviewed SCE’s accounting process for non-tariffed products and services and concluded:

“Based on review of additional information obtained and workpapers provided in the 2003 GRC, it appears that revenues and incremental expenditures related to ECS [Edison Carrier Solutions] are excluded from the 2003 GRC.” (DR 34 from the 2002 Affiliate Transactions Audit)

SCE’s Audit Services Department issued a report (dated January 30, 2002) covering its review of SCE’s 2000 Periodic Report of Utility Non-Tariffed Products and Services. The audit’s objectives were to: (1) ensure non-tariffed products and services revenues and incremental costs were reported correctly in SCE’s 2000 Periodic Report of Utility Non-Tariffed Products and Services, (2) review the accounting of non-tariffed products and services revenues to ensure compliance with classifications as active or passive categories for purposes of SCE’s Gross Revenue Sharing Mechanism, and (3) evaluate

Rule VII – Utility Products and Services

the efficiency and effectiveness of internal controls. The report concluded “procedures and internal controls currently in effect provide reasonable assurance that the objectives outlined above...” (DR 13 from the 2002 Affiliate Transactions Audit)

On January 17, 2006, SCE’s Audit Services Department issued a report on its review of SCE’s 2004 Non-Tariffed Products and Services Report. The audit’s objectives were to: (1) ensure non-tariffed products and services revenues and incremental costs were reported correctly in SCE’s 2004 Periodic Report of Utility Non-Tariffed Products and Services and (2) review the accounting of non-tariffed products and services revenues to ensure compliance with classifications as active or passive categories for purposes of SCE’s Gross Revenue Sharing Mechanism, and (3) evaluate the efficiency and effectiveness of internal controls. The report concluded “procedures and internal controls currently in effect provide reasonable assurance that the objectives outlined above are being met.” (DR 9)

CPUC Rule

VII.E. Requirements to File an Advice Letter: Prior to offering a new category of nontariffed products or services as set forth in Section VII C above, a utility shall file an advice letter in compliance with the following provisions of this paragraph.

VII.E.1. The advice letter shall:

VII.E.1.a. demonstrate compliance with these rules;

VII.E.1.b. address the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or service will not result in a degradation of cost, quality, or reliability of tariffed goods and services;

VII.E.1.c. demonstrate that the utility has not received competition transition charge (CTC) recovery in the Transition Cost Proceeding, A.96-08-001, or other related CTC Commission proceeding, for the portion of the utility asset dedicated to the non-utility venture; and

VII.E.1.d. address the potential impact of the new product or service on competition in the relevant market, including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect the market.

VII.E.1.e. be served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the rules governing the Commission’s advice letter process.

VII.E.2. For categories of nontariffed products or services targeted and offered to less than 1% of the number of customers in the utility’s customer base, in the absence of a protest alleging non-compliance with these Rules or any law, regulation, decision, or Commission policy, or allegations of harm, the utility may commence offering the product or service 30 days after submission of the advice letter. For categories of nontariffed products or services targeted and offered to 1% or more of the number of customers in the utility’s customer base, the utility may commence offering the product or service after the Commission approves the advice letter through the normal advice letter process.

VII.E.3. A protest of an advice letter filed in accordance with this paragraph shall include:

VII.E.3.a. An explanation of the specific Rules, or any law, regulation, decision, or Commission policy the utility will allegedly violate by offering the proposed product or service, with reasonable factual detail; or

VII.E.3.b. An explanation of the specific harm the protestant will allegedly suffer.

VII.E.4. If such a protest is filed, the utility may file a motion to dismiss the protest within 5 working days if it believes the protestant has failed to provide the minimum grounds for protest required above. The protestant has 5 working days to respond to the motion.

Rule VII – Utility Products and Services

VII.E.5. The intention of the Commission is to make its best reasonable efforts to rule on such a motion to dismiss promptly. Absent a ruling granting a motion to dismiss, the utility shall begin offering that category of products and services only after Commission approval through the normal advice letter process.

Audit Criteria

- SCE offers only tariffed products and services except for those non-tariffed products and services that meet the conditions spelled out in the ATR
- New categories of non-tariffed products and services are only offered after an Advice Letter has been filed with the CPUC

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.E
- Determine if SCE offered any new categories of non-tariffed products and services through: (1) interviews with SCE staff and (2) by comparing the 2005 and 2004 Utility Non-Tariffed Products and Services Report to the CPUC
- Note that Advice Letters were properly filed with the CPUC before a new category of Non-Tariffed Products and Services is established
- If new categories were offered, determined that an advice letter was filed

Conclusions

SCE is in compliance with Rule VII.E.

During 2005, SCE did not offer any new non-tariffed products and services, thus did not request such authorization from the CPUC. (INT 36, DR 45)

In 2005, no protest letters were filed regarding SCE's non-tariffed products and services or related advice letters. (DR 78)

CPUC Rule

VII.F. Existing Offerings: Unless and until further Commission order to the contrary as a result of the advice letter filing or otherwise, a utility that is offering tariffed or nontariffed products and services, as of the effective date of this decision, may continue to offer such products and services, provided that the utility complies with the cost of allocation and reporting requirement in this rule. No later than January 30, 1998, each utility shall submit an advice letter describing the existing products and services (both tariffed and nontariffed) currently being offered by the utility and the number of Commission decision or advice letter approving this offering, if any, and requesting authorization or continuing authorization for the utility's continued provision of this product or service in compliance with the criteria set forth in Rule VII. This requirement applies to both existing products and services explicitly approved and not explicitly approved by the Commission.

Audit Criteria

- SCE has properly responded to any 2005 CPUC orders as they relate to the offering of non-tariffed products and services

Rule VII – Utility Products and Services

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.F
- Review any 2005 CPUC orders pertaining to the offering of tariffed and non-tariffed products and services

Conclusions

SCE is in compliance with Rule VII.F.

As required by this Rule, SCE filed the Advice Letter 1286-E on January 30, 1998, identifying its tariffed and non-tariffed utility products and services. At the CPUC's direction, SCE filed an updated version of this advice letter on April 5, 2000 (Advice 1286-E-A), which the Commission approved on September 29, 2003. During 2005, SCE did not create any new major categories of tariffed or non-tariffed products and services. (INT 36, DR 132)

CPUC Rule

VII.G. Section 851 Application: A utility must continue to comply fully with the provisions of Public Utilities Code Section 851 when necessary or useful property is sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered as part of a nontariffed product or service offering by the utility. If an application pursuant to Section 851 is submitted, the utility need not file a separate advice letter, but shall include in the application those items which would otherwise appear in the advice letter as required in this Rule.

Audit Criteria

- When SCE offers non-tariffed products and services that involve property subject to this Rule, it submits a Section 851 Application or files a separate advice letter, as appropriate

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.G
- Review 2005 instances where SCE sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered necessary or useful property

Conclusions

SCE is in compliance with Rule VII.G.

During 2005, SCE submitted Section 851 Applications for the following arrangements to lease SCE property to unaffiliated parties:

- Brian and Chery Ford (A.05-03-017)
- Hawaii Properties, Inc. (A.05-04-002)
- Champion Chevrolet, LLC (A.05-06-045)
- PHC, LLC (A.05-08-040) (DR 46)

Rule VII – Utility Products and Services

We reviewed the documentation for two of these four 851 applications and found the support to conclude that they related to existing non-tariffed product and service categories, thus SCE was not required to file any other Rule VII.G Advice Letters. (DR 46)

CPUC Rule

VII.H. Periodic Reporting of Nontariffed Products and Services: Any utility offering nontariffed products and services shall file periodic reports with the Commission's energy Division twice annually for the first two years following the effective date of these Rules, then annually thereafter unless otherwise directed by the Commission. The utility shall serve periodic reports on the service list of this proceeding. The periodic reports shall contain the following information:

VII.H.1. A description of each existing or new category of nontariffed products and services and the authority under which it is offered;

VII.H.2. A description of the types and quantities of products and services contained within each category (so that, for example, "leases for agricultural nurseries at 15 sites" might be listed under the category "leases of land under utility transmission lines," although the utility would not be required to provide the details regarding each individual lease);

VII.H.3. The cost allocated to and revenues derived from each category; and

VII.H.4. Current information on the proportion of relevant utility assets used to offer each category of product and service.

Audit Criteria

- The report format and content meets CPUC requirements
- The process for assembling the Periodic Report of Utility on Non-Tariffed Products and Services to the CPUC ensures the information is accurate and timely
- The report is filed by the required deadline of March 31

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.H
- Review the 2004 and 2005 Periodic Reports of Utility on Non-Tariffed Products and Services for: format, content and filing date
- Review Internal Audit work pertaining to non-tariffed products and services

Conclusions

SCE is in compliance with Rule VII.H.

Since January 1, 2005, SCE filed the following Periodic Report of Utility Non-Tariffed Products and Services:

- 2004 Report covering January 1, 2004 through December 31, 2004 (filed March 13, 2005)
- 2005 Report covering January 1, 2005 through December 31, 2005 (filed April 13, 2006) (DR 77)

Rule VII – Utility Products and Services

Both reports contained the following information, as called for by Rule VII.H:

- Non-tariffed product/service categories offered during the reporting period
- Description of each category, including a listing of the types and quantities of products/services within each category
- Revenues and incremental costs associated with each product/service category
- Proportional share of relevant utility assets used to offer each product/service category

On January 17, 2006, SCE's Audit Services Department issued a report on its review of SCE's 2004 Non-Tariffed Products and Services Report. The audit's objectives were to: (1) ensure non-tariffed products and services revenues and incremental costs were reported correctly in SCE's 2004 Periodic Report of Utility Non-Tariffed Products and Services and (2) review the accounting of non-tariffed products and services revenues to ensure compliance with classifications as active or passive categories for purposes of SCE's Gross Revenue Sharing Mechanism, and (3) evaluate the efficiency and effectiveness of internal controls. The report concluded "procedures and internal controls currently in effect provide reasonable assurance that the objectives outlined above are being met." (DR 9)

CPUC Rule

VII.I. Offering of Nontariffed Products and Services to Affiliates: Nontariffed products and services which are allowed by this Rule may be offered to utility affiliates only in compliance with all other provisions of these Affiliate Rules. Similarly, this Rule does not prohibit affiliate transactions which are otherwise allowed by all other provisions of these Affiliate Rules.

Audit Criteria

- SCE only offers allowed non-tariffed products and services to affiliates

Audit Steps

- Interview SCE staff responsible for compliance with Rule VII.I
- Assess how non-tariffed product and service offerings are monitored to ensure compliance with Rule VII.I

Conclusions

SCE is in compliance with Rule VII.I.

Edison ESI (ESI) is the only area of SCE that provides non-tariffed products and services to affiliates. During 2005, it performed approximately \$474,000 in such work for the following affiliates:

- Mountainview Power Company, LLC
- Kern River Cogeneration Company
- Sycamore Cogeneration Company

Rule VII – Utility Products and Services

- Watson Cogeneration Company (DR 64)

The nature of this non-tariffed product and service work for these affiliates was reviewed and found to be allowed by Rule VII. (INT 25, DR 64)

Rule VIII – Complaint Procedures and Remedies

CPUC Rule

VIII. Procedure:

VIII.A. The Commission shall strictly enforce these rules. Each act or failure to act by a utility in violation of these rules may be considered a separate occurrence.

VIII.B. Standing:

VIII.B.1. Any person or corporation as defined in Sections 204, 205, and 206 of the California Public Utilities Code may complain to the Commission or to a utility in writing, setting forth any act or thing done or omitted to be done by any utility or affiliate in violation or claimed violation of any rule set forth in this document.

VIII.B.2. “Whistleblower complaints” will be accepted and the confidentiality of complainant will be maintained until conclusion of an investigation or indefinitely, if so requested by the whistleblower. When a whistleblower request anonymity, the Commission will continue to pursue the complaint only where it has elected to convert it into a Commission-initiated investigation. Regardless of the complainant's status, the defendant shall file a timely answer to the complaint.

VIII.C. Procedure:

VIII.C.1. All complaints shall be filed as formal complaints with the Commission and complainants shall provide a copy to the utility's designated officer (as described below) on the same day that the complaint is filed.

VIII.C.2. Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate rules and the utility's compliance plan adopted pursuant to these rules. Such officer shall also be responsible for receiving, investigating, and attempting to resolve complaints. The Affiliate Compliance Officer may, however, delegate responsibilities to other officers and employees.

VIII.C.2.a. The utility shall investigate and attempt to resolve the complaint. The resolution process shall include a meet-and-confer session with the complainant. A Commission staff member may, upon request by the utility or the complainant, participate in such meet-and-confer sessions and shall participate in the case of a whistleblower complaint.

A party filing a complaint may seek a temporary restraining order at the time the formal complaint is filed. The defendant utility and other interested parties may file responses to a request for a temporary restraining order within 10 days of the filing of the request. An assigned commissioner or administrative law judge, or the Commission shall act on the request for a temporary restraining order within 30 days. The request may be granted when: (1) moving party is reasonably likely to prevail on the merits, and (2) a temporary restraining order relief is necessary to avoid irreparable injury, will not substantially harm other parties, and is consistent with the public interest.

A notice of temporary restraining order issued by an assigned commissioner or administrative law judge will only stay in effect until the end of the day of the next regularly-scheduled Commission meeting at which the Commission can issue a temporary restraining order or a preliminary injunction. If the Commission declines to issue a temporary restraining order or a preliminary injunction, the notice of temporary restraining order will be immediately lifted. Whether or not a temporary restraining order or a preliminary injunction is issued, the underlying complaint may still move forward.

VIII.C.2.b. The utility shall prepare and preserve a report on each complaint, all relevant dates, companies, customers and employees involved, and if applicable, the resolution reached, the date of the resolution and any actions taken to prevent further violations from occurring. The report shall be provided to the Commission and all parties within four weeks of the date the complaint was filed. In addition to providing hard copies, the utility shall also provide electronic copies to the Commission and to any party providing an e-mail address.

VIII.C.2.c. Each utility shall file annually with the Commission a report detailing the nature and status of all complaints.

VIII.C.2.d. The Commission may, notwithstanding any resolution reached by the utility and the complainant, convert a complaint to an investigation and determine whether the utility violated these rules, and impose any appropriate penalties under Section VIII.D or any other remedies provided by the Commission's rules or the Public Utilities Code.

VIII.C.3. The utility will inform the Commission's Energy Division and Consumer Services Division of the results of this dispute resolution process. If the dispute is resolved, the utility shall inform the Commission staff of the actions taken to resolve the complaint and the date the complaint was resolved.

Rule VIII – Complaint Procedures and Remedies

VIII.C.4. If the utility and the complainant cannot reach a resolution of the complaint, the utility will so inform the Commission's Energy Division. It will also file an answer to the complaint within 30 days of the issuance by the Commission's Docket Office of instructions to answer the original complaint. Within 10 business days of notice of failure to resolve the complaint, Energy Division staff will meet and confer with the utility and the complainant and propose actions to resolve the complaint. Under the circumstances where the complainant and the utility cannot resolve the complaint, the Commission shall strive to resolve the complaint within 180 days of the date the instructions to answer are served on the utility.

VIII.C.5. The Commission shall maintain on its web page a public log of all new, pending and resolved complaints. The Commission shall update the log at least every week. The log shall specify, at a minimum, the date the complaint was received, the specific allegations contained in the complaint, the date the complaint was resolved and the manner in which it was resolved, and a description of any similar complaints, including the resolution of such similar complaints.

VIII.C.6. Preliminary Discussions

VIII.C.6.a. Prior to filing a formal complaint, a potential complainant may contact the responsible utility officer and/or the Energy Division to inform them of the possible violation of the affiliate rules. If the potential complainant seeks an information meeting with the utility to discuss the complaint, the utility shall make reasonable efforts to arrange such a meeting. Upon mutual agreement, Energy Division staff and interested parties may attend any such meeting.

VIII.C.6.b. If a potential complainant makes an informal contact with a utility regarding an alleged violation of the affiliate transaction rules, the utility office in charge of affiliate compliance shall respond in writing to the potential complainant within 15 business days. The response would state whether or not the issues raised by the potential complainant require further investigation. (The potential complainant does not have to rely on the responses in deciding whether to file a formal complaint.)

VIII.D. Remedies

VIII.D.1. When enforcing these rules or any order of the Commission regarding these rules, the Commission may do any or all of the following:

VIII.D.1.a. Order a utility to stop doing something that violates these rules;

VIII.D.1.b. Prospectively limit or restrict the amount, percentage, or value of transactions entered into between the utility and its affiliate(s);

VIII.D.1.c. Assess fines or other penalties;

VIII.D.1.d. Prohibit the utility from allowing its affiliate(s) to utilize the name and logo of the utility, either on a temporary or a permanent basis;

VIII.D.1.e. Apply any other remedy available to the Commission

VIII.D.2. Any public utility which violates a provision of these rules is subject to a fine of not less than five hundred dollars (\$500), nor more than \$20,000 for each offense. The remainder of this subsection distills the principles that the Commission has historically relied upon in assessing fines and restates them in a manner that will form the analytical foundation for future decisions in which fines are assessed. Before discussing those principles, reparations are distinguished.

VIII.D.2.a. Reparations: Reparations are not fines and conceptually should not be included in setting the amount of a fine. Reparations are refunds of excessive or discriminatory amounts collected by a public utility. PU Code §734. The purpose is to return funds to the victim which were unlawfully collected by the public utility. Accordingly, the statute requires that all reparation amounts are paid to the victims. Unclaimed reparations generally escheat to the state, Code of Civil Procedure §1519.5, unless equitable or other authority directs otherwise, e.g., Public Utilities Code §394.9.

VIII.D.2.b. Fines: The purpose of a fine is to go beyond restitution to the victim and to effectively deter further violations by this perpetrator or others. For this reason, fines are paid to the State of California, rather than to victims.

Effective deterrence creates an incentive for public utilities to avoid violations. Deterrence is particularly important against violations which could result in public harm, and particularly against those where severe consequences could result. To capture these ideas, the two general factors used by the Commission in setting fines are: (1) severity of the offense and (2) conduct of the utility. These help guide the Commission in setting fines which are proportionate to the violation.

Rule VIII – Complaint Procedures and Remedies

VIII.D.2.b.i. Severity of the Offense: The severity of the offense includes several considerations. Economic harm reflects the amount of expense which was imposed upon the victims, as well as any unlawful benefits gained by the public utility. Generally, the greater of these two amounts will be used in establishing the fine. In comparison, violations which caused actual physical harm to people or property are generally considered the most severe, with violations that threatened such harm closely following.

The fact that the economic harm may be difficult to quantify does not itself diminish the severity or the need for sanctions. For example, the Commission has recognized that deprivation of choice of service providers, while not necessarily imposing quantifiable economic harm, diminishes the competitive marketplace such that some form of sanction is warranted.

Many potential penalty cases before the Commission do not involve any harm to consumers but are instead violations of reporting or compliance requirements. In these cases, the harm may not be to consumers but rather to the integrity of the regulatory processes. For example, compliance with Commission directives is required of all California Public Utilities:

“Every public utility shall obey and comply with every order, decision, direction, or rule made or prescribed by the Commission in the matters specified in this part, or any other matter in any way relating to or affecting its business as a public utility, and shall do everything necessary or proper to secure compliance therewith by all of its officers, agents, and employees.” Public Utilities Code §702.

Such compliance is absolutely necessary to the proper functioning of the regulatory process. For this reason, disregarding a statutory or Commission directive, regardless of the effects on the public, will be accorded a high level of severity.

The number of the violations is a factor in determining the severity. A series of temporally distinct violations can suggest an on-going compliance deficiency which the public utility should have addressed after the first instance. Similarly, a widespread violation which affects a large number of consumers is a more severe offense than one which is limited in scope. For a “continuing offense,” PU Code §2108 counts each day as a separate offense.

VIII.D.2.b.ii. Conduct of the Utility: This factor recognizes the important role of the public utility’s conduct in (1) preventing the violation, (2) detecting the violation, and (3) disclosing and rectifying the violation. The public utility is responsible for the acts of all its officers, agents, and employees:

“In construing and enforcing the provisions of this part relating to penalties, the act, omission, or failure of any officer, agent or employee of any public utility, acting within the scope of his [or her] official duties or employment, shall in every case be the act, omission, or failure of such public utility.” Public Utilities Code §2109.

VIII.D.2.b.ii.(1) The Utility’s Actions to Prevent a Violation: Prior to a violation occurring, prudent practice requires that all public utilities take reasonable steps to ensure compliance with Commission directives. This includes becoming familiar with applicable laws and regulations, and most critically, the utility regularly reviewing its own operations to ensure full compliance. In evaluating the utility’s advance efforts to ensure compliance, the Commission will consider the utility’s past record of compliance with Commission directives.

VIII.D.2.b.ii.(2) The Utility’s Actions to Detect a Violation: The Commission expects public utilities to monitor diligently their activities. Where utilities have for whatever reason failed to meet this standard, the Commission will continue to hold the utility responsible for its actions. Deliberate as opposed to inadvertent wrong-doing will be considered an aggravating factor. The Commission will also look at the management’s conduct during the period in which the violation occurred to ascertain particularly the level and extent of involvement in or tolerance of the offense by management personnel. The Commission will closely scrutinize any attempts by management to attribute wrong-doing to rogue employees. Managers will be considered, absent clear evidence to the contrary, to have condoned day-to-day actions by employees and agents under their supervision.

VIII.D.2.b.ii.(3) The Utility’s Actions to Disclose and Rectify a Violation: When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes “prompt” will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.

Rule VIII – Complaint Procedures and Remedies

Prompt reporting of violations furthers the public interest by allowing for expeditious correction. For this reason, steps taken by a public utility to promptly and cooperatively report and correct violations may be considered in assessing any penalty.

VIII.D.2.b.iii. Financial Resources of the Utility: Effective deterrence also requires that the Commission recognize the financial resources of the public utility in setting a fine which balances the need for deterrence with the constitutional limitations on excessive fines. Some California utilities are among the largest corporations in the United States and others are extremely modest, one-person operations. What is accounting rounding error to one company is annual revenue to another. The Commission intends to adjust fine levels to achieve the objective of deterrence, without becoming excessive, based on each utility's financial resources.

VIII.D.2.b.iv. Totality of the Circumstances in Furtherance of the Public Interest: Setting a fine at a level which effectively deters further unlawful conduct by the subject utility and others requires that the Commission specifically tailor the package of sanctions, including any fine, to the unique facts of the case. The Commission will review facts which tend to mitigate the degree of wrongdoing as well as any facts which exacerbate the wrongdoing. In all cases, the harm will be evaluated from the perspective of the public interest.

VIII.D.2.b.v. The Role of Precedent: The Commission adjudicates a wide range of cases which involve sanctions, many of which are cases of first impression. As such, the outcomes of cases are not usually directly comparable. In future decisions which impose sanctions the parties and, in turn, the Commission will be expected to explicitly address those previously issued decisions which involve the most reasonably comparable factual circumstances and explain any substantial differences in outcome.

Audit Criteria

- SCE has a process for handling ATR-related complaints that meets the requirements of Rule VIII.C and it is well documented
- Complaints filed in 2005 were properly managed
- Violations of ATR are promptly investigated and reported to the CPUC

Audit Steps

- Review SCE's complaint resolution process
- Evaluate how SCE resolved 2005 ATR-related complaints
- Evaluate how SCE responded to 2005 ATR-related violations

Conclusions

SCE is in compliance with Rule VIII.

There were no ATR-related complaints filed with the CPUC against SCE in 2005. (DR 48)

SCE's Affiliates Officer is responsible for compliance with the ATR, including the preparation of SCE's compliance plans. The Affiliates Officer is also responsible for receiving, investigating and attempting to resolve ATR-related complaints. (DR 5)

The ATR Manual describes the process by which complaints will be received, investigated and reported upon. In accordance with Rule VIII.C.4, SCE gives itself four weeks from the time a complaint is received by the CPUC to meet with the complainant, investigate the complaint and present a report to the CPUC on its findings. (DR 5)

Rule VIII – Complaint Procedures and Remedies

SCE's Ethics and Compliance Department maintains a Helpline to take employee calls concerning ethical issues. On June 3, 2005, an employee of Corporate Real Estate called the Helpline to report what he thought was a violation of the ATRs. He and another employee had performed research and developed layout sketches for potential space in the General Office at the request of an EIX executive. The employee was under the impression that SCE could have no dealings with affiliates. (INT 2, INT 39, DR 153)

The work in question originated when EIX's then Executive Vice President and General Counsel asked SCE's then Vice President of Shared Services (including Corporate Real Estate) to research the cost and availability of office space for EME executives in the General Office. SCE's Vice President of Shared Services contacted RP&A and SCE's Legal Department to determine the ATR and legal issues associated with leasing space to EME. At the same time, work was started by Corporate Real Estate on estimating the cost of office space in the General Office, estimating the cost of comparable office space in the General Office market and sketching a layout of potential space for EME personnel. After evaluating this information, EIX decided not to pursue the possible transfer of any of its staff from EME's Irvine office to the Rosemead General Office. (INT 39, DR 153)

After receiving the Helpline call, Ethics and Compliance investigated the issue and determined the work was not inappropriate because the office space in which EIX for EME was interested would have been separated from SCE office space, just like EIX space is currently configured. Thus, it is not "shared office space" which is not allowed by Rule V.C. (DR 5) It was also intended that EME would have been charged a lease cost of SCE's fully loaded costs plus a markup as called for by Rule V.H – Transfer of Goods and Services. For these reasons, the work itself was determined not to have violated the ATR. (INT 39, DR 153)

However, there remained an issue as to whether EIX should have been charged for the time SCE employees spent working on the information request. SCE's Vice President of Ethics and Compliance indicated his organization determined that 5 total days of labor (involving 2 employees) and an invoice in the amount \$3,254.60, should have been charged to EIX. SCE subsequently charged EIX on its March 2006 invoice for the fully loaded labor and non-labor costs associated with the work. (INT 39)

Appendices

**2005 Affiliate Transaction Audit
Interview List**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
1	11/7/05	Veronica Gutierrez Director, Regulatory Policy & Affairs Randy Lisbin Manager Audits, Investigations & Special Projects, Reg. Policy & Affairs Susan Peters Project Manager, Regulatory Policy & Affairs	<ul style="list-style-type: none"> ▪ Major corporate organizational changes ▪ Changes in executive management ▪ Changes in ATR-related organizations ▪ All ATRs
2	11/7/05	Ken Stewart Vice President & Chief Ethics and Compliance officer	<ul style="list-style-type: none"> ▪ New Ethics and Compliance organization and responsibilities ▪ All ATRs
3	11/7/05	Paul Klapka Project Manager, Generation Business Planning & Strategy	<ul style="list-style-type: none"> ▪ Mountainview Plant status ▪ III.B, V.A., V.B, V.H
4	11/8/05	Robert Ramirez Manager, Regulatory Compliance Joseph Llorens Project Manager, Reg. Policy & Affairs Melody Carriere Project Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Affiliate Transaction Rule compliance status ▪ All ATRs
5	11/8/05	Joseph Llorens Project Manager, Reg. Policy & Affairs Robert Ramirez Manager, Regulatory Compliance	<ul style="list-style-type: none"> ▪ Update on disposition of recommendations from the 2004 audit report ▪ VI.C
6	11/8/05	John Helvin Manager, Plant Accounting & Analysis Controllers	<ul style="list-style-type: none"> ▪ Mountainview Project accounting and capitalization policies ▪ IV.F, V.A, V.B
7	11/10/05	Lyle Geiger Manager, Financial Reporting & Research, Controllers Maria Charca Affiliate Controller, Controllers Mary Eckman Financial Compliance Accountant, Controllers Jeff Weekley Project Manager, Corporate Financial Accounting	<ul style="list-style-type: none"> ▪ Mountainview Project funding, accounting, capitalization policies and other ATR-related issues ▪ IV.F, V.A, V.B
8	11/10/05	Tom Braun Affiliates Counsel	<ul style="list-style-type: none"> ▪ ATR compliance ▪ All ATRs
9	12/5/05	Yvonne Chacon Project Manager, Corporate Real Estate	<ul style="list-style-type: none"> ▪ Separation of the SCE and EME offices in Washington DC facility ▪ V.C
10	12/6/05	Melody Carriere Project Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Service provider lists ▪ IV.C
11	12/6/05	John Minnicucci Manager, Research, Development & Demonstration	<ul style="list-style-type: none"> ▪ R&D and advanced technology research projects; R&D funding; prohibitions of cost sharing; prohibitions for R&D info acquisition for affiliates ▪ III.E.3, III.E.4, V.F.5
12	12/7/05	Rutely Conde Manager, Corporate Communications	<ul style="list-style-type: none"> ▪ Preferential treatment; tying of services; disclaimers/logos; advertising space usage; joint advertising/marketing/etc. • III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C.1, V.F.1, V.F.2, V.F.3, V.F.4

**2005 Affiliate Transaction Audit
Interview List**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
13	12/7/05	Fred Nandy Manager Operational Audits & Consulting	<ul style="list-style-type: none"> ▪ Audit planning, results of affiliate transaction-related audits completed in 2005 ▪ All ATRs
14	12/8/05	Mike Tomlin Project Manager, CSBU Regulatory Compliance	<ul style="list-style-type: none"> ▪ Service provider lists ▪ IV.C
15	12/8/05	Paul Amero Manager, QF Payment and Administration	<ul style="list-style-type: none"> ▪ QF Contracts ▪ III.A, III.B, III.B.1, III.B.2, III.E.4, III.F, IV.B, IV.F, IV.G, IV.H, V.D
16	12/8/05	Robert Schuur Manager, Corporate Real Estate	<ul style="list-style-type: none"> ▪ Separation of SCE offices from affiliates in the General Office, allocation of General Office space costs ▪ V.C, V.E
17	12/8/05	Barbara Santos Business Analyst, Public Affairs	<ul style="list-style-type: none"> ▪ Separation of the SCE and EME offices in Washington DC facility ▪ V.C
18	12/8/05	Steve Brown Manager, Security Ops., Corporate Security David Lover Tech Specialist., Security Ops., Corporate Security	<ul style="list-style-type: none"> ▪ Access to SCE's General Office ▪ V.C
19	1/10/06	John Solomon System Analyst, Business Customers Division	<ul style="list-style-type: none"> ▪ Online access/review of Acct Trak and AMIS entries ▪ Transaction testing – account managers' journal notes ▪ Transaction testing -- presentations to major customers ▪ III.A, III.C, III.E.2, III.E.6, III.E.7, IV.C, IV.E, V.F.1, V.F.2, V.F.4
20	1/11/06	Linda Luft Major Account Manager, Business Customers Division	<ul style="list-style-type: none"> ▪ Major accounts managers' compliance with affiliate rules ▪ III.A, III.C, III.E.2, III.E.3, III.E.6, IV.C, IV.E, V.F.1, V.F.2, V.F.4
21	1/11/06	Clark Palmer Manager, Audit Services	<ul style="list-style-type: none"> ▪ Financial audits conducted during 2005 relating to Mountainview ▪ IV.F, V.A, V.B
22	1/11/06	Dan Walker Manager, Procurement & Materials Management (PAMM)	<ul style="list-style-type: none"> ▪ Joint purchase process; supplier information handling; competitive bidding requirements; record-keeping; joint procurement notification forms usage. ▪ III.B, IV.D, IV.F, IV.G, V.D
23	1/12/06	Ryan Mundy Operations Mgr., Customer Comm. Edwin Lanfranco QA Supervisor, Customer Comm.	<ul style="list-style-type: none"> ▪ Call Center's compliance with ATRs ▪ Transaction testing – customer calls ▪ III.A, III.B.2, III.B.3, III.B.4, III.C, III.D, III.E.2, III.E.6, III.E.7, IV.C., IV.E., V.F.1, V.F.2, V.F.4
24	1/12/06	Jeanette Yamamoto Supervisor., IT Security Administration Peter Winne Project Manager, IT Business Services	<ul style="list-style-type: none"> ▪ Access to SCE's IT infrastructure, IMMS process ▪ V.C
25	1/25/06	Dan Ceballos Project Manager, SSID/ESI Administration	<ul style="list-style-type: none"> ▪ ESI proposal development and billing process ▪ III.A, VII.C, VII.I

**2005 Affiliate Transaction Audit
Interview List**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
26	1/25/06	Edith Baltierrez Manager, Workforce Mobility, HR	<ul style="list-style-type: none"> ▪ Movement of SCE employees to affiliates and affiliate employees to SCE ▪ V.G.2
27	1/26/06	Doug Parker Mgr. of Energy Operations, ES&M Tom Watson Mgr. of Day-Ahead Operations, ES&M	<ul style="list-style-type: none"> ▪ Day-Ahead power scheduling ▪ Real-time energy trading ▪ Okay to Trade List ▪ Record-keeping ▪ III.B, III.B.1, III.E.4, IV.B, IV.F, IV.G, V.D
28	1/26/05	Melody Carriere Project Manager, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ New affiliate CPUC notification during 2005 ▪ Recommendation from 2004 audit report ▪ VI.B
29	1/26/05	Craig Clark Supervisor, Benefits - Human Resources	<ul style="list-style-type: none"> ▪ Calculation of transfer fees for SCE employees moving to affiliates in 2005 ▪ V.G.2.c
30	2/7/06	Joseph Llorens Project Mgr., Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Intercompany Service Request (ISR) process ▪ V.G
31	2/8/06	Lyle Geiger Affiliate Controller, Controllers Mary Eckman Financial Compliance Accountant, Controllers Desiree Villalobos Corporate Financial Accountant, Controllers	<ul style="list-style-type: none"> ▪ Intercompany billing process, allocation factors ▪ Monitoring of affiliate transactions ▪ V.B, V.E, V.G.2.e, V.H
32	2/8/06	Sean Baker Manager, SCE Risk Control David Yi Credit Manager, SCE Risk Control	<ul style="list-style-type: none"> ▪ Assurance that counterparty lists do not include SCE Class A affiliates ▪ Okay to Trade List maintenance ▪ III.B, III.B.1
33	2/8/06	Jill Horswell Director, Energy Contracts Energy Supply & Management	<ul style="list-style-type: none"> ▪ DWR allocated power contracts ▪ Structured power contracts ▪ Enabling power agreements ▪ Okay to Trade List ▪ Record-keeping (including Mountainview) ▪ III.B, III.B.1, III.E.4, IV.B, IV.F, IV.G, V.D
34	2/9/06	Elias Malouf Sr. Cost & Schedule Engineer Mountainview Project Nancy Aguinaldo Financial Analyst Mountainview Project	<ul style="list-style-type: none"> ▪ Mountainview Project – selection of transactions to review ▪ V.B, V.H
35	2/21/06	Gary Meyers Dir of Procurement & Materials Management & VP, Edison Material Supply LLC	<ul style="list-style-type: none"> ▪ Joint purchase process; supplier information handling; competitive bidding requirements; record-keeping; joint procurement notification forms usage. ▪ III.B, IV.D, IV.G, V.D
36	2/22/06	Robert Ramirez, Manager of Regulatory Compliance, Reg. Policy & Affairs Zack Buhler Financial Analyst, Reg. Policy & Affairs Randy Lisbin Manager of Regulatory Compliance, Reg. Policy & Affairs	<ul style="list-style-type: none"> ▪ Non-tariffed products and services ▪ VII (all subrules)

**2005 Affiliate Transaction Audit
Interview List**

Number	Date	Interviewee	Topics/Affiliate Transaction Rules Covered
37	2/22/06	Harry Hutchison VP, Customer Services Operations	<ul style="list-style-type: none"> ▪ Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance. ▪ III.A, III.B.2, III.B.3, III.B.4, III.C, III.D, III.E.2, III.E.6, III.E.7, IV.C, IV.E, V.F.1, V.F.2, V.F.4
38	2/23/06	Bill Bryan VP, Major Customer Division	<ul style="list-style-type: none"> ▪ Preferential treatment; tying of services; assigning of customers; business development assistance; service provider lists; advice and assistance; trade shows, joint sales calls, joint communications ▪ III.A, III.C, III.D, III.E.2, IV.C, IV.E, V.F.1, V.F.2, V.F.4
39	2/23/06	Ken Stewart Vice President & Chief Ethics and Compliance officer	<ul style="list-style-type: none"> ▪ 2005 employee hotline call resolution ▪ VIII
40	3/22/06	Clark Palmer, Project Manager, Controllers	<ul style="list-style-type: none"> ▪ 2005 Mountainview billings to SCE ▪ V.B, V.H
41	4/11/06	Tom Braun Affiliates General Counsel Veronica Gutierrez Director, Regulatory Policy & Affairs Randy Lisbin Manager of Regulatory Compliance, Reg. Policy & Affairs Robert Ramirez, Manager of Regulatory Compliance, Reg. Policy & Affairs Susan Peters Project Manager, Regulatory Policy & Affairs	<ul style="list-style-type: none"> ▪ Briefing on audit results • Results of FERC audit • All Rules
42	4/13/06	Al Fohrer Chairman & CEO, SCE John Fielder Senior VP of Regulatory Policy and Affairs; Affiliates Officer Veronica Gutierrez Director, Regulatory Policy & Affairs Randy Lisbin Manager of Regulatory Compliance, Reg. Policy & Affairs Susan Peters Project Manager, Regulatory Policy & Affairs	<ul style="list-style-type: none"> ▪ Briefing on audit results ▪ All Rules

2005 Affiliate Transaction Audit Data Requests

#	Item																		
1	All compliance plans filed with the CPUC beginning with the original dated December 31, 1997																		
2	Annual Reports of affiliated Company Transactions (CPUC D.93-02-019) for 1999, 2000, 2001, 2002, 2003, 2004 and 2005																		
3	CPUC decisions/rulings/orders related to affiliate transactions																		
4	List/description of SCE's 2005 CPUC proceedings relating to affiliate transactions																		
5	SCE's Affiliate Transaction Rule Manual and a summary of changes made to the manual in 2004 and 2005																		
6	Service agreements or contracts between SCE and affiliates that were in force at any time during 2005																		
7	SCE's disposition of recommendations from Baryenbruch & Co 2004 Affiliate Transactions Audit Report (note: put this in the same format as shown in 2004 Audit Report, Exhibit 6 on pages 104-108)																		
8	SCE and Edison annual reports and 10Ks (2002, 2003 and 2004)																		
9	List of internal audits conducted (i.e., started or completed) in 2004 and 2005. Please provide access to the audit reports completed in 2004 and 2005.																		
10	Analysis of directors and officers of Edison, SCE and affiliates (for positions held during 2005) e.g., <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; width: 30%;"><u>Entity</u></td> <td style="text-align: center; width: 30%;"><u>Name</u></td> <td style="text-align: center; width: 40%;"><u>Position</u></td> </tr> </table>	<u>Entity</u>	<u>Name</u>	<u>Position</u>															
<u>Entity</u>	<u>Name</u>	<u>Position</u>																	
11	Advice letters 1286-E, 1286-E-A, and any subsequent updates, including attachments																		
12	Update Affiliate Transactions Overview presentation for 2005 activities																		
13	Advice letters 1342-E; 1342-E-A; 1342-E-B; 1450-E; 1491-E; 1491-E-A; 1491-E-B; 1491-E-C; 1491-E-D; 1491-E-E; 1491-E-F; 1491-E-G, 1491-E-H, 1491-E-I, including any subsequent updates, as well as a list of other affiliate-related advice letters.																		
14	Copy of 2005 "Service Provider Lists" web-page and any subordinate web-pages (please provide in landscape format and specify URL addresses)																		
15	List of Registered Service Providers from CPUC website (please provide printout of primary and subordinate pages in landscape format and specify URL addresses)																		
16	2005 ATR-related articles in the EIX News and any other company publications																		
17	Access to MyEdison.net to view ATR-related materials																		
18	Provide: (1) advertisements provided in 2005, by SCE or any of its affiliates, to customers or potential customers in California; and (2) the following summary log/index to these items: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Description of Advertisement</th> <th style="text-align: center;">Type of Ad or Promotion: Radio; Television; Billboard; Newspaper; Magazine; Product Spec Sheet</th> <th style="text-align: center;">Locating Key to Auditor's Review Copy (e.g., Filename, CD Title, VCR Title, Key Code, etc.)</th> </tr> </thead> <tbody> <tr> <td colspan="3">SOUTHERN CALIFORNIA EDISON Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by Southern California Edison: <Complete List or Enter "None"></td> </tr> <tr> <td colspan="3">EDISON SOURCE - NORVIK Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by Edison Source - Norvik <Complete List or Enter "None"></td> </tr> <tr> <td colspan="3">EDISON MISSION ENERGY (EME) AND ITS SUBSIDIARIES Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by EME and/or its subsidiaries <Complete List or Enter "None"></td> </tr> <tr> <td colspan="3">EDISON CAPITAL'S "CLASS A" SUBSIDIARIES Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by Edison Capital's Class A subsidiaries <Complete List or Enter "None"></td> </tr> <tr> <td colspan="3"><any other Class A affiliates of SCE ... list separately> Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by <name of other Class A affiliate> <Complete List or Enter "None"></td> </tr> </tbody> </table>	Description of Advertisement	Type of Ad or Promotion: Radio; Television; Billboard; Newspaper; Magazine; Product Spec Sheet	Locating Key to Auditor's Review Copy (e.g., Filename, CD Title, VCR Title, Key Code, etc.)	SOUTHERN CALIFORNIA EDISON Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by Southern California Edison: <Complete List or Enter "None">			EDISON SOURCE - NORVIK Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by Edison Source - Norvik <Complete List or Enter "None">			EDISON MISSION ENERGY (EME) AND ITS SUBSIDIARIES Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by EME and/or its subsidiaries <Complete List or Enter "None">			EDISON CAPITAL'S "CLASS A" SUBSIDIARIES Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by Edison Capital's Class A subsidiaries <Complete List or Enter "None">			<any other Class A affiliates of SCE ... list separately> Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by <name of other Class A affiliate> <Complete List or Enter "None">		
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<any other Class A affiliates of SCE ... list separately> Following is a list of all advertisements published, distributed, or broadcast in 2005 in CA by <name of other Class A affiliate> <Complete List or Enter "None">																			
19	Provide any SCE presentations (handouts, slideshows, etc.) to major customers which mention or reference any Class A affiliate																		
20	2005 SCE billing inserts																		
21	Access to affiliate websites List and URLs of SCE's affiliate websites																		
22	CPUC ruling eliminating new direct access after 9/1/02 and any subsequent decisions related to direct access through 2005																		
23	List of instances during 2005 in which SCE tied its products/services of customer's use of affiliate products/services																		
24	List of SCE customers assigned to affiliates during 2005																		
25	List of instances where SCE provided affiliates with assistance on business development, market assessments or marketing services or information																		
26	Policies covering the release of customer information (including the CISR process)																		
27	2005 CISR summary report																		
28	Copy of 2005 "Notice of Release of Customer Information to Affiliates" web-page and any subordinate web-pages (please provide in landscape format and specify URL addresses)																		

**2005 Affiliate Transaction Audit
Data Requests**

#	Item																																		
29	Description of all non-customer, non-public information that has been made available to affiliates during 2005 and provide a copy of associated "Non-Customer Specific, Non-Public Information Offered to Affiliates" web-pages (4B reports) and any subordinate web-pages (please provide in landscape format and specify URL addresses)																																		
30	List all instances in 2005 where non-public information and data from unaffiliated suppliers was provided by SCE to affiliates or non-affiliates. For all cases, provide (1) copies of all written affirmative authorizations of such suppliers, and (2) cross reference to purchase order number or requisition number																																		
31	Analysis of Call Center calls: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th></th> <th>2004</th> <th>2005</th> </tr> </thead> <tbody> <tr> <td>Direct Access Call</td> <td></td> <td></td> </tr> <tr> <td>Total Calls</td> <td></td> <td></td> </tr> </tbody> </table>		2004	2005	Direct Access Call			Total Calls																											
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33	List of instances during 2005 in which SCE has been requested to provide affiliate transaction information within 72 hours																																		
34	List of 2005 bids and access to bid documents for work between SCE and affiliates.																																		
35	Notices to the CPUC of new affiliates																																		
36	Incorporation papers for active first, second and third tier corporate entities																																		
37	2005 and 2006 internal audit plans																																		
38	List all non-corporate support related instances in 2005 where SCE shares its office space, equipment, services or systems with affiliates																																		
39	List all instances in 2005 where affiliate employees accessed SCE information systems except where it relates to corporate support activities																																		
40	Copies of all 2005 ISRs																																		
41	List of employees who have transferred companies to/from SCE in 2005, as shown below: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th rowspan="2">Employee</th> <th colspan="2">From</th> <th colspan="2">To</th> </tr> <tr> <th>Company</th> <th>Area</th> <th>Company</th> <th>Area</th> </tr> </thead> <tbody> <tr> <td>--list--</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Employee	From		To		Company	Area	Company	Area	--list--																								
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43	Printout of website reporting the creation of new affiliates in 2005																																		
44	List all instances in 2005 where affiliate officers and employees were not available to testify before the CPUC without subpoena																																		
45	Listing of new products and services SCE offered in 2005																																		
46	Section 851 Applications filed during 2005																																		
47	Identify instances where non-tariffed products and services were offered to affiliates during 2005																																		
48	Listing of all ATR-related complaints filed, under investigation, or resolved in 2005																																		
49	Copies of all Joint Procurement Notification Forms approved by, or pending before, RP&A in 2003, 2004 and 2005																																		
50	Summary of all in-force joint purchasing arrangements, including a listing of all joint purchases during 2005, between SCE and its affiliates																																		
51	List and describe any instances during 2005 in which an affiliate of SCE submitted a bid to SCE's T&D, Generation, or Customer Service organizations but was not awarded a contract. Please provide identifying project numbers, requisition numbers, etc., if any.																																		
52	IMM unit rates for all products/services provided to affiliates during the years 2003, 2004 and 2005																																		
53	Employee termination package checklist																																		
54	Research Balancing Account, Budget, & Co-Funding Summary for 2005 including brief descriptions of the projects																																		
55	Summary of SCE's 2005 "Target" Purchases from EPRI, including purchase amounts (\$) and a list of all available EPRI "targets"																																		
56	List of all merchant entities with which SCE conducted wholesale transactions for the sale or purchase of electric energy, capacity, or ancillary services during 2005, indicating: (1) the type of services purchased/sold (e.g., "E" or "C/A"); (2) those, if any, that were Class A affiliates; and (3) for energy transactions, the cumulative megawatt-hours of 2005 purchases, and of 2005 sales, for each entity.																																		
57	For two sample days (1/13/2005 and 7/20/2005), please provide table showing, for the aggregate 24-hour period, the following: (1) total MWH scheduled or provided by SCE, broken down as to source, e.g., SCE plant name, DWR, merchant suppliers, QF suppliers (in aggregate), etc.; and (2) total MWH sold to others by SCE, broken down as to purchaser/recipient.																																		

**2005 Affiliate Transaction Audit
Data Requests**

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59	List of affiliate (other than EIX) personnel (employees, contractors or consultants) that visited the Rosemead GO Buildings #1-2-3-4 during the month of May 2005. <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Affiliate</th> <th>Visitor</th> <th>Date</th> <th>SCE Escort</th> <th>Reason for Visit</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Affiliate	Visitor	Date	SCE Escort	Reason for Visit																																																																																																																																																																																																							
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2005 Affiliate Transaction Audit
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61 (cont)	Application	Application or Tool?	EIX	EME	Mission O&M	Mission Energy NY	EME Homer City	Edison Mission M&T	Mission Land	Midwest Gen	Midwest Gen LLC	EO&MS
	Landial - remote access dialup	T	19	-	-	-	-	-	-	-	-	-
	MODEM LINE - modem line connection	T	1	-	-	-	-	-	-	-	-	-
	NETWARE - SCE Tree: allows printing capabilities	T	27	5	-	-	-	-	-	-	-	-
	NONTSOG - region where TPx resides (see TPXR)	T	1	-	-	-	-	-	-	-	-	-
	PAS (Payroll Adjustment Sys) - Required to adjust past payroll information to reflect time or rate changes.	A	3	3	6	-	6	3	1	5	28	1
	PSOFT (Peoplesoft) - Required to maintain and update a variety of personnel information including: benefit; in, service dates; emergency contacts; job history; vacation and sick, time balances; and education level.	A	4	6	6	-	6	3	1	10	20	1
	SCE-NT - NT domain: desktop access	T	29	5	-	-	-	-	-	-	-	-
	SCE-WIN2K - Windows 2000 product: XP/desktop access	T	29	-	-	-	-	-	-	-	-	-
	SYBAP002 - SThe server where ATSLAN resides. This is a system generated application that is created whenever an ATSLAN ID is assigned.	A	12	3	7	-	6	3	2	8	63	2
	SYBS001- The server where ATSSD002 resides. This is a system, generated application that is created whenever an ATSSD002 ID is assigned.	A	-	-	-	-	-	-	-	2	-	1
	TPX7 - A region within TPX (see description for TPXR).	T	1	-	-	-	-	-	-	-	-	-
	TPXR - TPX allows a client to sign onto and maneuver between multiple mainframe applications at one time. Very similar to the way windows are accessed using the ALT-TAB keys.	T	1	-	-	-	-	-	-	-	-	-
	TSOD - TSO – System D: This mainframe ID is required for clients to access DSS HR. It is also a region used by project/program managers or developers for test purposes.	A	4	9	6	-	6	3	1	12	22	1
	UNIXACCT - unique acct number associated with an individual for accessing Unix applications	T	21	-	-	-	-	-	-	1	-	-
	UNIXID - Unique user ID associated with an individual for accessing Unix applications.	T	21	-	-	-	-	-	-	1	-	-
	VPN - Virtual Private Network: Remote access using cable modem or DSL	T	7	-	-	-	-	-	-	-	-	-
Wireless LAN - Wireless LAN Access: Remote access using wireless technology.	T	1	-	-	-	-	-	-	-	-	-	
62	Analysis of 2005 Affiliate Personnel Help Desk Activity (total number of calls handled by type) (note: include a description of system acronyms)											
	Tier 1				Tier 2			Tier 3				
	Time Rptg	PR	PS HR	Acctg	Etc...	Etc..		Etc..				
63	Description of the ESI facilities and products/services											

**2005 Affiliate Transaction Audit
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64	Analysis of 2005 ESI billings to affiliates including the following information and supporting backup for each charge: <ul style="list-style-type: none"> - The 2005 published rate sheet - Service agreement with each affiliate - The type of work performed for each job (so I can associate the types of overheads that apply) - Cost estimate for each job – show each cost element; for labor, show the direct labor rate and labor overheads; also show the other applicable overheads and profit - Invoice for each job (indicate the date the funds were received from the affiliate) - Sales Journal (or equivalent) that shows the recording of revenues from each job - ESI's income statements that shows monthly revenues from the sales journal (or equivalent) - A. Standard terms and conditions - B. Copies of emails from RP&A approving all 2005 affiliate work - C. Copies of all affiliate checks paying invoices for all 2005 affiliate work 																								
65	Access to minutes of meetings held in 2004 by SCE Board of Directors, EIX Board of Directors and EIX Audit Committee																								
66	Analysis of 2005 payments to SCE for employees transferred to affiliates, including the following information: <ol style="list-style-type: none"> 1. Employee Name 2. Job Title 3. SCE AOR 4. Transfer Date 5. Hiring Affiliate 6. Affiliate Class 7. Compensation 8. Benefits 9. Transfer Fee Show the calculated of the fees and indicate the accounting for each transaction																								
67	Description of SCE's IT security roles and responsibilities, policies and procedures																								
68	Copy of 2005 professional ethics letters, memorandums or affidavits to management employees. Include the number of employees that received the annual ethics letter and related website link and the number of management and professional employees required to complete a Management Certificate in 2004																								
69	Loaned Labor Report for December 2005																								
70	List and description of all Expense Project Numbers																								
71	List of affiliate employees with offices during 2005 in SCE facilities, including the following information. <ol style="list-style-type: none"> 1. Affiliate Employee Name 2. Job Title 3. AOR 4. SCE Work Location (e.g., General Office) 																								
72	List of SCE employees with offices during 2005 in affiliate facilities, including the following information: <ol style="list-style-type: none"> 1. SCE Employee Name 2. Job Title 3. AOR 4. Affiliate Work Location (e.g., Washington DC) 																								
73	Copy of all 2005 notifications to the CPUC of changes in shared directors and officers among utility and affiliates, as required by Rule V.G.1.																								
74	Description of how the cost of the Affiliate Transaction Audit for 2004 was recorded by SCE. Indicate which function and FERC account was charged.																								
75	Criteria and evaluative process used to determine who is an "employee involved in marketing" that are prohibited from temporary assignments with affiliates																								
76	Listing, showing hierarchy, of all EIX entities defined as energy marketing affiliates																								
77	All NTP&S filings and advice letters submitted to the CPUC during 2005. Include a copy of the annual report on NTP&S filed around mid-April 2006.																								
78	All feedback from the CPUC regarding NTP&S reports and any protests filed during 2005																								
79	Copy of Corporate Support Authorization forms, including any guidelines pertaining to form preparation.																								
80	Floor plan for the Washington DC office showing facilities occupied by SCE and affiliates during 2005; include analysis of square feet occupied																								
81	Basis for allocating Washington DC office expenses, in the following format: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th rowspan="2">Office Cost</th> <th colspan="4">Percent Allocation</th> </tr> <tr> <th>SCE</th> <th>EME</th> <th>RWE</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Lease, insurance, maintenance, etc. (based on square footage)</td> <td></td> <td></td> <td></td> <td>100%</td> </tr> <tr> <td>Common expenses – Receptionist (based on work performed for each entity)</td> <td></td> <td></td> <td></td> <td>100%</td> </tr> <tr> <td>Common expenses – Telephone, etc (based on square footage of entities who incurred the expense)</td> <td></td> <td></td> <td></td> <td>100%</td> </tr> </tbody> </table>	Office Cost	Percent Allocation				SCE	EME	RWE	Total	Lease, insurance, maintenance, etc. (based on square footage)				100%	Common expenses – Receptionist (based on work performed for each entity)				100%	Common expenses – Telephone, etc (based on square footage of entities who incurred the expense)				100%
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**2005 Affiliate Transaction Audit
Data Requests**

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82	ESRs created in 2005																								
83	Identify any pricing concessions, discounts or waivers offered to affiliates by SCE during 2005 and provide a copy of associated "Discounts Offered to Affiliates" web-pages (3F Reports) and any subordinate web-pages (please provide in landscape format and specify URL addresses).																								
84	Identify any known occurrence in 2005 in which SCE participated in joint advertising or joint marketing with its affiliates																								
85	Describe how SCE in 2005 offered or provided advice or assistance to its customers with regard to its affiliates or other service providers																								
86	List all trade shows, conferences, other information or marketing events held in California that in 2005 were attended by representatives of SCE and one or more of SCE's Class A affiliates. In each of these cases, please describe how SCE participation was separated from affiliate participation																								
87	Identify any SCE R&D projects active in 2005 that were jointly funded by SCE and one or more of its Class A affiliates.																								
88	Identify any SCE R&D projects active in 2005 for which end products and results are recognized as beneficial to one or more of SCE's affiliates.																								
89	Identify any SCE R&D projects active in 2005 that, regardless of initial funding, have demonstrated commercial viability to SCE's affiliates.																								
90	Identify any instances during 2005 in which SCE and one or more of its affiliates shared or subsidized costs, fees, or payments for research and development activities, or investment in advanced technology research.																								
91	Provide access to all 2005 Customer Information Service Request (CISR) Forms and provide copies of CISR forms received on the following dates in 2005: February 15, April 11, August 11, and October 6.																								
92	Make available for review the 2005 presentations and documents stored in the Account Manager Information System (AMIS).																								
93	Make available for inspection the 2005 calendar and journal information contained in the Major Customers Division contact management system, "AccountTrak".																								
94	Identify RFPs/RFQs that were issued by major SCE customers for energy services and products in 2005 and please identify those for which SCE issued a proposal in 2005. Please provide an executive summary of each of these proposals and indicate if any Class A affiliates were parties in those proposals.																								
95	For "Joint Contracts" and "Single Party Contracts – Joint Use" (categories of joint purchasing arrangements), please provide a table showing the cumulative dollar amount of 2005 payments made by SCE and each of the Class A affiliates that were parties to the contract. And, for each contract, please describe the method(s) by which these payment amounts were allocated between SCE and affiliates.																								
96	Provide details of instances in 2005 in which SCE provided utility information, services, or unused supply/capacity to one or more of its affiliates and copy of 2005 "Supply / Capacity / Service / Info Offered to Affiliates" web-page and any subordinate web-pages (3B Reports) (please provide in landscape format and specify URL addresses)																								
97	Provide a list of instances in 2005 in which (a) SCE gave any appearance that it speaks on behalf of one or more of its affiliates (re: Rule III.E.6), or (b) SCE gave any appearance that one or more of its affiliates speaks on behalf of SCE (re: Rule III.E.7)																								
98	Provide access to monitor call center calls at the residential, commercial, and energy efficiency gates																								
99	Provide a list of all contracts for the purchase or sale of natural gas or gas transportation that include an SCE affiliate as a party in 2005. Please indicate the name of the parties to the contract and approximate cumulative volume of gas, or gas transported, in terms of MCF (decatherms). And please make these contracts available for inspection.																								
100	Provide a list of all contracts for the purchase or sale of coal or coal transportation that include an SCE affiliate as a party in 2005. Please indicate the name of the parties to the contract and approximate cumulative volume of coal, or coal transported, in terms of tons. And please make these contracts available for inspection.																								
101	Provide a list of all contracts for the purchase or sale of transmission rights or ancillary services that include an SCE affiliate as a party in 2005. Please indicate the name of the parties to the contract. And please make these contracts available for inspection.																								
102	<p>Update the 2005 numbers in following table from the 2004 Audit Report (page 79) showing corporate support charges as either directly charged or allocated:</p> <table border="1"> <thead> <tr> <th></th> <th>2000</th> <th>2001</th> <th>2002</th> <th>2003</th> <th>2004</th> </tr> </thead> <tbody> <tr> <td>Directly Charged Services</td> <td>\$ 10,272,781</td> <td>\$ 6,269,838</td> <td>\$ 6,403,777</td> <td>\$ 6,937,080</td> <td>\$ 6,772,449</td> </tr> <tr> <td>Allocated Corporate Support</td> <td>\$ 11,178,436</td> <td>\$ 9,853,471</td> <td>\$ 8,034,851</td> <td>\$ 9,954,406</td> <td>\$ 10,350,242</td> </tr> <tr> <td>Total</td> <td>\$ 21,451,217</td> <td>\$ 16,123,309</td> <td>\$ 14,438,628</td> <td>\$ 16,891,486</td> <td>\$ 17,122,691</td> </tr> </tbody> </table> <p>Note: Audit Services charges are included in 2002, 2003 and 2004 but not in 2000 or 2001</p> <p>(DR 112)</p>		2000	2001	2002	2003	2004	Directly Charged Services	\$ 10,272,781	\$ 6,269,838	\$ 6,403,777	\$ 6,937,080	\$ 6,772,449	Allocated Corporate Support	\$ 11,178,436	\$ 9,853,471	\$ 8,034,851	\$ 9,954,406	\$ 10,350,242	Total	\$ 21,451,217	\$ 16,123,309	\$ 14,438,628	\$ 16,891,486	\$ 17,122,691
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103	<p>SCE rehire dates for affiliate employees transferring to SCE during 2005</p> <table border="1"> <thead> <tr> <th>Employee</th> <th>Departure Date</th> <th>Rehire Date (2005)</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Employee	Departure Date	Rehire Date (2005)																					
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**2005 Affiliate Transaction Audit
Data Requests**

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104	Identify and provide samples of any branded giveaways provided in 2005 by any Class A affiliate to customers / potential customers in California. This includes items such as jackets, coffee mugs, shirts, paperweights, caps, flashlights, keychains, pens and pencils. If samples are not available then provide close-up photocopies of the message and logo/tagline included with the giveaway item. Describe in general the recipients of these giveaways and the number of such items given away.																														
105	Sample inter-company invoice from SCE to each billed affiliate, which includes charges for directly requested services, directly charged corporate support and allocated corporate support and relevant supporting documents (sample month: August 2005)																														
106	List instances in 2005 where SCE (1) provided leads to or solicited business on behalf of its affiliates, (2) acquired information on behalf of or to provide to its affiliates, (3) shared proprietary or non-publicly available reports with its affiliates, or (4) requested authorization from its customers to pass information exclusively to its affiliates, as described in Rules III.E.1 through III.E.5.																														
107	List any EPRI deliverables which were shared with, or available to, personnel from Class A affiliates in 2005																														
108	List any instances in 2005 where SCE (1) applied discretionary tariffs differently for affiliates than for other market participants, and/or (2) did not strictly enforce non-discretionary tariffs, as described in Rules III.B.3 and III.B.4.																														
109	Affiliate rules training, presentations, instructions, etc. provided to employees of SCE and its affiliates																														
110	All Entity Lists prepared in 2005																														
111	Update with 2005 information Edison International structure from the 2004 Audit Report (page 7) <pre> graph TD EIX[Edison International (EIX)] --- SCE[Southern California Edison (SCE)] EIX --- EMGI[Edison Mission Group Inc.] SCE --- MPPC[Mountainview Power Company, LLC *] SCE --- VRS[Various regulated subsidiaries] EMGI --- EC[Edison Capital] EMGI --- EE[Edison Enterprises] EMGI --- EOS[Edison O&M Services] EMGI --- MEHC[Mission Energy Holding Company] EMGI --- EME[Edison Mission Energy (EME)] EMGI --- MLC[Mission Land Company] EMGI --- EIS[Edison Insurance Services] style MPPC fill:#fff,stroke:#333 style VRS fill:#fff,stroke:#333 style EC fill:#ccc,stroke:#333 style EE fill:#ccc,stroke:#333 style EOS fill:#ccc,stroke:#333 style MEHC fill:#ccc,stroke:#333 style EME fill:#ccc,stroke:#333 style MLC fill:#ccc,stroke:#333 style EIS fill:#ccc,stroke:#333 style EIX fill:#ccc,stroke:#333 style EMGI fill:#ccc,stroke:#333 </pre> <p>* wholly-owned subsidiary (DR 125)</p>																														
112	Update with 2005 information shown below from page 6 of the 2004 Audit Report <table border="1"> <thead> <tr> <th>(\$ in thousands)</th> <th>2000</th> <th>2001</th> <th>2002</th> <th>2003</th> <th>2004</th> </tr> </thead> <tbody> <tr> <td>SCE's Provision of Goods and Services to Affiliates (A)</td> <td>\$ 35,395</td> <td>\$ 30,441</td> <td>\$ 16,565</td> <td>\$ 18,260</td> <td>\$ 17,604</td> </tr> <tr> <td>Affiliates Provision of Goods and Services to SCE (B)</td> <td>\$ 9,281</td> <td>\$ 3,619</td> <td>\$ 14,215</td> <td>\$ 32,430</td> <td>\$ 32,117</td> </tr> <tr> <td>Transfers of Tangible Assets</td> <td>\$ 1,830</td> <td>\$ 3,916</td> <td>\$ -</td> <td>\$ (1,120)</td> <td>\$ -</td> </tr> <tr> <td>Transfers of Intangible and Intellectual Property</td> <td>\$ -</td> <td>\$ 205</td> <td>\$ -</td> <td>\$ -</td> <td>\$ -</td> </tr> </tbody> </table> <p>Note A: Excludes charges to accounts (146, 236 and 438) not directly related to the provision of goods and services Note B: Excludes dividends paid (438) and investment in subs (123.1) (DR 126)</p>	(\$ in thousands)	2000	2001	2002	2003	2004	SCE's Provision of Goods and Services to Affiliates (A)	\$ 35,395	\$ 30,441	\$ 16,565	\$ 18,260	\$ 17,604	Affiliates Provision of Goods and Services to SCE (B)	\$ 9,281	\$ 3,619	\$ 14,215	\$ 32,430	\$ 32,117	Transfers of Tangible Assets	\$ 1,830	\$ 3,916	\$ -	\$ (1,120)	\$ -	Transfers of Intangible and Intellectual Property	\$ -	\$ 205	\$ -	\$ -	\$ -
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113	Class A affiliates – update the list from the 2004 Audit Report Exhibit 4, page 19																														

**2005 Affiliate Transaction Audit
Data Requests**

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114	<p>SCE's principal active affiliates and their class (update the following table from the 2004 report, page 17)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 20%; text-align: center;">Affiliate Class</th> </tr> </thead> <tbody> <tr><td>Edison International (EIX) (parent holding company)</td><td style="text-align: center;">B</td></tr> <tr><td> Southern California Edison (SCE)</td><td style="text-align: center;">na</td></tr> <tr><td> Regulated Subsidiaries of SCE (e.g., ESI)</td><td style="text-align: center;">na</td></tr> <tr><td> Mountainview Power Company LLC</td><td style="text-align: center;">B</td></tr> <tr><td> Edison Insurance Services</td><td style="text-align: center;">B</td></tr> <tr><td> Edison Mission Group</td><td style="text-align: center;">B</td></tr> <tr><td> Edison Capital</td><td style="text-align: center;">B</td></tr> <tr><td> Entities (20) generating power from wind</td><td style="text-align: center;">A</td></tr> <tr><td> Elfeo, a Bolivian electric distribution company</td><td style="text-align: center;">A</td></tr> <tr><td> All other subsidiaries of Edison Capital</td><td style="text-align: center;">B</td></tr> <tr><td> Edison Enterprises</td><td style="text-align: center;">B</td></tr> <tr><td> Edison Source</td><td style="text-align: center;">A</td></tr> <tr><td> Edison Source Norvik</td><td style="text-align: center;">A</td></tr> <tr><td> Edison O&M Services (Note A)</td><td style="text-align: center;">A</td></tr> <tr><td> Mission Energy Holding Company</td><td style="text-align: center;">B</td></tr> <tr><td> Edison Mission Energy (EME)</td><td style="text-align: center;">A</td></tr> <tr><td> Midwest Generation</td><td style="text-align: center;">A</td></tr> <tr><td> Edison Mission Marketing & Trading</td><td style="text-align: center;">A</td></tr> <tr><td> Other Subsidiaries of EME</td><td style="text-align: center;">A&B</td></tr> <tr><td> Mission Land Company</td><td style="text-align: center;">B</td></tr> <tr><td> Subsidiaries of Mission Land Company</td><td style="text-align: center;">B</td></tr> </tbody> </table> <p>Note A: EO&MS was changed to Class B on March 28, 2005 (DR 129)</p>		Affiliate Class	Edison International (EIX) (parent holding company)	B	Southern California Edison (SCE)	na	Regulated Subsidiaries of SCE (e.g., ESI)	na	Mountainview Power Company LLC	B	Edison Insurance Services	B	Edison Mission Group	B	Edison Capital	B	Entities (20) generating power from wind	A	Elfeo, a Bolivian electric distribution company	A	All other subsidiaries of Edison Capital	B	Edison Enterprises	B	Edison Source	A	Edison Source Norvik	A	Edison O&M Services (Note A)	A	Mission Energy Holding Company	B	Edison Mission Energy (EME)	A	Midwest Generation	A	Edison Mission Marketing & Trading	A	Other Subsidiaries of EME	A&B	Mission Land Company	B	Subsidiaries of Mission Land Company	B																								
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115	<p>2005 list of affiliates that SCE's Controller's Department bills for joint purchases and shared corporate support (see page 30 from the 2004 Audit Report)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 50%;">Edison Mission Group</td> <td style="width: 50%;">Edison Enterprises</td> </tr> <tr> <td>Edison Mission Energy</td> <td>Edison Insurance Services</td> </tr> <tr> <td>Edison Capital</td> <td>Edison Technology Solutions</td> </tr> <tr> <td>Mission Land</td> <td>EO&MS</td> </tr> <tr> <td>EIX</td> <td>Mission Energy Holding Company</td> </tr> <tr> <td>Edison Source</td> <td>Mountainview Power Company, LLC</td> </tr> <tr> <td>Edison Ventures</td> <td></td> </tr> </tbody> </table>	Edison Mission Group	Edison Enterprises	Edison Mission Energy	Edison Insurance Services	Edison Capital	Edison Technology Solutions	Mission Land	EO&MS	EIX	Mission Energy Holding Company	Edison Source	Mountainview Power Company, LLC	Edison Ventures																																																							
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116	<p>2005 SCE space occupied by SCE and affiliates (see the following table from the 2004 Audit Report, page 68)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="3" style="width: 30%;">Facility Types</th> <th colspan="6" style="text-align: center;">SCE Owned/Leased Facilities Occupied By</th> </tr> <tr> <th colspan="2" style="text-align: center;">SCE</th> <th colspan="2" style="text-align: center;">EIX</th> <th colspan="2" style="text-align: center;">EME</th> </tr> <tr> <th style="text-align: center;">Number</th> <th style="text-align: center;">Sq. Feet</th> <th style="text-align: center;">Number</th> <th style="text-align: center;">Sq. Feet</th> <th style="text-align: center;">Number</th> <th style="text-align: center;">Sq. Feet</th> </tr> </thead> <tbody> <tr> <td>Office</td> <td style="text-align: center;">7</td> <td style="text-align: right;">1,253,676</td> <td style="text-align: center;">1</td> <td style="text-align: right;">20,484</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,820</td> </tr> <tr> <td>Service Centers</td> <td style="text-align: center;">37</td> <td style="text-align: right;">1,458,365</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Computer/Phone Center</td> <td style="text-align: center;">4</td> <td style="text-align: right;">379,121</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Local Offices</td> <td style="text-align: center;">2</td> <td style="text-align: right;">7,925</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Other</td> <td style="text-align: center;">13</td> <td style="text-align: right;">1,223,575</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Leased</td> <td style="text-align: center;">7</td> <td style="text-align: right;">230,460</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">70</td> <td style="text-align: right;">4,553,122</td> <td style="text-align: center;">1</td> <td style="text-align: right;">20,484</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,820</td> </tr> </tbody> </table> <p>Source: DR 131</p>	Facility Types	SCE Owned/Leased Facilities Occupied By						SCE		EIX		EME		Number	Sq. Feet	Number	Sq. Feet	Number	Sq. Feet	Office	7	1,253,676	1	20,484	1	1,820	Service Centers	37	1,458,365					Computer/Phone Center	4	379,121					Local Offices	2	7,925					Other	13	1,223,575					Leased	7	230,460					Total	70	4,553,122	1	20,484	1	1,820
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**2005 Affiliate Transaction Audit
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118	<p>2005 summary of SCE's guidelines for valuing affiliate transactions (confirm the accuracy of the following table from the 2004 Audit Report page 97)</p> <table border="1"> <thead> <tr> <th></th> <th>Goods & Services Category</th> <th>Valuation</th> </tr> </thead> <tbody> <tr> <td rowspan="3">SCE to Affiliate</td> <td>V.H.1 For sale on open market (e.g., non-tariffed products & services)</td> <td>Fair market value; no discrimination in favor of affiliates (V.H.4)</td> </tr> <tr> <td>V.H.3 Regulated by state or fed (e.g., tariffed products & services)</td> <td>Fair market value (tariffed rate)</td> </tr> <tr> <td>V.H.5 Not for sale on open market (e.g., corporate support services)</td> <td>Fully loaded costs plus 5% (10% or 15% for requested support)</td> </tr> <tr> <td rowspan="2">Affiliate to SCE</td> <td>V.H.2 For sale on open market (e.g., EO&MS services)</td> <td>No more than fair market value</td> </tr> <tr> <td>V.H.6 Not for sale on open market (e.g., support services)</td> <td>Lower of fully loaded cost or fair market value</td> </tr> </tbody> </table>		Goods & Services Category	Valuation	SCE to Affiliate	V.H.1 For sale on open market (e.g., non-tariffed products & services)	Fair market value; no discrimination in favor of affiliates (V.H.4)	V.H.3 Regulated by state or fed (e.g., tariffed products & services)	Fair market value (tariffed rate)	V.H.5 Not for sale on open market (e.g., corporate support services)	Fully loaded costs plus 5% (10% or 15% for requested support)	Affiliate to SCE	V.H.2 For sale on open market (e.g., EO&MS services)	No more than fair market value	V.H.6 Not for sale on open market (e.g., support services)	Lower of fully loaded cost or fair market value
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SCE to Affiliate	V.H.1 For sale on open market (e.g., non-tariffed products & services)	Fair market value; no discrimination in favor of affiliates (V.H.4)														
	V.H.3 Regulated by state or fed (e.g., tariffed products & services)	Fair market value (tariffed rate)														
	V.H.5 Not for sale on open market (e.g., corporate support services)	Fully loaded costs plus 5% (10% or 15% for requested support)														
Affiliate to SCE	V.H.2 For sale on open market (e.g., EO&MS services)	No more than fair market value														
	V.H.6 Not for sale on open market (e.g., support services)	Lower of fully loaded cost or fair market value														

**2005 Affiliate Transaction Audit
Data Requests**

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119	Update the 2005 NTP&S numbers in the following analysis from the 2004 Audit Report (Exhibit 7 page 111): (\$ thousands)																																																																																																																																																															
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**2005 Affiliate Transaction Audit
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120	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by the major SCE Business Units in 2005 (Customer Service, Generation, T&D, etc.) to help assure the Unit's compliance with the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).																								
121	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by the <u>Procurement and Material Management organization</u> in 2005 to help assure the organization's compliance with the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).																								
122	Any procedures, instructions, presentations, training materials, staff meeting agendas, etc., used specifically by the <u>EIX and SCE corporate communication organizations</u> in 2005 to help assure the organization's compliance with the affiliate transaction rules. (Note that company wide training materials are covered in a separate DR).																								
123	Copy of: (1) D.02-10-062, (2) D.03-06-076, and any related subsequent decisions																								
124	SCE Power "Okay to Trade" lists for 1/13/2005 and 7/20/2005 from Power Contracts organization																								
125	Latest version of "Contracts Group Operating Guide", from Power Contracts organization: Provide only copy of Cover Sheet and Table of Contents but make manual available for inspection																								
126	Provide: (1) copies of 2005 Quarterly Procurement Plan Compliance Report transmittal letters and (2) quarterly tables summarizing the number and volume of deals for each counterparty (one table each for electric sales, electric purchases, gas sales, and gas purchases; similar to information provided in previous audit).																								
127	Detailed backup for March and September 2005 EIX charges to SCE (note the allocation basis for those items not directly charged)																								
128	<p>Confirm the accuracy of the following table from the 2003 ATR Audit Report (page 25) The table below shows who in SCE is responsible for billing affiliates for these transactions.</p> <table border="1"> <thead> <tr> <th>Allowed Affiliate Transactions</th> <th>Who Bills Affiliates</th> </tr> </thead> <tbody> <tr> <td>Tariffed products and services</td> <td>SCE Customer Services Business Unit</td> </tr> <tr> <td>Goods/services available to open market/third parties</td> <td>SCE department performing the work</td> </tr> <tr> <td>Joint purchases</td> <td>Controller's Department</td> </tr> <tr> <td>Shared corporate support (A)</td> <td>Controller's Department</td> </tr> <tr> <td>Non-tariffed products and services</td> <td>SCE business unit performing the work</td> </tr> </tbody> </table> <p>Note A: these make up the majority of SCE's affiliate charges</p>	Allowed Affiliate Transactions	Who Bills Affiliates	Tariffed products and services	SCE Customer Services Business Unit	Goods/services available to open market/third parties	SCE department performing the work	Joint purchases	Controller's Department	Shared corporate support (A)	Controller's Department	Non-tariffed products and services	SCE business unit performing the work												
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129	For "Joint Negotiations Resulting in Separate Contracts" (a category of joint purchasing arrangement), please provide a table with the following information for each of the listed arrangements: (1) supplier name; (2) SCE purchase order number and date; (3) affiliate(s) name(s), purchase order number(s) and date(s); (4) SCE/EIC/EIX proposal request (PR) number and date ; (5) brief description of the goods / services / deliverables to be provided; and (6) Joint Procurement Notification Form reference.																								
130	<p>List of affiliate employees with access to SCE IT applications/network (see table below) (sample of these will be selected later for approval reviews)</p> <table border="1"> <thead> <tr> <th>Company Code</th> <th>Applid</th> <th>Name</th> <th>P/R No.</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> </tbody> </table>	Company Code	Applid	Name	P/R No.																				
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131	<p>Provide backup for tracing charges associated with a sample of ISRs (to be selected later). For each SCE employee, select one month's charges so we can perform the following audit steps:</p> <ol style="list-style-type: none"> Find employee on applicable month's "Holding Co Expense Project Detail Report" Determine the employee's payroll expense (payment plus accrual) Determine that payroll overheads (payroll taxes and benefits) were properly applied Determine that the appropriate markup and facilities charges were applied Tie employee charges to the affiliate invoice. <table border="1"> <thead> <tr> <th>ISR #</th> <th>ISR Date</th> <th>SCE Employee</th> <th>Requesting Affiliate</th> <th>2004 Hours</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </tbody> </table>	ISR #	ISR Date	SCE Employee	Requesting Affiliate	2004 Hours																			
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132	NTP&S report (produced by Accounting) for 2005																								
133	Instances where SCE construed the ATR as modifying FERC accounting or reporting rules (see ATR IV.H)																								
134	Access to year 2005 entries into the WES Affiliate Transaction folder of the Wholesale Energy System (WES) utilized by SCE's QF Resources unit.																								
135	Final CPUC decision on Mountainview																								
136	Final FERC decision on Mountainview																								
137	Proposed and final decision of ALJ Brown concerning the matter of LT Procurement Proceeding																								

**2005 Affiliate Transaction Audit
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138	Documentation (e.g., process flowchart, controls information, test plans, test results, remediation efforts) developed in conjunction with Sarbanes-Oxley 404 implementation pertaining to Mountainview																																																																	
139	Provide self reporting letters to CPUC in 2004 and/or 2005 concerning affiliate transaction rule issues.																																																																	
140	Documents describing SCE's accounting for Mountainview and supporting SCE's ratemaking treatment for the option price and legal fees associated with the plant's acquisition. Accounting topics of interest include: AFUDC, overheads to be capitalized or not capitalized (A&G), corporate support allocated and directly charged. Include any documents with relevant accounting guidance from SCE's outside auditors (PwC), the CPUC or other third parties.																																																																	
141	September 2005 (and December 2005 when it is available) financial statements for MVL, LLC																																																																	
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146	<p>Relevant SCE testimony from the Mountainview hearings that cover the following the following accounting and cost recovery topics:</p> <ol style="list-style-type: none"> GAAP versus ratemaking accounting for Mountainview's capital costs Mountainview's option cost Mountainview's legal fees associated with Mountainview's acquisition and SCE/FERC hearings AFUDC A&G expenses incurred during construction (e.g., directly charged and allocated corporate support) 																																																																	
147	Images of any brochures, flyers, etc., from SCE's Energy Centers (CTAC and AgTAC) which were publicly available in 2005 and which contain addresses or phone numbers of SCE affiliates or third party product vendors/service providers																																																																	
148	FERC's instructions for calculating AFUDC (Electric Plant Instruction 3(A)(17) of the FERC's Uniform System of Accounts																																																																	
149	Mountainview AFUDC calculation spreadsheet (maintained by John Helvin) showing monthly AFUDC for 2004 and 2005 (2004 and 2005 totals should tie to DR 143)																																																																	
150	Description of Edison O&M Service's activities as of December 31, 2005 and as of the end of March 2006. Include in the description: (a) business (revenue generating) activities, (b) warranty work related to previous projects and (c) administrative work (e.g., resolution of employee matters).																																																																	
151	<p>2005 NTP&S Revenues by SCE unit/department, in the following format:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>SCE Unit</th> <th>2004 Gross Other Op Rev</th> </tr> </thead> <tbody> <tr> <td>Customer Service Bus Unit</td> <td>\$ 8,713,127</td> </tr> <tr> <td>Edison Carrier Solutions</td> <td>\$ 32,100,833</td> </tr> <tr> <td>Transmission and Distribution Bus Unit</td> <td>\$ 19,583,907</td> </tr> <tr> <td>Generation Bus Unit - Hydro</td> <td>\$ 1,298,349</td> </tr> <tr> <td>Generation Bus Unit - Power Production</td> <td>\$ 1,259,260</td> </tr> <tr> <td>Shared Services Bus Unit - Corporate Real Estate</td> <td>\$ 181,079</td> </tr> <tr> <td>Shared Services Bus Unit - Transportation Services</td> <td>\$ 122,168</td> </tr> <tr> <td>Edison ESI</td> <td>\$ 13,142,385</td> </tr> <tr> <td>Total</td> <td>\$ 76,401,108</td> </tr> </tbody> </table>	SCE Unit	2004 Gross Other Op Rev	Customer Service Bus Unit	\$ 8,713,127	Edison Carrier Solutions	\$ 32,100,833	Transmission and Distribution Bus Unit	\$ 19,583,907	Generation Bus Unit - Hydro	\$ 1,298,349	Generation Bus Unit - Power Production	\$ 1,259,260	Shared Services Bus Unit - Corporate Real Estate	\$ 181,079	Shared Services Bus Unit - Transportation Services	\$ 122,168	Edison ESI	\$ 13,142,385	Total	\$ 76,401,108																																													
SCE Unit	2004 Gross Other Op Rev																																																																	
Customer Service Bus Unit	\$ 8,713,127																																																																	
Edison Carrier Solutions	\$ 32,100,833																																																																	
Transmission and Distribution Bus Unit	\$ 19,583,907																																																																	
Generation Bus Unit - Hydro	\$ 1,298,349																																																																	
Generation Bus Unit - Power Production	\$ 1,259,260																																																																	
Shared Services Bus Unit - Corporate Real Estate	\$ 181,079																																																																	
Shared Services Bus Unit - Transportation Services	\$ 122,168																																																																	
Edison ESI	\$ 13,142,385																																																																	
Total	\$ 76,401,108																																																																	
152	FERC audit reports issued in 2004 through 2006																																																																	
153	2005 ATR-related calls to the Ethics helpline. Provide information on the background and disposition/resolution of each call.																																																																	
154	December 2004 financial statements for MVL, LLC (in same format as DR 141)																																																																	
155	Analysis showing the 2004 and 2005 monthly calculation of actual AFUDC charged to the Mountainview Project. (see DR 149)																																																																	
156	Mountainview actual transaction detail by month for 2005 (see DR 171 in 2004)																																																																	
157	Mid-Year Affiliate Transactions Report (Jan-Jun 2005)																																																																	

**2005 Affiliate Transaction Audit
Data Requests**

#	Item																																			
158	Reports submitted by utilities in the Holding Company OIR (due November 30, 2005)																																			
159	Analysis of Class A affiliate officers/employees who have been granted unescorted access to SCE facilities <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2">Affiliate Officer/Employee</th> <th colspan="3">Exemption From Escorted Access</th> </tr> <tr> <th>Affiliate</th> <th>Name</th> <th>Position</th> <th>Reason</th> <th>When Granted</th> <th>Who Approved</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </tbody> </table> <p>Also indicate if any of these Class A affiliate officers/employees have security badges that allow them to access SCE's facilities.</p>	Affiliate Officer/Employee		Exemption From Escorted Access			Affiliate	Name	Position	Reason	When Granted	Who Approved																								
Affiliate Officer/Employee		Exemption From Escorted Access																																		
Affiliate	Name	Position	Reason	When Granted	Who Approved																															
160	Images of any brochures, data sheets, flyers, etc. which were publicly available during 2005 at the following centers: CTAC, AgTAC, Southern California Lighting Technology Center, EV Tech Center, and EV Maintenance & Repair Center.																																			
161	Images of any brochures, data sheets, flyers, etc. which were publicly available during 2005 at the S.E.A. Laboratory																																			
162	Semi-annual advice filings regarding service provider lists beginning July 2005 (Advice 1904-E, 1904-E-A, etc.)																																			
163	Key CPUC decisions, orders, guidance, etc., related to electric utility resource planning, beginning in 2004, including D.04-12-048, D.05-03-013, D.05-09-022, and D.05-10-042																																			
164	Key CPUC decisions, orders, guidance, etc., related to Qualifying Facilities (QFs) beginning in 2004, including D.04-01-050, D.04-10-035 and D.05-12-009																																			
165	DR-6 lists two new 2005 agreements between SCE and Kern River (numbered 2034 and 2717). Please provide copies of these 2 agreements.																																			
166	New power procurement protocols for situations in which EME competes with others to enter into power purchase contracts with SCE, as cited in the May 19, 2005 EIX Board of Directors minutes																																			
167	Tariff rate provided to EME facilities in the Irvine, California office																																			
168	Provide a list of employees of SCE affiliates, if any, who attended the Joint Utility EE Seminar – Non-Residential Energy Efficiency – Customer/ESCO/Vendor Workshop held on 3/24/2005 at the Hyatt Regency–Irvine; an invitation to which was sent to several SCE customers on 3/17/2005 and was documented in the Acct Trak application used by the Business Customers Division (see DR-93).																																			
169	Provide copies of the semi-annual <u>Joint Procurement Summary Log</u> and <u>Vendor Information List</u> provided by SCE's Procurement and Material Management organization (PAMM) to RP&A in 2004 and 2005 and describe the results of the cross-referencing of this material against the RP&A Affiliate Officer Signature Log. (See SCE Disposition of Recommendation 2 of the 2003 Affiliate Transaction Audit)																																			
170	Web-pages and/or screenshots from the FETCH system used by Customer Service Operations Division that provide information about (a) Generally-Available Lists of Service Providers; (b) Focused Lists of Non-Affiliated Service Providers; or (c) Government-Approved Lists (See Advice 1491-E-I dated 12/17/04, Advice 1904-E dated 7/21/05, and Advice 1904-E-A dated 12/16/05).																																			
171	Provide a copy of Audit Services' <u>Joint Purchases Audit Report</u> upon completion																																			
172	Provide, or produce for inspection, contract documentation (e.g., signed purchase order, signed contract, signed change orders) for the following "Joint Contracts" and "Single Party Contracts Joint Use": (a) Oracle (b) Cambridge Energy Research Associates (c) Resources Data International																																			
173	Provide a schedule of all payments by SCE <u>and by each affiliate</u> (with invoice number, payment date, and payment amount) for the following "Joint Contracts" and "Single Party Contracts Joint Use" in the calendar year(s) indicated below: (a) Oracle (2004) – SCE, Edison Enterprises (and other participant affiliates, if any) (b) Cambridge Energy Research Associates (2003 <u>and</u> 2004) – SCE, EIX, EME (and other participant affiliates, if any) (c) Resources Data International (2003) – SCE, EIX, EME, Edison Enterprises (and other participant affiliates, if any)																																			
174	Please explain why the following entities are included in DR 57, but not included in DR 56 (entities with which SCE conducted wholesale transactions for the sale or purchase of electric energy, capacity, or ancillary services in 2005): - American Electric Power - City of Pasadena - Applied Energy Services - Panda Gila River - APX Automated Power Exchange																																			
175	Final decision from the ERRA Reasonableness Review (D.06-01-007)																																			
176	CPUC decision D.02-08-071 related to Standard Offer 1 PPAs for Qualifying Facilities (QFs)																																			
177	CPUC decision D.03-12-062, the "Short Term 2004 Procurement Decision" ordering certain QFs with expiring contracts to be afforded interim treatment																																			

**2005 Affiliate Transaction Audit
Data Requests**

#	Item
178	Analysis of affiliates as of December 31, 2005, showing: - Class A affiliates created before the 1997 affiliate transaction rules took effect - Class A affiliates created after the 1997 affiliate transaction rules took effect - Class B affiliates created before the 1997 affiliate transaction rules took effect - Class B affiliates created after the 1997 affiliate transaction rules took effect - Inactive, dissolved, sold or otherwise non-functioning affiliates
179	Mountainview's December 2005 invoice to SCE along with schedules and calculations supporting the charges
180	Backup invoices/supporting documentation for the following charges from EIX to SCE (on 2005 invoices): - Munger, Tolles & Olson (\$278,830.69-May charges) (Sept EIX invoice item) - Munger, Tolles & Olson (\$115,376.95—Jul, Aug and Sept charges) (Sept EIX invoice item) - Dues and memberships (\$855,689.64) (Mar EIX invoice item)
181	December 15, 2005 letter to CPUC notifying them that Barbara Matthews became Corporate Secretary on December 1, 2005
182	ES&M's Compliance Guidelines documentation package referenced in Feb 8 interview
183	Provide, or produce for inspection, contract documentation (e.g., signed purchase order, signed contract, signed change orders, etc.) for the following "Joint Negotiations Resulting in Separate Contracts": (a) Verizon Wireless (SCE) (b) Verizon Wireless (EME) (c) Informatica (SCE) (d) Informatica (EIX)
184	Referring to 2005 DR 50 and DR 129, please provide copies of all 2005 invoices from the vendor named Informatica to SCE, Edison Capital, EME, and EIX. Please provide sufficient backup with the invoices to allow us to compare unit rates charged to each of the four entities.
185	Confirm that Mountainview's 2005 output was purchased only by SCE and not sold to an affiliate or third party customers.
186	Confirm that tariffed products and services provided by SCE to Mountainview during 2005 were priced at the regulated rates.
187	Commercial Operation dates for Mountainview Unit 3 and Unit 4
188	Provide information to support the appropriateness of SCE IT Security managing access to the Dow Jones Factiva news service website for employees of affiliates (EIX and EME). Factiva is a jointly procured service in which SCE, EME and Edison Capital participate (see DR 129). Include answers to the following questions: a. Is this service considered shared corporate support? b. Do SCE employees also have access to the same website? If so, does SCE IT Security manage SCE employee access? c. Are affiliates charged for this service? If so, how are the charges calculated (e.g., unit rate times number of units) and provide calculation details. d. Did the SCE Affiliates Officer approve this service arrangement?
189	CPUC Approval Letters, if any, for Advice Letter series 1904-E, Semi-annual Filings Regarding Service Provider Lists (1904-E, 1904-E-A, etc)
190	Regarding the multiple hits/results of keyword searches for "battery charger" and "forklift" provided in your response to 2005 DR 93, please identify which, if any, are indicative of dialogue pertaining to the products of SCE affiliates. Please describe the circumstances of any such dialogue.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Patrick L. Baryenbruch**

84. Refer to Baryenbruch testimony page 1, lines 19-23. Provide the audit reports for affiliate charges and allocation of corporate expenses listed there, including:
- a. Connecticut Light and Power
 - b. Connecticut Natural Gas
 - c. General Water Corporation
 - d. Philadelphia Suburban Water Company
 - e. Pacific Gas & Electric Company.

Response:

Baryenbruch & Company, LLC was not the prime contractor for these management audits. Mr. Baryenbruch was retained as a sub-contractor to review the area of affiliate transactions by other management consulting firms that were prime contractors. The commission-ordered management audits of these utilities took place during the 1980s and early 1990s—more than twenty years ago. Mr. Baryenbruch has not retained the reports for these management audits, thus cannot provide them with this data request. We suggest better evidence of Mr. Baryenbruch's affiliate transactions audit work can be found in the more recent audits of Southern California Edison for which Baryenbruch & Company, LLC was the prime contractor. See data request AGDR1# 83.

For the electronic version of this response, refer to KAW_R_AGDR1#84_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

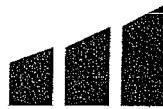
Witness: Patrick Baryenbruch

85. Provide a complete copy of the contract and all invoices related to the work performed by Mr. Baryenbruch and his firm.

Response:

Attached is the contract and invoice for the work performed by Patrick Baryenbruch.

For the electronic version, refer to KAW_R_AGDR1#85_042610.pdf.



Baryenbruch & Company, LLC

Management Consultants

September 4, 2009

Michael A. Miller
Director of Rates and Regulation
American Water Works Service Company
P.O. Box 1906
Charleston, WV 25327

Dear Mike:

This is my proposal to perform a market comparison study for the cost of services provided by American Water Service Company, Inc. (AWSC) to Kentucky Water Company (KAWC) for 12 months ended September 30, 2009. My study will be used in connection with a Kentucky rate case for the 6 months ended November 30, 2009.

Study Scope and Methodology

I will follow the same approach I have successfully used in previous cost comparison studies for American Water and other utility clients. This study will answer the following questions:

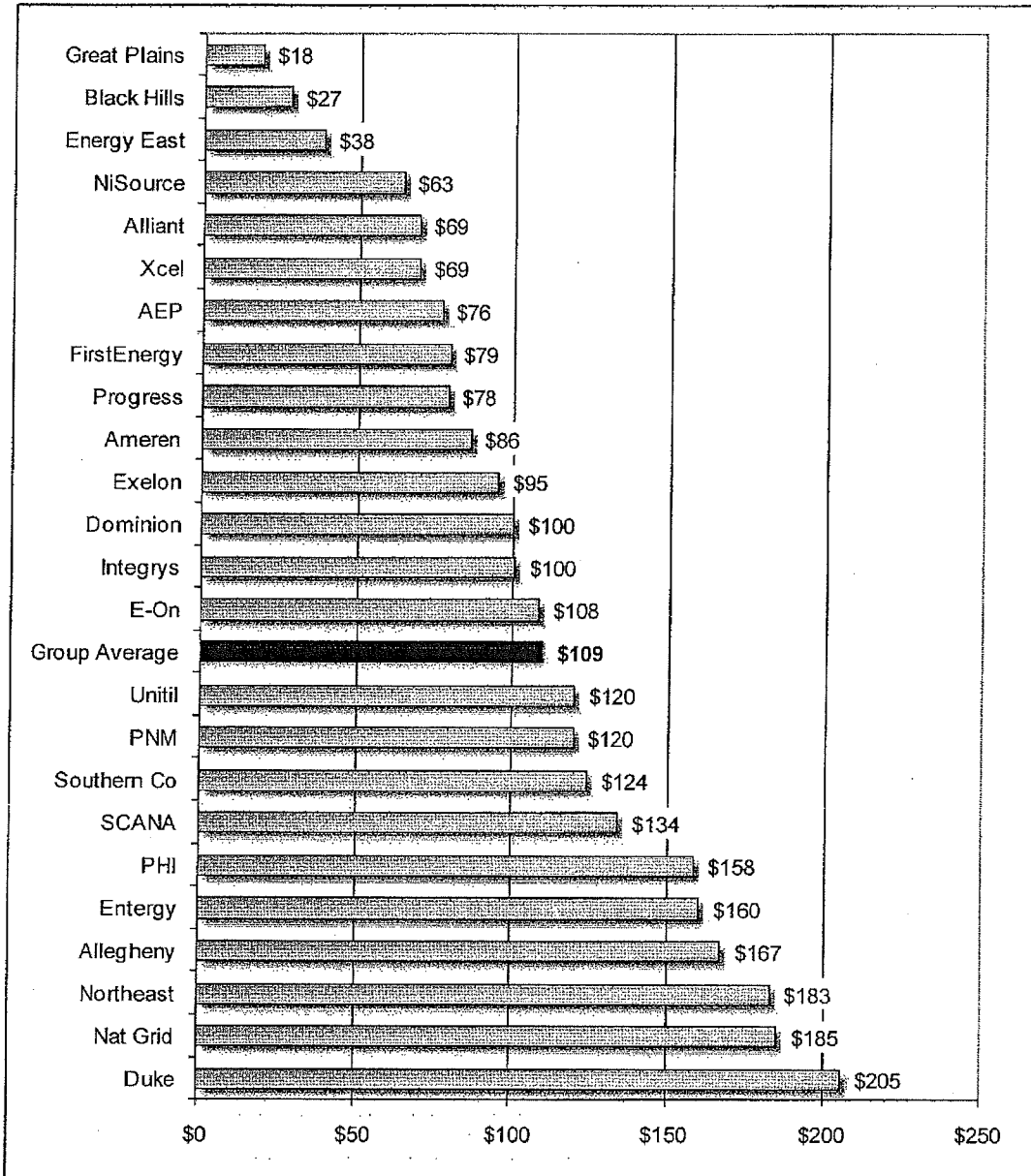
1. Were the Service Company's charges to KAWC during the 12 months ended September 30, 2009 reasonable?
2. Was KAWC charged the lower of cost or market for managerial and professional services provided by the Service Company during 12 months ended September 30, 2009?
3. Were KAWC's 12 months ended September 30, 2009 charges from the Service Company for customer accounts services, including those provided by the National Call Centers, comparable to those of other utilities?
4. Are the services KAWC receives from Service Company necessary?

Reasonableness of AWSC's Charges

The reasonableness test will be based on KAWC's cost per customer for AWSC's 12 months ended September 30, 2009 charges compared to the cost per regulated customer for service companies that must file a Form 60 with Federal Energy Regulatory Commission (FERC). This report is designed to collect financial information from service companies that are subject to FERC's regulation. Approximately 30 service companies associated with 24 electric utilities filed a Form 60.

Mr. Michael A. Miller
 September 4, 2009
 Page 2 of 8

The end product of this analysis will be a cost per regulated customer comparison that supports the determination of reasonableness of AWSC's 12 months ended September 30, 2009 charges to KAWC. The graph below shows an example of this analysis from another study. This evaluation will be conducted using 2008 FERC data, the latest available service company information.



Mr. Michael A. Miller
September 4, 2009
Page 3 of 8

Lower of Cost or Market Evaluation

I will answer the second question by comparing AWSC's charges during the 12 months ended September 30, 2009 to the cost of procuring the same services from outside providers--attorneys, management consultants, accountants and engineers. This will be accomplished by converting AWSC's categorized charges into a cost per hour based on the test year dollars and hours charged to KAWC. AWSC's hourly rates are then compared to outside provider hourly billing rates.

Certain adjustments must be made to AWSC's actual charges to put its hourly rates on the same basis as outside provider hourly billing rates. For example, the table below shows the calculation of AWSC's 2007 hourly rates from my Virginia American study.

	Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Total management, professional & technical services charges	\$ 79,237	\$ 928,973	\$ 1,020,240	\$ 446,476	\$ 2,474,926
Less:					
Contract services	\$ 1,027	\$ 22,660	\$ 47,621	\$ 16,842	\$ 88,150
Travel expenses	\$ 5,721	\$ 89,271	\$ 110,141	\$ 48,969	\$ 254,101
Computer hardware/software	\$ 0	\$ 12,915	\$ 26,698	\$ 1,880	\$ 41,493
Net Service Charges (A)	\$ 72,488	\$ 804,127	\$ 835,780	\$ 378,785	\$ 2,091,181
Total Hours (B)	372	5,573	12,770	5,684	24,399
Average Hourly Rate (A / B)	\$ 195	\$ 144	\$ 65	\$ 67	

Outside provider hourly rates will be obtained from the sources described below.

- **Certified Public Accountants** – The American Institute of Certified Public Accountants conducts a bi-annual survey of its members. I will obtain the Kentucky version of the 2008 survey which includes hourly billing rates for Kentucky CPA firms as of December 31, 2007. I will calculate an overall average hourly rate for Kentucky CPAs and escalate it for inflation to March 31, 2009, the mid-year point of 12 months ended September 30, 2009.
- **Management Consultants** – I will use the "Survey of Key Management Information, Operating Ratios for Management Consulting Firms" published by the Association of Management Consulting Firms, the industry's trade organization. I will utilize the 2009 survey, which contains 2008 hourly rate information. The survey includes average hourly billing rates for firms throughout the US. I feel it is appropriate to use national rather than a state data because management consultants do not limit their practice to any one region and typically travel to client locations. Using this survey data, I will calculate an overall average hourly rate for management consultants and escalate it for inflation to the March 31, 2009.
- **Attorneys** – It does not appear as though the Kentucky bar association surveys its members as to their hourly billing rates. Thus, I will have to estimate average Kentucky attorney billing rates using a surveys from Michigan Lawyers Weekly and Massachusetts Lawyers Weekly. The selected surveys' data will be adjusted for cost of living differences between the Michigan/Massachusetts law firms' cities and Lexington, Kentucky. The Lawyer's Weekly survey data will be as of December 31, 2007 and I will escalate the data for inflation to March 31, 2009.

Mr. Michael A. Miller
September 4, 2009
Page 4 of 8

- **Professional Engineers** – The association for professional civil engineers, the American Society of Civil Engineers, does not survey its members' billing rates. Neither does the National Society of Professional Engineers, the association for the entire engineering profession. Considering this lack of survey information, I have found the best way to obtain hourly billing rate information from engineering firms used in the past by KAWC or AWSC (for Kentucky work).

After compiling AWSC data and outsider provider data, I can then compare rates. Shown below is the comparison from my 2007 Virginia American study.

12 Months Ended September 30, 2007			
Service Provider	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 195	\$ 276	\$ (82)
Management Consultant	\$ 144	\$ 216	\$ (72)
Certified Public Accountant	\$ 65	\$ 109	\$ (43)
Professional Engineer	\$ 67	\$ 92	\$ (26)

Finally, I will calculate the net cost/savings to KAWC associated with using AWSC rather than outside providers. Using the hourly rate differences and the number of hours billed by the AWSC during the test year, the total dollar impact will be calculated. The table below shows this calculation from my 2007 Virginia American study.

12 Months Ended September 30, 2007			
Service Provider	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (82)	372	\$ (30,356)
Management Consultant	\$ (72)	5,573	\$ (400,089)
Certified Public Accountant	\$ (43)	12,770	\$ (551,278)
Professional Engineer	\$ (26)	5,684	\$ (145,346)
Service Company Less Than Outside Providers			\$ (1,127,069)

Reasonableness of American Water's National Call Center Costs

The third issue—reasonableness of the National Call Center's costs—will be addressed by comparing KAWC's customer accounts expenses to those of Kentucky and neighboring electric utilities. It is difficult to compare the cost of American Water's National Call Center with outside providers of the same call center-related services. Call center survey data is proprietary and expensive to obtain.

Thus, I will utilize the next best cost comparison approach. KAWC's National Call Center charges for 12 months ended September 30, 2009 will be compared to customer accounts expenses of Kentucky and neighboring electric utilities because their data is publicly available from the 2008 FERC Form 1. The table below shows the end result of this comparison from my 2006 KAWC study. In this case, the National Call Center's cost per customer was very close to the group average.

Mr. Michael A. Miller
September 4, 2009
Page 5 of 8

Average Customer Accounts Expense Per Customer		
Louisville Gas & Electric	\$	12.43
Illinois Power	\$	14.01
Virginia Electric Power	\$	15.77
Ohio Edison	\$	16.68
Cleveland Electric Illuminating	\$	17.15
Dayton Power & Light	\$	19.72
Toledo Edison	\$	21.45
Indianapolis Power & Light	\$	21.91
Kentucky Utilities	\$	24.87
Union Heat, Light & Power	\$	25.64
Public Service of Indiana	\$	26.02
Comparison Group Average	\$	26.07
Kansas City Power & Light	\$	26.64
Kentucky American Water	\$	26.98
Wheeling Power	\$	29.20
Cincinnati Gas & Electric	\$	30.50
MidAmerican Energy	\$	31.14
Indiana Michigan Power	\$	31.50
Kingsport Power	\$	32.18
Ohio Power	\$	32.30
Appalachian Power	\$	32.40
Commonwealth Edison	\$	33.43
Kentucky Power	\$	34.25
Columbus & Souther Power	\$	35.49
Northern Indiana Public Service	\$	35.82

Need for AWSC's Services

The fourth issue—the need for AWSC services—will be addressed by identifying and evaluating specifically what the AWSC does for KAWC. Based on discussions with AWSC personnel, a matrix will be created showing which AWSC entities/locations are responsible for each of the functions KAWC requires to ultimately provide service to its customers. The matrix will be reviewed to determine: (1) if there was redundancy or overlap in the services being provided by the AWSC and (2) if AWSC services are typical of those needed by a stand-alone water utility. Shown below is page 1 of Exhibit 10 in my 2007 Virginia American report is an example of the matrix that will be developed for the KAWC study.

Mr. Michael A. Miller
September 4, 2009
Page 6 of 8

Exhibit Witness-PLB-15
Schedule 10
Page 1 of 36

Virginia American Water Company
Reassignment Of Responsibility For Water Utility Functions

Primarily Responsible For Provides Support to	VAWC	Performed by					Balance Labor
		Customer Call Center	Regional Office	Shared Services	Corporate Office	IT Services Center	
Water Company Functions							
Engineering and Construction Management							
- CPG Preparation	So		Pe		So		
- 1 Year System Planning	So		Pe		So		
- Engineering Standards & Policies Development					So		
- Project Budgets					So		
- Major Projects (e.g., new treatment plants)	So		Pe		So		
- Special Projects	So		Pe		So		
- Minor Projects (e.g., pipelines)	Pe						
- Construction Project Management							
- Major Projects	So		Pe				
- Special Projects	So		Pe				
- Minor Projects	So						
- Hydrants Reviews	So						
- Developer Extensions	So						
- Tank Planning	So						
Water Quality and Purification							
- Water Quality Standards Development					So		
- Research Studies	So				So		
- Water Quality Program Implementation	So				So		
- Water Treatment Operations & Maintenance	So				So		
- Compliance Tracking and Remedial Actions	So				So		
- Sample Collection and Other Testing	So				So		
Transmission and Distribution							
- Preventive Maintenance Program Development	So						
- System Maintenance	So						
- Leak Detection	So						
Customer Services							
- Community Relations	So				So		
- Customer Contacts	So						
- Call Processings	So	Pe					
- Service Order Creations	So	Pe					
- Service Order Processings	So	Pe					
- Customer Credit	So	Pe					
Water Readings							
- Customer Disputations	So						
- Bill Collections	So						
- Customer Payment Processings	So						
- Meter Standards Development	So						
- Meter Testing, Maintenance & Replacements	So						

End Product

This study will culminate in a written report that documents my conclusions on the four questions concerning AWSC services to KAWC (reasonableness of AWSC's charges, lower of cost-or-market pricing, reasonableness of National Call Center charges and necessity of AWSC services). The report will include all supporting information necessary to substantiate my conclusions. I will also develop testimony that summarizes my report and the conclusions I was able to reach. A draft will be finished by December 15, 2009 and a final version will be completed by December 31, 2009.

Patrick Baryenbruch's Previous Experience

I have performed this same market cost comparison study for the clients listed below. Most of these engagements were carried out in conjunction with a rate case proceeding where I was the expert witness supporting a regulated operating utility's charges from an affiliated service company.

- American Water of Virginia – 1994, 1996, 1999, 2000, 2001, 2003, 2006, 2007
- American Water of Connecticut – 1999
- Illinois American Water Company – 2007
- American Water of Kentucky – 2003, 2006, 2008
- Long Island American Water – 2006
- American Water of Massachusetts – 2000
- American Water of Missouri – 2002
- American Water of New Jersey – 2005, 2007
- American Water of New Mexico – 2008
- American Water of Ohio – 2006

Mr. Michael A. Miller
September 4, 2009
Page 7 of 8

- American Water of Pennsylvania – 2008
- American Water of Tennessee – 1996, 2002, 2006
- American Water of West Virginia – 2002, 2006, 2007
- Atmos Energy Corporation (Virginia) – 2004
- Bay State Gas Company (Massachusetts) – 2004
- Columbia Gas of Virginia – 2003, 2004, 2005, 2006
- Duke Energy – 2006
- General Water Works/Rio Rancho Utilities (New Mexico) – 1993
- Roanoke Gas Company – 2006
- Virginia Natural Gas Company (AGL Resources, Inc.) – 2003, 2005
- United Water of Pennsylvania – 2004
- Utilities, Inc. (Virginia) – 2006

Besides these market cost comparison studies, my firm has performed the annual affiliate transaction audits of Southern California Edison (SCE) for the years 2002 through 2005. The objective of these evaluations is to express an opinion on the extent to which SCE was in compliance with the California Public Utilities Commission's extensive affiliate transaction rules. In addition to these studies and third party audits, I provide utility clients with on-going affiliate transaction-related advice and counsel in connection with their dealings with their regulators.

Exhibit 1 presents a more complete description of my utility-affiliate transactions experience.

Cost Estimate

Based on the scope of work outlined above, I estimate this study will cost \$27,745 to complete. A breakdown of the hours and dollars is detailed in the table below.

<u>Hours/Fees</u>		
1. Determine the reasonableness of AWSC charges		25
2. Perform AWSC/outside provider cost comparison (LCM analysis)		40
3. Perform customer account services cost comparison		20
4. Assess KAWC's need for AWSC's services		2
5. Prepare Report		30
	Total Hours	117
	Hourly Rate	\$ 235
	Total Fees	\$ 27,495
<u>Expenses</u>		\$ 250
	Total Fees and Expenses	\$ 27,745

I am willing to undertake this study on a fixed price basis, with a not-to-exceed total for fees and expenses of \$27,700. If the study does not take as much time as estimated to complete, you will only be billed for the actual costs incurred.

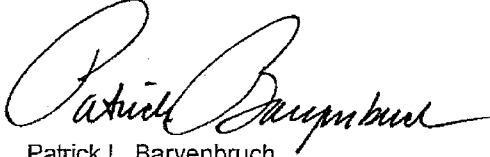
This budget does not include the cost of answering any potential rate case interrogatories or cross-examination. Should that be necessary, I will perform that work at an hourly rate of \$235. If travel is required, that will be charged at actual cost.

Mr. Michael A. Miller
September 4, 2009
Page 8 of 8

I submit invoices monthly and include a timesheet and copies of expenses to back up all charges. With each invoice I will provide a budget status so you can monitor the completion of work against amounts billed.

I want to thank you for asking me to help on this important assignment. You can be assured I will give it my utmost attention.

Sincerely,



Patrick L. Baryenbruch
attachment

Resume of Patrick L. Baryenbruch

Summary

Mr. Baryenbruch began his consulting career in the late 1970s. He established his own practice in 1985 and has focused on providing services to utilities and their regulators. Mr. Baryenbruch has performed consulting assignments for over 50 utilities and 10 public service commissions.

Over the course of his career, Mr. Baryenbruch has served as an expert witness for many utility rate cases. In most instances, he was a witness for a utility client's position on some aspect of affiliate transactions.

He has participated as project manager, lead or staff consultant for over 20 commission-ordered management and prudence audits of public utilities. Of these, he has been responsible for evaluating the area of affiliate transactions and allocation of corporate expenses in the Commission-ordered audits of Connecticut Light and Power, Connecticut Natural Gas, General Waterworks Corporation (Pennsylvania Operations), Philadelphia Suburban Water Company. For the California Public Utilities Commission, Mr. Baryenbruch worked on the consultant team that performed the affiliate transactions audit of Pacific Gas & Electric (1990) and Southern California Edison (1991). Baryenbruch & Company conducted the annual audits of Southern California Edison's transactions with its unregulated affiliates for 2002 through 2005.

Professional Credentials and Education

Mr. Baryenbruch is a certified public accountant and is a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants. He holds a BBA in accounting from the University of Wisconsin-Oshkosh, where he graduated with high honors, and an MBA from the University of Michigan.

Employment

1985 to Present	Baryenbruch & Company, President
1983 to 1985	Scott, Madden & Associates, Managing Associate
1979 to 1983	Theodore Barry & Associates, Managing Associate
1974 to 1977	Arthur Andersen & Company, Staff Auditor

Partial List of Clients

AGL Resources, Inc.	Mississippi Power & Light Company
Allegheny Energy, Inc	Municipal Electric Authority of Georgia
American Water Company	Niagara Mohawk Power Corporation
Atlantic Electric Company	NiSource Inc./Columbia Gas
Atmos Energy Corporation	Orange & Rockland Utilities Company
BB&T Financial Corporation	Pacific Gas & Electric Company
Big Rivers Electric Corporation	Pennsylvania Power Company
British Columbia Hydro and Power Authority	Peoples Gas Light Company
Carolina Power & Light Company	Philadelphia Electric Company
Choptank Electric Cooperative	Philadelphia Gas Works
Chugach Electric Cooperative	Philadelphia Suburban Water Company
Cincinnati Milacron Company	Progress Energy, Inc.
City of Los Angeles Department of Water and Power	Public Service Electric & Gas Company
City Utilities of Springfield, Missouri	Rio Rancho Water Company
Commonwealth Edison Company	Roanoke Gas Company
Connecticut Light & Power Company	Rochester Gas & Electric Corporation
Connecticut Natural Gas Company	Rockland Electric Company
Consumers Power Company	Southern California Edison Company
Delta Natural Gas Company	System Energy Resources, Inc.
Duke Energy Corporation	Tennessee Valley Authority
Dominion Resources, Inc.	Texas Utilities Electric Company
ENASA/Pegaso Truck Company	Toledo Edison Company
Entergy Corporation	Trans Alaska Pipeline System
General Telephone Company	Tucson Electric Power Company
General Water Works Corporation	United Telephone Company
Houston Lighting and Power Company	United Water, Inc.
Iowa Power & Light Company	Utilities, Inc.
Kentucky Utilities Company	Wisconsin Gas Company
Madison Gas & Electric Company	Xomox Corporation

Resume of Patrick L. Baryenbruch

Representative Consulting Engagements

- *Southern California Edison (SCE)* – Baryenbruch & Company conducted the audit of this utility's 2002, 2003, 2004 and 2005 transactions with its unregulated affiliates. The objective of this evaluation was to express an opinion on the extent to which SCE was in compliance with the California Public Utilities Commission's affiliate transaction rules. Baryenbruch & Company is also conducting the 2005 transaction audit.
- *American Water* – Mr. Baryenbruch has acted as an expert witness on the issue of service company charges in 23 rate cases. American Water has more than 3 million customers throughout the US. Its service company provides governance, executive management, legal, accounting, financial, human resources, engineering, operations support, water quality, information technology, and other critical services to operating companies in 18 states. Charges from the service company, which is located in New Jersey, are a contentious issue with some states. As their expert witness, Mr. Baryenbruch performs a study that determines if service company charges are at the lower of cost or market and whether these services are necessary. Mr. Baryenbruch has a perfect record as an expert witness for American Water. In every case in which he was the expert witness supporting service company charges, the operating company received full recovery of those charges.

Mr. Baryenbruch has also helped prepare American Water staff for a management audit ordered by the state public utility commission in one state in which it does business.

- *Progress Energy* – In 2001, Mr. Baryenbruch evaluated Progress Energy's Service Company arrangement to ensure it complied with the North Carolina Public Utilities Commission's code of conduct for affiliate transactions. Through extensive interviews and data gathering, he was able to conclude that the service company arrangement: (1) is equitable in allocating expenses to the Progress Energy affiliates, (2) does not result in ratepayers subsidizing non-regulated businesses, and (3) is substantially in compliance with various regulatory commitments. His report was later filed in rate cases in Florida and North Carolina.
- *Duke Energy* – Mr. Baryenbruch is currently involved with Duke's enterprise-wide re-engineering of its accounting function and its merger with Cinergy Corporation. He has helped manage the upgrade of Duke's general ledger and finance information hub, projects that involved teams of over 100 Duke and consultant personnel. During 2004, Mr. Baryenbruch helped Duke manage the implementation of Sarbanes-Oxley 404. This project involved hundreds of Duke and contractor personnel, whose work had to be coordinated in order to finish on time. Mr. Baryenbruch is currently assisting Duke with its merger with Cinergy.

Mr. Baryenbruch has also provided consulting assistance to Duke Energy's IT group, which has a staff of over 2,000 serving Duke's various regulated and non-regulated business units throughout the world. Among other things, he implemented a cost recovery process, which entailed developing a set of products, establishing cost pools, estimating unit usage and creating unit rates. IT's charges to internal customers are based on their unit usage of various products. This cost recovery arrangement was subjected to an audit by an outside CPA firm hired by the North Carolina Public Utility Commissions. That firm found it to be in compliance with the state's code of conduct rules.

Also for Duke's IT group, Mr. Baryenbruch developed a performance measurement process that includes benchmarking and metrics relevant to internal customers. The focal point of this information is the enterprise IT scorecard which shows the performance of the central IT group and several business unit IT groups. The scorecard is presented to the senior management IT governance committee twice annually.

Resume of Patrick L. Baryenbruch

- *Entergy's Nuclear Operations Business Unit* – Mr. Baryenbruch designed a performance-based incentive rate proposal for the River Bend Nuclear Plant, which was acquired by Entergy when they purchased Gulf States Utilities during the mid-1990s. The proposed rate would have provided Entergy with additional revenues in return for capacity factor improvements and operating cost reductions.

For Entergy Nuclear, Mr. Baryenbruch implemented an activity-based budgeting system for the Grand Gulf Nuclear Plant. He devised the budget concepts, developed the new budget system, conducted training for plant management and staff, and oversaw the preparation of the first activity-based budget.

Also for Entergy Nuclear Mr. Baryenbruch developed an improved economic evaluation process for nuclear plant modification projects. The end-product of this assignment was a process for classifying projects, conducting a net present value analysis and force-ranking projects to facilitate management selection.

- *Commission-Order Audits* – Mr. Baryenbruch has participated in the following commission-ordered audits of utilities:

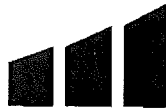
- Atlantic Electric Company (management audit)
- Choptank Electric Cooperative (management audit)
- Chugach Electric Cooperative (management audit)
- City Utilities of Springfield, Missouri (management audit)
- City of Los Angeles Department of Water and Power (management audit)
- Commonwealth Edison Company (management audit)
- Connecticut Light & Power Company (management audit)
- General Telephone Company (management audit)
- General Water Works Corporation (management audit)
- Kentucky Utilities Company (management audit)
- Niagara Mohawk Power Corporation (management audit)
- Pacific Gas & Electric Company (affiliate transactions audit)
- Pennsylvania Power Company (management audit)
- Peoples Gas Light Company (management audit)
- Philadelphia Electric Company (nuclear plant prudence audit)
- Philadelphia Gas Works (management audit)
- Philadelphia Suburban Water Company (management audit)
- Public Service Electric & Gas Company (management audit)
- Rochester Gas & Electric Corporation (management audit)
- Rockland Electric Company (management audit)
- Southern California Edison Company (affiliate transactions audit)
- United Telephone Company (management audit).

- *Carolina Power & Light* (operating company of Progress Energy) – Mr. Baryenbruch help implement a new budget system and related processes at the Company's three nuclear plants and in the corporate Nuclear staff organization. He later designed and implemented monthly budget variance reports for the Nuclear Generation Group's management team. He also designed and implemented a weekly outage reporting system for each nuclear plant to track the budget and schedule status of outage projects.

For Carolina Power & Light's IT group, Mr. Baryenbruch assisted in development of a process management approach and designed a customer service/marketing program that featured customer research, market segmentation, product and service performance monitoring and customer satisfaction measurement.

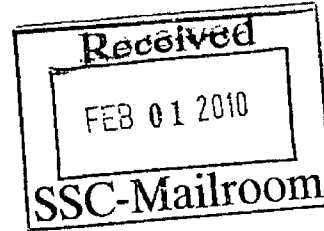
Resume of Patrick L. Baryenbruch

- *Texas Utilities* – Mr. Baryenbruch served as a lead consultant in Metzler & Associate's prudence preparation engagement for the Comanche Peak Steam Electric Station. In this role, he supported the company's planning, training, and preparation of responses to retrospective audit inquiries.
- *Tennessee Valley Authority* – Mr. Baryenbruch was engaged by TVA to perform several consulting assignments. He evaluated the budgeting and variance reporting program for the Nuclear Generation Group. He assessed the inventory management program for the Generation and Customer Groups. He also determined the feasibility of bar code technology for managing the inventory of a large distribution facility. This project developed a new receiving, storing, staging and issuance process to accompany the new bar code environment. Vendors were evaluated and the top five finalists sent requests for bid.



Baryenbruch & Company, LLC

Management Consultants



January 29, 2010

APV
14004325
Inv 012910
A23UPOJ
AMT 26025.00

Kentucky American Water Company
Attn: Mr. Michael Miller
P.O. Box 5610
Cherry Hill, New Jersey 08034

2009 Service Company Market Cost Comparison Study

September 2009 - December 2009

	Hours	Rate	Amount
Fees			
Sep-09	14.0		
Oct-09	21.5		
Nov-09	59.5		
Dec-09	16.0		
Total Hours/Fees	111.0	\$235	\$26,085
Expenses			
Total Invoice			<u>\$26,085</u>

Note: Not-to-exceed budget is: \$27,700

Terms: net 30

[Faint, illegible text]

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller/Patrick Baryenbruch**

86. Identify and provide a copy of all communications between (1) Mr. Baryenbruch and his firm and (2) KAWC and KAWC affiliates.

Response:

See the attached e-mails applicable to the current case.

For the electronic version, refer to KAW_R_AGDR1#86_042610.pdf.



Mike Miller/MVAWC/AWWSC

04/09/2010 03:01 PM

To Linda Bridwell/KAWC/AWWSC@AWW, Lance E Williams/KAWC/AWWSC@AWW,
Keith L Cartier/KAWC/AWWSC@AWW, pat@patrickbaryenbruch.com,
pherbert@gfnet.com, jspanos@gfnet.com, ed@math.wustl.edu,
cc Deborah A Degillio/ADMIN/CORP/AWWSC@AWW, Nick
Rowe/KAWC/AWWSC@AWW, Paul Foran/ADMIN/CORP/AWWSC@AWW,
l.ingram@skofirm.com, A W Turner/ADMIN/CORP/AWWSC@AWW, Louise G

Subject PSC Staff DR2

Attached below are the master list of question and the DR assignment file for the KY PSC Staff Second Set of DR's. Gina and Bryan please note I assigned several to you jointly because they require several years of historical budget information and Bryan will likely have to assist in finding that data. We will follow this up with the individual "word" documents for the responses as soon as they are available.

These response are due April 30. In order to complete these along with the heavy AGDRI work load please send them in individually as soon as complete. In addition we have a over 50 from LFUCG that we will be sending out shortly. It is imperative that we all work on this ASAP in order to



meet the deadline which is not flexible. If you have questions please do not hesitate to contact Sheila or myself. PSC 2 Assignments.xls



PSC Staff Second Set as received 4-09-10.pdf

Michael A. Miller
American Water Works Service Co.
P.O. Box 1906
Charleston, WV 25327
Office: 304-340-2009
Cell: 304-552-6419
Fax: 304-353-6332

Mike Miller/WVAWC/AWWSC
04/09/2010 05:20 PM

To Linda Bridwell/KAWC/AWWSC@AWW, Keith L Cartier/KAWC/AWWSC@AWW,
Lance E Williams/KAWC/AWWSC@AWW, Donna Taylor/KAWC/AWWSC@AWW,
pherbert@gfnet.com, Steven Snowden/SERVCO/AWWSC@AWW, David
cc Sheila Miller/WVAWC/AWWSC@AWW, lbrooks@amwater.com, Louise G
Magee/ADMIN/CORP/AWWSC@AWW, A W Turner/ADMIN/CORP/AWWSC@AWW,
l.ingram@skofirm.com, Deborah A Degillio/ADMIN/CORP/AWWSC@AWW, Nick
bcc

Subject LFUCG DR's

Attached below are the files with the questions form the LFUCG along with the assignment list. Again these are due by April 30 and along with the high volume of DR's from the AG, Staff and CAC we need you to begin work on these ASAP. Please submit as you complete each one, in order for us to keep the process moving and have accurate status of where we stand. This is the only way we can create the electronic files in pdf, put on the naming conventions, etc. I know we are asking a lot, but we have no flexibility. Thanks for your consideration, help and support.



LFUCG assignments.xls LFUCG 1 Question Forms.zip

Michael A. Miller
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Fax: 304-353-6332



Mike Miller/WVAWC/AWWSC
04/06/2010 12:33 PM

To Linda Bridwell/KAWC/AWWSC@AWW, Keith L Cartier/KAWC/AWWSC@AWW, Nick
Rowe/KAWC/AWWSC@AWW, Lance E Williams/KAWC/AWWSC@AWW,
pat@patrickbaryenbruch.com, pherbert@gfnet.com, jspanos@gfnet.com,
cc .ingram@skofirm.com, Sheila Miller/WVAWC/AWWSC@AWW,
lbrooks@armwater.com, Paul Foran/ADMIN/CORP/AWWSC@AWW
bcc

Subject First Set of KY AG DR's

Attached you will find a word file containing the 466 DR's submitted by the KY AG, and an excel file containing the assignments for responding to each of the DR's. We are currently in the process of creating a word document for each of the DR's which we will forward to the responsible party.

This is a massive request and includes many duplicate requests which we have attempted to identify on the assignment file. The responses need to be filed electronically with the PSC by April 26. Three weeks is not a lot of time to accomplish the amount of work required to answer the questions and develop schedules, etc. that accompany the responses. In addition, there will be a tremendous amount of work for internal & external council and me to review and edit the response, and to PDF and provide the naming conventions required for the electronic filing. It will simply be impossible to meet this deadline if all the responses come to this office in the last week or last few days. In addition, we expect a significant amount of additional DR's from the PSC Staff, LFUCG, CAC and possibly the industrials customers this Friday which will be due on April 29.

It is imperative that you start to work on each of your assignments immediately. Please do not hold any response for review, there will be sufficient review by this office and legal counsel. As we get the responses in this office Lisa will format them, I will review them, and then we will put them in the mindport software system which will make them available to legal council for review. Any editing done in these reviews will be relayed to the responsible party prior to final completion. In order to meet this deadline, please submit each response as soon as it is complete or at least all DR's completed each day. This is the only way we are going to meet the deadline.

The drop dead date for stragler responses should be April 22, this should be the exception for those DR's that take a good amount of time to prepare or coordinate the response

Some DR's may require coordination among several of you, we have tried to identify those on the assignment list, by indicating multiple parties in the assignment.

Please submit the responses to me, and copy Sheila and Lisa so that they can log them into the tracking system. Please make sure the title of the e-mail identifies the question(s) number of each response attached to the e-mail.

Please do not hesitate to call me with questions, and please immediately notify me of any problems or concerns about providing a timely response.

Thanks in advance for the cooperation and effort it will take to complete these tasks.



oag dr 040510.docx Assignments.xls



Michael A. Miller
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Charleston, WV 25327
Office: 304-340-2009
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Mike Miller/MVAWC/AWWSC
02/12/2010 05:53 PM

To "Patrick Baryenbruch" <pat@patrickbaryenbruch.com>@AWX
cc David.Weber@amwater.com, Jim.Bozman@amwater.com
bcc
Subject Re: FRCC Charges to KAWC

I am a little concerned that the FRCC is not closer to the \$253,000 indentified in your study we reviewed yesterday. I don't understand what the remaining customer accounting charges from the regional level are if not the FRCC. I will follow-up with Dave and Jim on Monday. Dave maybe you could just give me a call on Monday morning when you open this. Thanks.

Michael A. Miller
American Water Works Service Co.
P.O. Box 1906
Charleston, WV 25327
Office: 304-340-2009
Cell: 304-552-6419
Fax: 304-353-6332

"Patrick Baryenbruch" <pat@patrickbaryenbruch.com>



"Patrick Baryenbruch"
<pat@patrickbaryenbruch.com>
02/12/2010 03:33 PM

To <Jim.Bozman@amwater.com>
cc <David.Weber@amwater.com>, <Mike.Miller@amwater.com>
Subject FRCC Charges to KAWC

Jim,

As we discussed, I am sending this email to document the results of our phone call in which we determined how to tabulate the FRCC's charges to KAWC during the year ended September 30, 2009.

Essentially, we decided FRCC's charges to KAWC are included in the following:

Function: Customer Service
Office: Southeast Region
Business Unit (WDJMCU01): CORP-Admin & Gen
Formulas: 100053 (FRCC supervisor labor without benefits overhead) and 100061 (FRCC staff labor without benefits overhead)

Using the Service Company charge detail database, I created the following pivot table that shows the total FRCC labor charges to KAWC was \$66,368. To that I add an assumed 50% for benefits to arrive at a total cost of \$99,552.

Mike, this takes KAWC's customer account services cost per customer from \$30.49 to \$29.65. We are closer to the average of \$27.07 and now tied with Duke Energy Kentucky. When the IOUs 2009 Form 1s are filed in May, they may show us closer to that average because we will then be comparing our 2009 against their 2009. I will incorporate this change into my report.

Again, I wanted to send this note so everyone would understand how I arrived at my adjustment for this benchmark comparison.

Thanks Jim. Have a good weekend.

Pat



Mike Miller/WVAWC/AWWSC
12/22/2009 02:48 PM

To "Patrick Baryenbruch" <pat@patrickbaryenbruch.com>@AWX
cc
bcc
Subject Re: KAWC Report 

I had a chance to start looking at the first few pages, not gotten that far. make the changes and send me the revised version.

Michael A. Miller
American Water Works Service Co.
P.O. Box 1906
Charleston, WV 25327
Office: 304-340-2009
Cell: 304-552-6419
Fax: 304-353-6332

"Patrick Baryenbruch" <pat@patrickbaryenbruch.com>



"Patrick Baryenbruch"
<pat@patrickbaryenbruch.com>
12/22/2009 01:44 PM

To "Michael A. Miller" <mike.miller@amwater.com>
cc
Subject KAWC Report


Mike,

I noticed a few corrections to the draft I sent last Friday. Have you all started reviewing the document? If not, I will send you an updated version. The changes are not significant (don't change conclusions), just some cleanup items. Let me know if you would like the updated draft or if I should hold it until later. Thank you.

Pat



Mike Miller/WVAWC/AWWSC
12/16/2009 04:27 PM

To "Patrick Baryenbruch" <pat@patrickbaryenbruch.com>@AWX
cc
bcc
Subject Re: KAWC Study FYI 

Thanks Pat, I am happy you worked it out and it is always more important to be precise. The slight delay is no problem.

Michael A. Miller
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P.O. Box 1906
Charleston, WV 25327
Office: 304-340-2009
Cell: 304-552-6419
Fax: 304-353-6332

"Patrick Baryenbruch" <pat@patrickbaryenbruch.com>



"Patrick Baryenbruch"
<pat@patrickbaryenbruch.com>
12/16/2009 04:23 PM

To "Michael A. Miller" <mike.miller@amwater.com>
cc
Subject KAWC Study FYI

Mike,

Dave Weber and I were able to determine that account 534999 General Overhead contains a great deal of software and hardware expenses that should not be included in my calculation of the Service Company's hourly rates. I will incorporate this adjustment into my calculations, develop a final set of hourly rates and update/finalize my report by 10:00 on Friday, Dec 18. Sorry this is later than my original draft due date but the results will be much more accurate.

Thank you.

Pat

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Patrick Baryenbruch

87. Refer to the Baryenbruch report and testimony. Were any categories of Service Company hourly charges higher than any outside service providers? If so, please identify all such instances.

Response:

No.

For the electronic version, refer to KAW_R_AGDR1#87_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Keith Cartier

88. Is KAWC using outside service providers for any services that the Service Company is capable of providing? If so, please explain why and identify the specific services, their cost by account, how they were accounted for in the 12 month period ending 9/30/09.

Response:

No. KAW does use contractors for services such as major construction engineering design, special rate studies, expert rate area testimony, or other special projects as they arise.

For the electronic version, refer to KAW_R_AGDR1#88_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller/Patrick Baryenbruch**

89. For each Service Company cost element that was compared or evaluated for the period ending 9/30/2009 by Baryenbruch, please identify: (1) KAWC's actual cost or expense by account for the 12 months ending 9/30/2009; (2) KAWC's comparable budgeted or forecast cost by account for the future test year; and (3) the amount of increase in such cost from the period ending 9/30/2009 to the period ending 9/30/2011.

Response:

Please see the attached.

For the electronic version, refer to KAW_R_AGDR1#89_042610.pdf.

Kentucky American

Sum of Amount		Date		
Object	Object Description	12Mth Actual Sep 2009	12Mth Budget Sep 2011	Difference
501200	Labor	\$3,689,267	\$3,638,387	(\$50,880)
501203	Labor Internal Recharge	(\$182)	(\$37,692)	(\$37,509)
501210	Labor Non Scheduled Overtime	\$34,082	\$23,284	(\$10,798)
501211	Labor Overtime	\$39,659	\$28,003	(\$11,657)
501711	Incentive Plan-Off-Annual	\$373,789	\$391,863	\$18,073
501712	Incen Plan-Off-Long Term	(\$40,269)		\$40,269
501715	Retention/Completion	\$2,136		(\$2,136)
501716	Compensation Exp-Options	\$75,746	\$102,235	\$26,489
501718	Compensation Exp-Restricted Stock Units	\$72,555	\$107,089	\$34,534
501719	Comp Exp-Notional Div	\$0		(\$0)
504100	Group Ins Maintenance	\$507,655	\$669,545	\$161,889
504341	Defined Contr Supp Exec Retirement Plan Exp	\$1,709	\$5,360	\$3,651
504342	401 K Restoration Exp	\$1,315		(\$1,315)
504500	Other Welfare Maintenance	\$61,321	\$31,901	(\$29,420)
504610	Employee Awards	\$7,351	\$9,381	\$2,030
504620	Employee Physical Exam	\$375	\$3,656	\$3,281
504660	Tuition Aid	\$14,348	\$19,958	\$5,610
504670	Training	\$19,206	\$32,550	\$13,343
504671	Training-Safety		\$4	\$4
505100	PBOP	\$138,786	\$114,840	(\$23,946)
506100	Pension	\$647,442	\$539,052	(\$108,390)
507100	401k	\$71,881	\$80,233	\$8,353
508101	Defined Contribution Plan	\$73,238	\$80,875	\$7,638
508200	ESPP Oper AG	\$6,619		(\$6,619)
520100	Materials & Supplies Operations	\$188	\$8	(\$180)
531000	Contract Services-Engineering	\$26,639	\$26,760	\$121
532000	Contract Services-Accounting	\$10,034	\$8,657	(\$1,377)
533000	Contract Services-Legal	\$20,100	\$35,773	\$15,672
533001	Contract Services-Litigation	(\$0)	(\$0)	(\$0)
535000	Contract Services-Other	\$474,765	\$329,073	(\$145,692)
535001	Contract Services-Temp Employee	\$130,983	\$69,822	(\$61,161)
536000	Contract Services-Lab Testing	(\$11,507)	(\$11,070)	\$436
541000	Rents-Real Property	\$168,374	\$252,497	\$84,123
541001	Rents-Real Property Intercompany	\$93,322	\$44,184	(\$49,138)
541400	Rents-Equipment	\$9,862	\$20,904	\$11,042
541401	Rents-Real Prop Interco	\$3,077		(\$3,077)
550000	Transportation IT-Admin	\$13,928	\$19,035	\$5,107
550001	Transportation Lease Cost	\$14,812	\$16,486	\$1,674
550002	Transportation Lease Fuel	\$7,729	\$8,147	\$418
550003	Transportation Lease Maintenance	\$2,821	\$4,419	\$1,598
556000	Insurance Vehicle	\$342	\$461	\$119
557000	Insurance Gen Liability	\$60,164	\$90,625	\$30,461
558000	Insurance Work Comp	\$19,143	\$21,850	\$2,707
559000	Insurance Other	\$19,144	\$2,095	(\$17,049)
570100	Uncollectible Accounts	(\$257)		\$257
575000	Miscellaneous	(\$20,494)	(\$23,323)	(\$2,829)

Kentucky American

Sum of Amount	Object	Object Description	Date	12Mth Actual Sep 2009	12Mth Budget Sep 2011	Difference
	575002	Misc General Office		\$5,327	\$7,354	\$2,027
	575030	Advertising		\$11,327	\$11,909	\$583
	575100	Bank Service Charges		\$0	(\$0)	(\$0)
	575130	Brochures and Handouts		\$3,023	\$8,226	\$5,204
	575140	Charitable Contributions Deduct		\$4,763	\$4,661	(\$102)
	575141	Charitable Contributions Nondeductible		\$63	\$67	\$4
	575220	Community Relations		\$348	\$3,499	\$3,151
	575240	Co Dues/Membership Deduct		\$2,631	\$1,426	(\$1,205)
	575241	Co Dues/Membership Nondeductible		\$342	\$1	(\$341)
	575242	Co Dues Deduct AWWA		\$24		(\$24)
	575243	Co Dues Nondeductible AWWA			\$0	\$0
	575250	Condemnation Costs		\$109		(\$109)
	575260	Credit Line Fees		\$2		(\$2)
	575261	Credit Line Fees Inside		\$1,026	\$73	(\$953)
	575280	Dues/Membership Deductible		\$17,843	\$23,961	\$6,118
	575281	Dues/Membership Nondeduct		\$5		(\$5)
	575320	Electricity		\$34,996	\$36,453	\$1,457
	575340	Employee Expense P/R JE		\$118,038	\$144,857	\$26,819
	575342	Employee Exp Conf/Registration		\$10,171	\$23,213	\$13,042
	575350	Meals Deduct		\$13,417	\$21,422	\$8,005
	575351	Meals Non Deduct		\$13,151	\$20,587	\$7,435
	575420	Forms		\$215	\$657	\$441
	575460	Grounds Keeping		\$218	\$456	\$238
	575480	Heat - Oil/Gas		\$2,256	\$2,317	\$61
	575500	Janitorial		\$10,333	\$10,743	\$410
	575545	Lab Supplies		\$10	\$7,485	\$7,475
	575610	Merger Transactional Costs		\$1		(\$1)
	575620	Office & Admin Supplies		\$69,688	\$65,242	(\$4,447)
	575625	Overnight Shipping		\$11,127	\$15,318	\$4,191
	575640	Penalties Nondeductible		\$652	\$81	(\$571)
	575660	Postage		\$10,185	\$10,451	\$266
	575670	Relocation Expenses		\$27,431	\$32,946	\$5,515
	575680	Research & Development Exp			\$29	\$29
	575710	Security Service		\$3,494	\$3,704	\$210
	575715	Software Licenses & Support		\$25,345	\$28,904	\$3,559
	575740	Telephone		\$74,668	\$66,078	(\$8,591)
	575741	Cell Phone		\$13,674	\$22,512	\$8,838
	575742	Data Lines		\$49,682	\$36,235	(\$13,447)
	575743	Wireless Service 1st		\$79	(\$34)	(\$113)
	575775	Trade Shows		\$6,034	\$4,504	(\$1,530)
	575780	Trash Removal		\$1,526	\$1,421	(\$105)
	575998	PCard Undistributed		\$2,462	\$1,355	(\$1,107)
	575999	Purchased Card			\$0	\$0
	620000	Materials & Supplies Maintenance		\$1,197	\$214	(\$983)
	675000	Misc Maintenance		\$224,535	\$281,991	\$57,456
	675250	Comp Equip Hardware		\$2,622	\$3,519	\$897

Kentucky American

Sum of Amount		Date		Difference
Object	Object Description	12Mth Actual Sep 2009	12Mth Budget Sep 2011	
675350	HVAC Equipment	\$3,919	\$4,159	\$240
675450	Office Equipment	\$325	\$544	\$219
680112	Depreciation Exp-Non Utility	\$742,815	\$855,845	\$113,029
685200	Property Taxes	\$414	\$5,331	\$4,917
685320	FUTA	\$2,399	\$2,680	\$281
685325	FICA	\$262,150	\$269,769	\$7,618
685350	SUTA	\$13,687	\$17,974	\$4,287
685430	Other Taxes and Licenses	\$59	\$154	\$95
690110	FIT-Current	\$27,347	(\$112,304)	(\$139,651)
690120	FIT-Prior Year Adj	\$78,623		(\$78,623)
690210	SIT-Current	\$0	\$1,021	\$1,021
690220	SIT-Prior Year Adj	\$21,072		(\$21,072)
690610	Def FIT-Current	\$0	(\$1,062)	(\$1,062)
690620	Def FIT-Pr Yr Adj	(\$75,546)		\$75,546
690630	Def FIT-Reg Asset		\$49,577	\$49,577
690640	Def FIT-Norm Depr	\$0		\$0
690650	Def FIT-Other	(\$30,765)	\$60,556	\$91,321
690710	Def SIT-Current	\$0	\$21	\$21
690720	Def SIT-Pr Yr Adj	(\$20,168)		\$20,168
690750	Def SIT-Other	(\$684)	(\$1,120)	(\$436)
710400	Interest Income-Outside		\$340	\$340
710500	Interest Income-Inside	(\$342)	(\$578)	(\$236)
721304	Gains/(losses) NUP Disposal	\$5,469		(\$5,469)
722306	Gains Other Non-OR	(\$6,709)		\$6,709
760100	Donations Deduct	\$3		(\$3)
760500	Non-Op Empl Exp Deduct	\$13		(\$13)
810300	Interest Cap Lease-Outside	\$50	\$3	(\$47)
810301	Interest Cap Lease-AW02	\$140,979	\$132,376	(\$8,603)
830100	Interest STD Inside	\$2,051	\$1,592	(\$459)
840000	Other Interest Expense	\$2,031	\$1,419	(\$612)
Grand Total		\$8,784,435	\$8,949,065	\$164,629

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Patrick L. Baryenbruch

90. Is Mr. Baryenbruch expressing any opinion on any KAWC or Service Company costs beyond 9/30/2009? If not, explain fully why not. If so, please state such opinions and provide all of the analysis relied upon.

Response:

Mr. Baryenbruch's evaluation of the reasonableness of Service Company charges to KAWC is based on an analysis of actual expenses incurred during the 12 months ended September 30, 2009. It is his policy to use actual data from official client records, such as the general ledger, to perform his market cost studies. This provides the opportunity for all parties to verify the source of data. Historical data also aligns with a rate case, which generally starts with actual incurred expenses that may be adjusted for purposes of determining future revenue requirements.

For the electronic version, refer to KAW_R_AGDR1#90_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Patrick L. Baryenbruch**

91. Refer to the Baryenbruch & Company report at page 11. (a) Please explain why the annual service company costs per customer for each of these companies is so much higher than the average: (1) PHI, (2) Entergy; (3) Allegheny; (4) Northeast; (5) Nat Grid; and (6) Duke. (b) Is a per customer Service Company cost that is so much higher than the average an indication of unreasonableness of such cost? If not, explain fully why not. If so, please explain fully.

Response:

(a) The data for this comparison comes from FERC Form 60 – Annual Report of Centralized Service Companies. Every centralized service company in a holding company system must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and 18 C.F.R. paragraph 366.23. The Form 60 is designed to collect financial information from service companies that are subject to regulation by the FERC.

Information in Form 60 is sufficient to make an overall cost per customer comparison among service companies. The Form 60 does not, however, contain the highly detailed information required to pinpoint all the specific reasons for differences among filing service companies. Thus, it is not possible to answer exactly why some service companies have a higher per customer cost. In order to make that determination, an extensive benchmarking study would be required. This would entail considerable time and expense to organize teams of personnel from each service company to document their respective processes, estimate their process costs, meet to compare process information and identify the reasons for cost differences. Mr. Baryenbruch has participated in such benchmarking studies for clients and can attest that such a lengthy and labor intensive study is neither practical nor necessary for purposes of evaluating the reasonableness of the Service Company's charges to KAWC.

(b) As discussed in (a) above, the Form 60 does not contain the highly detailed financial and operational data that would be required to identify the exact reasons one service company's costs are different than another's. Mr. Baryenbruch uses the overall service company cost per customer comparison, one of several data points, to conclude as to the reasonableness of a client regulated utility's charges from service company affiliates.

For the electronic version, refer to KAW_R_AGDR1#91_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Patrick L. Baryenbruch

92. Refer to the Baryenbruch & Company report at page 11. (a) Please explain why the annual service company costs per customer for each of these companies is so much lower than the average: (1) Great Plains; (2) Black Hills; (3) Energy East; (4) NiSource; (5) Alliant; (6) Xcel; (7) AEP; (8) FirstEnergy; (9) Progress; (10) Ameren. (b) Is a per customer Service Company cost that is so much lower than the average an indication of reasonableness of such cost or of good management? If not, explain fully why not. If so, please explain fully.

Response:

(a) The data for this comparison comes from FERC Form 60 – Annual Report of Centralized Service Companies. Every centralized service company in a holding company system must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and 18 C.F.R. paragraph 366.23. The Form 60 is designed to collect financial information from service companies that are subject to regulation by the FERC.

Information in Form 60 is sufficient to make an overall cost per customer comparison among service companies. The Form 60 does not, however, contain the highly detailed information required to pinpoint all the specific reasons for differences among filing service companies. Thus, it is not possible to answer exactly why some service companies have a higher or lower per customer cost. In order to make that determination, an extensive benchmarking study would be required. This would entail considerable time and expense to organize teams of personnel from each service company to document their respective processes, estimate their process costs, meet to compare process information and identify the reasons for cost differences. Mr. Baryenbruch has participated in such benchmarking studies for clients and can attest that such a lengthy and labor intensive study is neither practical nor necessary for purposes of evaluating the reasonableness of the Service Company's charges to KAWC.

(b) As discussed in (a) above, the Form 60 does not contain the highly detailed financial and operational data that would be required to identify the exact reasons one service company's costs are different than another's. Mr. Baryenbruch uses the overall service company cost per customer comparison, one of several data points, to conclude as to the reasonableness of a client regulated utility's charges from service company affiliates.

For the electronic version, refer to KAW_R_AGDR1#92_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Patrick L. Baryenbruch

93. Refer to the Baryenbruch & Company report at page 11. Please explain why KAWC's cost per customer is so much higher than these three comparables: (1) Great Plains; (2) Black Hills; (3) Energy East.

Response:

Information in Form 60 is sufficient to make an overall cost per customer comparison among service companies. The Form 60 does not, however, contain the highly detailed financial and operational data required to pinpoint all the specific reasons for differences between service companies. Thus, it is not possible to answer exactly why these service companies have a lower per customer cost than KAWC's Service Company charges per customer. In order to make that determination, an extensive benchmarking study would be required. This would entail considerable time and expense to organize teams of personnel from each service company to document their respective processes, estimate their process costs, meet to compare process information and identify the reasons for cost differences. Mr. Baryenbruch has participated in such benchmarking studies for clients and can attest that such a lengthy and labor intensive study is neither practical nor necessary for purposes of evaluating the reasonableness of the Service Company's charges to KAWC. Mr. Baryenbruch uses the overall service company cost per customer comparison as one of several datapoints to conclude as to the reasonableness of a client regulated utility's charges from service company affiliates.

For the electronic version, refer to KAW_R_AGDR1#93_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Patrick L. Baryenbruch

94. Refer to the Baryenbruch & Company report at page 30. Please explain why KAWC's cost per customer is so much higher than these comparables: (1) Louisville Gas & Electric; (2) Interstate Power & Light; (3) Virginia Electric Power; (4) Monongahela Power; (5) Dayton Power & Light; (6) Ohio Edison; (7) Cleveland Electric Illuminating; (8) Indianapolis Power & Light; (9) Union Electric; (10) Illinois Power; (11) Aquila; (12) Toledo Edison; (13) Central Illinois Public Service; (14) Wheeling Power.

Response:

The neighboring electric utility cost information used in the customer account services cost comparison comes from the FERC Form 1 that these utilities must file. The calculation of their per customer costs is based on amounts recorded in FERC Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. The Form 1 does not, however, contain the highly detailed financial and operational data required to pinpoint all the specific reasons for differences between KAWC and these neighboring utilities. In order to make that determination, an extensive benchmarking study would be required. This would entail considerable time and expense to organize teams of personnel from each service company to document their respective processes, estimate their process costs, meet to compare process information and identify the reasons for cost differences. Mr. Baryenbruch has participated in such benchmarking studies for clients and can attest that such a lengthy and labor intensive study is neither practical nor necessary for purposes of evaluating the reasonableness of the Service Company's charges to KAWC. Mr. Baryenbruch uses the customer account services cost per customer comparison as one of several datapoints to conclude as to the reasonableness of a client regulated utility's charges from service company affiliates.

For the electronic version, refer to KAW_R_AGDR1#94_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Patrick L. Baryenbruch**

95. Refer to the Baryenbruch & Company report at page 30. Is a per customer Customer Accounts cost that is so much lower than the average an indication of reasonableness of such cost or of good management? If not, explain fully why not. If so, please explain fully.

Response:

As discussed in AG 94, FERC Form 1 does not contain the highly detailed financial and operational data required to isolate all the specific reasons for differences between KAWC and the neighboring utility group used in the customer account services cost comparison. Thus based on FERC Form 1 data, it is not possible to conclude that the utility with the lowest average cost is necessarily the most efficient. Accounting policies could impact the cost per customer. For instance, differences in capitalization policies will cause one utility to expense an item to FERC account 903 while another utility may capitalize the item as an asset and subsequently depreciate the asset.

In general, Mr. Baryenbruch's standard for concluding on the reasonableness of affiliate charges is based on whether those costs fall within the range of an appropriate comparison group. The source of Mr. Baryenbruch's comparisons is publicly available data rather than proprietary databases that may not be available for examination due to contractual reasons. Given this comparative data criteria, Mr. Baryenbruch utilizes three external comparisons: (1) utility service company cost per customer, (2) American Water Service Company' hourly rates compared to outside service providers, and (3) neighboring electric utility customer account services cost per customer. The combination of these comparisons and evaluation standards allow Mr. Baryenbruch to conclude as to the reasonableness of affiliate service company charges.

For the electronic version, refer to KAW_R_AGDR1#95_042610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Michael A. Miller/Keith Cartier

96. Does KAWC or its affiliates including the affiliated Service Company have any information concerning how KAWC's expenses in total or on a per customer basis compare with other American Water Works water utility subsidiaries? If not, explain fully why not. If so, please provide all such information for 2008 and 2009 that KAWC and its affiliates have.

Response:

The Company objects to this request because it is vague, requests data that may not be available in the format requested, and is overly broad and potentially burdensome to produce. Notwithstanding the objection, the Company responds as follows.

Please see the attached schedule which provides the O&M expenses per connection for each of the AWW regulated subsidiary's water operations.

A review or conclusions reached from this unadjusted data are not valid for the rate making process unless many other factors are considered. The costs associated with operation of any water utility are unique and influenced by any number of factors which must be considered in order to arrive at any meaningful conclusions from the data. Each water system's costs are influenced by the following types of factors:

1. Multi-district vs. one combined operation
2. Size of system – economies of scale
3. Source of finished water – purchased supply (totally O&M expense) vs. owned treatment facilities (partially capital costs)
4. Source of raw water – ground water, surface water, purchased water (large impact on chemical usage and residuals costs)
5. Geography, Terrain, and Elevation – mountainous area creates higher power usage and costs, vs. flat service area, and the type of soil (rocky, sandy, etc.) impacts costs
6. The various tariff prices and structures of numerous electric utilities
7. Age of the system – impacts level of maintenance and replacement programs

8. Customer density – efficiency, more or less travel time, etc.
9. Union Contracts

While this list is not and is not intended to be all inclusive, it does provide examples of why the operating costs from one water system to another vary, however, it would be nearly impossible to quantify the impact of those variables.

KAW and AWW use the O&M cost per connection to identify basic trends among common or like system types. This data is considered informational and is not used exclusively in making business decisions.

For the electronic version, refer to [KAW_R_AGDR1#96_042610.pdf](#).

**American Water
O&M Expense per Connection
Water Only**

	<u>2008</u>	<u>2009</u>
CA	\$582	\$591
IL	\$455	\$480
IN	\$251	\$275
IA	\$245	\$273
KY	\$252	\$275
MD	\$454	\$455
MI	\$303	\$333
MO	\$236	\$247
NJ	\$360	\$385
NM	\$362	\$371
OH	\$410	\$436
AZ	\$395	\$400
PA	\$309	\$322
TN	\$328	\$314
VA	\$525	\$593
WV	\$340	\$349
LI	\$288	\$284
TX	\$591	\$492

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: **Michael A. Miller**

97. Please provide consolidating accounting information for American Water Works for 2008 and 2009. Please show the amounts for each subsidiary by account and all eliminations and adjustments in the consolidation.

Response:

The Company objects to this data request on the grounds that it seeks information that is not relevant to the rate case, is overly burdensome, is not public information and may impair the competitive advantage of non-regulated subsidiaries if disclosed. Notwithstanding the objections, the Company provides the following description of the audit and consolidation process.

The 2009 and 2008 audited financial statements (Annual Report) of American Water Works, Company, Inc (“Parent”) and be found at www.amwaterannualreport.com. The financial results of Kentucky American Water, its Parent, as well as other American Water subsidiaries are audited annually by PriceWaterhouseCoopers (“PWC”). As part of the audit process, PWC examines affiliated transactions and the company’s process for eliminating from the consolidated balance sheet any amounts that are related to the affiliated transactions in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). PWC made no note in its 2008 or 2009 audit report of any departures from GAAP related to the affiliated transactions.

Some of the affiliated balances that are eliminated in the consolidation process include, but are not limited to: the operating subsidiary debt issued from American Water Capital Corporation (“AWCC”) and the related investment on the balance sheet of AWCC, the equity of the operating subsidiaries and the related investment on the balance sheet of the Parent, and numerous transactions related to inter-company water sales, purchased water, accounts receivables and accounts payable.

For the electronic version, refer to [KAW_R_AGDR1#97_042610.pdf](#).

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: **Michael A. Miller**

98. For each KAWC and American Water Works pension plan for 2008, 2009 and 2010, please provide a list of the pension plan investments by category or type of investment, and please provide the earned return for each investment category for 2008 and 2009, and in total.

Response:

Please see the attached schedule.

For the electronic version, refer to KAW_R_AGDR1#98_042610.pdf.

American Water Pension Plan
(Dollars in thousands)

<u>2010</u>	<u>Beginning Value</u>	<u>Target Allocation</u>
Large Cap Equity	\$250,353	36%
Small Cap Equity	88,885	12%
International Equity	153,719	22%
Domestic Fixed-Income	195,248	30%
Cash & Equivalents	7,163	0%
Total Fund	<u>\$695,368</u>	<u>100%</u>

<u>2009</u>	<u>Ending Value</u>	<u>Earned Return for Year</u>
Large Cap Equity	\$250,353	26.66%
Small Cap Equity	88,885	38.55%
International Equity	153,719	27.44%
Domestic Fixed-Income	195,248	14.84%
Cash & Equivalents	7,163	0.00%
Total Fund	<u>\$695,368</u>	<u>25.15%</u>

<u>2008</u>	<u>Ending Value</u>	<u>Earned Return for Year</u>
Large Cap Equity	\$183,756	-36.94%
Small Cap Equity	62,290	-35.34%
International Equity	111,390	-42.87%
Domestic Fixed-Income	155,435	-7.93%
Cash & Equivalents	0	0.00%
Total Fund	<u>\$512,871</u>	<u>-25.06%</u>

<u>2008 and 2009</u>	<u>Annualized Return</u>
Large Cap Equity	-10.63%
Small Cap Equity	-5.35%
International Equity	-14.67%
Domestic Fixed-Income	2.83%
Cash & Equivalents	0.00%
Total Fund	-3.15%

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Michael A. Miller/Sheila Miller

99. Why is KAWC requesting CWIP in rate base in the current rate case? Explain fully.

Response:

It has been the practice of the Commission, except in circumstances specially requested by the utility (i.e. the KRS II CWIP in the 2008 rate case), that a 13-month average CWIP be included in rate base, with a corresponding calculation of AFUDC for that CWIP reflected in going-level revenues. The Company has filed its petition consistent with the prior Commission treatment of KAW in prior rate cases.

For the electronic version, refer to KAW_R_AGDR1#99_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

Witness: Lance Williams

100. Provide an itemization of each project that is included in KAWC's future test year request for inclusion of CWIP in rate base.

Response:

This information was provided in the Company's original application filing. Please refer to Exhibit 37, Schedule B-4 Page 2 of 2 which is referenced as KAW_R_APP_EX37B_022610 page 35 of 54. The excel version of this file was provided in response to KAW_R_AGDR1#1_042610 and labeled as file K_RB10.XLS under tab Sch B-4.

For the electronic version of this response, refer to KAW_R_AGDR1#100_042610.pdf.