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Decision 87 11 023 ORIGINAL NOV 13 1987

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into present and alternative methods of financing nuclear facility decommissioning costs.	OII 86 (Filed January 21, 1981)

Michael Gonzales, Attorney at Law, for Southern California Edison Company, and Jeff Guttero, Attorney at Law, for San Diego Gas & Electric Company, respondents.
James S. Rood, Attorney at Law, for the Public Staff Division.

OPINION
(PHASE 2)

The Tax Reform Act of 1984 added Section 468A to the Internal Revenue Code (the Code), to allow a utility to elect, under certain conditions, a current year federal income tax deduction for those future nuclear power plant decommissioning costs that are reflected in the utility's currently authorized revenue requirement. In California the regulated utilities affected by this statute are Southern California Edison Company (Edison), San Diego Gas & Electric Company (SDG&E), and Pacific Gas and Electric Company (PG&E), all respondents in this investigation.

In Phase 1 of this investigation (Decision (D.) 87-05-062) the Commission determined the schedule of annual payments to be made to a decommissioning fund over the estimated useful life of the San Onofre Nuclear Generating Station (SONGS) Unit Nos. 1, 2, and 3 and Palo Verde Nuclear Generating Station Unit Nos. 1, 2, and 3. That schedule is known as the Schedule of Ruling Amounts (SRAs). The SRAs are tax deductible. The Commission also determined the amounts that should be included in the cost of service for Edison and SDG&E for decommissioning costs for the years 1984 through 1987. The SRAs and cost of service amounts for PG&E were determined in other proceedings. Because the SRAs are tax deductible since 1984, but were not determined prior to 1987, the Internal Revenue Code permits amendments to prior tax returns to claim the deduction.

Phase 2 considers the 1988 revenue requirement for nuclear decommissioning costs and the ratemaking treatment for income tax benefits associated with the nuclear decommissioning cost tax deductions, 1984 through 1987, for Edison and SDG&E. PG&E's 1988 revenue requirement and tax benefits will be determined in other proceedings.

Edison submitted a schedule of state and federal income tax benefits available to Edison for nuclear decommissioning costs 1984-87 (see Appendix A) which shows a potential $38 million revenue reduction. Appendix A does not reflect a provision for a California income tax refund for 1984 because California Revenue and Taxation Code Section 24690, which allows California income tax deductions for nuclear decommissioning costs, is effective commencing with the 1985 tax year. However, because decommissioning costs of service for 1985 and 1986 were not determined until 1987, California income tax deductions for 1985 and 1986 nuclear decommissioning costs will not be available unless Section 24690 is amended to permit deductions applicable to those years. A bill to that effect is now before the Legislature and is expected to be enacted. It will permit the 1985 and 1986 deduction to be taken against 1987 income.

The income tax benefits shown for the 1984 through 1986 tax years are the tax benefits associated with the filing of amended federal income tax returns for the 1984 through 1986 tax years. The income tax benefits shown for the 1987 tax year are those benefits associated with the election of a current year income tax deduction for nuclear decommissioning costs which Edison will make in its 1987 federal and California income tax returns.

An amended federal income tax return, including an Election Statement, must be filed for each tax year (1984, 1985, and 1986) for which a retroactive nuclear decommissioning cost tax deduction is claimed, on or before the 90th day after receipt of the approved SRAs from the IRS for such tax years. The amended federal income tax returns for those years will constitute claims for refunds of federal income taxes. Edison anticipates filing those amended tax returns during 1987; however, if IRS approval of Edison's SRAs is delayed, Edison will file its amended tax returns in 1988.

Edison estimates its 1988 California jurisdictional revenue requirement for nuclear decommissioning costs for SONGS Units 1, 2, and 3 and Palo Verde Units 1, 2, and 3 at $106.5 million (see Appendix B). Appendix B identifies the adopted nuclear decommissioning costs as either "qualified" or "nonqualified" costs. Qualified nuclear decommissioning costs are deductible for both federal and state income tax purposes. Nonqualified nuclear decommissioning costs are not deductible for federal and state income tax purposes. The 1988 revenue requirement for Palo Verde No. 3 is shown for both a 1987 and 1988 commercial operations date, as it is not certain in which year it will begin operations.

The 1988 revenue requirement for nuclear decommissioning costs was determined by multiplying the qualified and nonqualified nuclear decommissioning costs by the appropriate net-to-gross multiplier. The 1988 net-to-gross multipliers for qualified and nonqualified nuclear decommissioning costs are set forth in Appendix C. These net-to-gross multipliers are based on the same factors (i.e., franchise fees, uncollectible accounts expense, and income taxes) used by Edison to develop the net-to-gross multiplier set forth in Edison's test year 1988 general rate case. Edison requests that the net-to-gross multipliers ultimately used to determine the 1988 revenue requirement for nuclear decommissioning costs reflect the same factors utilized in the net-to-gross multiplier adopted in its test year 1988 general rate case.

The 1988 net-to-gross multiplier of 1.0099 for qualified nuclear decommissioning costs reflects that for each $1.00 of qualified nuclear decommissioning costs revenue requirement in 1988, Edison will incur an incremental expense of $0.0099 in franchise fees and uncollectible accounts expense. The 1988 net-to-gross multiplier of 1.6868 for nonqualified nuclear decommissioning costs reflects that for each $1.00 of nonqualified nuclear decommissioning costs revenue requirement in 1988, Edison will incur an incremental expense of $0.6868 in franchise fees, uncollectible accounts expense, and federal and state income taxes.

Pursuant to the decision issued in Phase 1 of this proceeding, the 1988 revenue requirement for nuclear decommissioning costs adopted in this Phase 2 for SONGS Unit Nos. 1, 2, and 3 and Palo Verde Unit Nos. 1 and 2 will be included in the base rate 1988 revenue requirement adopted in Edison's test year 1988 general rate case. The 1988 revenue requirement for Palo Verde Unit No. 3 nuclear decommissioning costs adopted in this proceeding will be included in the revenue requirement for other Palo Verde Unit No. 3 costs, and reflected in rates pursuant to a Commission decision on Edison's Palo Verde Unit No. 3 application.

Edison proposes to flow through to its customers the income tax benefits associated with Edison's election of nuclear decommissioning income tax deductions for 1984 through 1987 as follows:

a. Ratemaking Treatment for SONGS Unit No. 1 Nuclear Decommissioning Income Tax Benefits

Edison proposes to credit the Electric Revenue Adjustment Account in the Electric Revenue Adjustment Mechanism (ERAM balancing account) with the income tax benefits to Edison's customers associated with SONGS Unit No. 1 nuclear decommissioning costs for 1985 through 1987.[1] The income tax benefits for these nuclear decommissioning costs are shown in Appendix A. Edison proposes to: (1) credit the ERAM balancing account with the 1985 and 1986 income tax benefits effective on the date Edison files its amended income tax returns for the 1985 and 1986 tax years; and (2) credit the ERAM balancing account with the 1987 income tax benefits effective December 31, 1987.

b. Ratemaking Treatment for SONGS Unit Nos. 2 and 3 Nuclear Decommissioning Income Tax Benefits

Edison proposes to credit the Major Additions Adjustment Account in the Major Additions Adjustment Clause (MAAC balancing account) with the income tax benefits to Edison's customers associated with SONGS Unit Nos. 2 and 3 nuclear decommissioning costs for 1984 through 1987. The income tax benefits for these nuclear decommissioning costs are shown in Appendix A. Edison proposes to: (1) credit the MAAC balancing account with the income tax benefits for 1984 through 1986 effective on the date Edison files its amended income tax returns for the 1984, 1985, and 1986 tax years; and (2) credit the MAAC balancing account with the 1987 income tax benefits effective December 31, 1987.

c. Ratemaking Treatment for Palo Verde Unit Nos. 1, 2, and 3 Nuclear Decommissioning Income Tax Benefits

Edison proposes to credit the Interim Major Additions Adjustment Account in the Interim Major Additions Adjustment Clause (IMAAC balancing account) with the income tax benefits to Edison's customers for Palo Verde Unit Nos. 1, 2, and 3 nuclear

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1 There are no income tax benefits to Edison's customers for the 1984 tax year because 1984 base rates reflected no income taxes for SONGS Unit No. 1 nuclear decommissioning costs.

decommissioning costs for 1986 and 1987.[2] The income tax benefits for these nuclear decommissioning costs are shown in Appendix A. The income tax benefits shown for Palo Verde Unit No. 3 are based on a COD of October 1, 1987. If Palo Verde Unit No. 3 begins commercial operation after October 1, 1987, the income tax benefits shown will be reduced. Edison proposes to: (1) credit the IMAAC balancing account with the 1986 income tax benefits for Palo Verde Unit Nos. 1 and 2 effective on the date Edison files its amended income tax returns for the 1986 tax year; and (2) credit the IMAAC balancing account with the 1987 income tax benefits effective December 31, 1987.

If Palo Verde Unit No. 3 begins commercial operation during 1987, the income tax benefits associated with the amount of Palo Verde Unit No. 3 nuclear decommissioning costs recorded in the IMAAC balancing account during 1987 will be credited to the IMAAC balancing account effective December 31, 1987.

If the IMAAC balancing account has been terminated pursuant to the Palo Verde Phase-In Procedure,[3] Edison will credit the ERAM balancing account with the nuclear decommissioning income tax benefits attributable to the Palo Verde units.

SDG&E

SDG&E followed, with slight modification, the methodology used by Edison. SDG&E's 1988 revenue requirement for its jurisdictional share of nuclear decommissioning costs of SONGS Nos.

2 There are no income tax benefits to Edison's customers for the 1984 and 1985 tax years because Palo Verde Unit Nos. 1 and 2 were not in commercial operation during those years.

3 Pursuant to the Palo Verde Phase-In Procedure adopted in D.86-10-023, dated October 1, 1986, Edison will withdraw its IMAAC tariff effective January 1, 1988, thereby terminating the IMAAC balancing account.

1, 2, and 3 is $22,157,000 (Appendix D, Column 5). The amounts in Appendix D are derived in the following manner:

1. Column 1 - shows the total 1988 qualified and nonqualified costs of decommissioning, increased for franchise fees, uncollectibles, and, for the nonqualified decommissioning costs, taxes, of $24,812,000.

2. Column 2 - shows a revenue requirement of $2,245,000 to compensate for a SONGS rate base increase of $12,686,000. The SONGS rate base will increase because prior decommissioning expense accruals have been treated as a deduction to rate base through the depreciation reserve. When cash payments are made to the trust funds the depreciation reserve will be decreased and the rate base will be increased.

3. Column 3 - shows the total 1988 decommissioning cost revenue requirement of $27,057,000.

4. Column 4 - shows the 1988 revenue requirement previously authorized of $4,900,000 (the 1986 rate case and the MAAC proceedings).

5. Column 5 - shows the net 1988 revenue requirement increase of $22,157,000.

SDG&E requests that (1) we adopt the 1988 revenue requirement for nuclear decommissioning costs of $27,057,000, subject to future adjustment of the 1988 rate of return as determined in SDG&E's 1988 attrition decision, (2) we authorize an increase in rates of $22,157,000, updated for the 1988 authorized rate of return, to recover the net revenue requirement, and 3) we implement the rate increase concurrently with the 1988 attrition rate changes.

As an offset to the proposed rate increase SDG&E estimates that it will return to customers $8,582,000 in tax benefits associated with the nuclear decommissioning tax deductions for 1984 through 1987, with the same caveats Edison raised.

PSD

PSD reviewed the proposals of Edison and SDG&E and, in general, agreed with them. PSD did, however, highlight potential adjustments which would be needed depending upon the timing of various filings and the outcome of pertinent Commission decisions.

PSD recommends that Edison's level of uncollectible accounts expense be that which is adopted in Edison's pending general rate case (A.86-12-047). Edison concurs. PSD agrees with the uncollectible accounts expense proposed by SDG&E.

All parties agree that the effective date for crediting the appropriate balancing accounts for the nuclear decommissioning income tax benefits should be the date amended income tax returns are filed, subject to adjustment to reflect actual income tax refunds ultimately approved by the IRS.

Pursuant to D.87-05-071 the ERAM for Large Light & Power (LL&P) customers is scheduled to be eliminated on April 1, 1988. PSD is concerned that LL&P customers will not receive their share of the tax refund should there be delays in filing for the refund. Edison does not expect this to occur as the IRS must act on approving SRAs prior to March 15, 1988 and that approval is the only item holding back the tax refund filing. Nevertheless, in the event the approval of SRAs is delayed and the utilities file after April 1, 1988, then the appropriate ECAC and MAAC balancing accounts will be credited with the tax benefits. PSD concurs in this.

Finally, PSD has recommended that the privilege year tax adjustment for the California Corporation Franchise Tax (CCFT) which is reflected in Edison's and SDG&E's computation of 1986 and 1987 nuclear decommissioning income tax benefits reflect the calculation of the privilege year tax adjustment adopted in the Commission's decision in OII 86-11-019, the Tax Reform Act of 1986 investigation. The privilege year tax adjustment is a procedure whereby the Commission has traditionally allowed, for ratemaking purposes, a test year or attrition year federal income tax deduction for CCFT applicable to such test year or attrition year, even though the federal income tax deduction cannot be claimed by the taxpayer until the following year. This ratemaking procedure is an issue in OII 86-11-019 because federal income tax rates are being lowered in tax years 1987 and 1988. Edison and SDG&E concur with PSD that the Commission's adopted position on the calculation of the 1986 and 1987 privilege year tax adjustments for CCFT in OII 86-11-019 be adopted in this proceeding and be used in the computation of income tax benefits available to the ratepayers. If a Commission decision has not been issued in OII 86-11-019 at the time the utilities credit the appropriate balancing accounts, such income tax benefit credits will be made on the basis of their position on the privilege year adjustment, which will be adjusted to reflect the Commission's ultimate decision in OII 86-11-019.[4]

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4 This decision was issued as a Proposed Decision to which Edison and SDG&E commented. Edison agreed with the Proposed Decision and recommended that Ordering Paragraph 1 be modified to conform with Conclusion of Law 2. We will do so. SDG&E commented that (i) the final decision should include language that would authorize SDG&E to recover an increase in its revenue requirement to reflect the change in net revenue requirement for nuclear decommissioning costs should the IRS not approve the SRAs as submitted and (ii) the revenue requirement should not be recovered in SDG&E's 1988 attrition year application but should be recovered through a tariff filing in this decision. SDG&E's requests are reasonable and the decision has been modified accordingly.

Findings of Fact

1. The annualized 1988 revenue requirement for nuclear decommissioning costs for Edison is:

	Qualified	Nonqualified
SONGS 1	$10,048,000	$19,678,000
SONGS 2	23,979,000	1,309,000
SONGS 3	34,345,000	
Palo Verde 1	5,611,000	
Palo Verde 2	5,460,000	
Palo Verde 3 (1987)	5,967,000	
Palo Verde 3 (1988)	6,054,000	
	$85,497,000[5]	$20,987,000

Total $106,484,000.[5]

2.a. Edison expects state and federal income tax benefits available to ratepayers for nuclear decommissioning costs as follows:

1984	$ 5,120,512
1985	9,527,697
1986	10,177,556
1987	13,159,191
Total	$37,984,956

b. The tax benefits are dependent upon the state tax code being amended to allow for 1985 and 1986 state tax deductions, IRS approval of the SRAs, and Palo Verde 3 beginning operations in 1987.

5 Based on 1988 Palo Verde 3 commercial operations date.

3. The annualized 1988 revenue requirement for nuclear decommissioning costs for SDG&E is:

		Qualified	Nonqualified
a.	SONGS 1	$ 2,871,000	$5,293,000
	SONGS 2	6,693,000	366,000
	SONGS 3	9,589,000	
		$19,153,000	$5,659,000

Total $24,812,000

b. In addition to the revenue requirement of para 3.(a) SONGS rate base will increase because prior decommissioning expense accruals have been treated as a deduction to rate base through the depreciation reserve. This will be revised when cash payments are made to the qualified fund. The revenue requirement for this adjustment is $2,245,000.

c. The total 1988 revenue requirement is $27,057,000.

4. Because SDG&E has already been allowed $4,900,000 in rates for nuclear decommissioning costs, its 1988 net revenue requirement for nuclear decommissioning costs is an increase of $22,157,000, which should be implemented concurrently with changes in rates for SDG&E's 1988 attrition change.

5.a. SDG&E expects state and federal income tax benefits available to ratepayers for nuclear decommissioning costs as follows:

1984	$1,345,836
1985	1,530,318
1986	2,727,197
1987	2,998,873
	$8,582,224

b. The tax benefits are dependent upon the state tax code being amended to allow for 1985 and 1986 state tax deductions and IRS approval of the SRAs.

Conclusions of Law

1. The annualized 1988 revenue requirements for nuclear decommissioning costs for Edison and for SDG&E set forth in Findings 1 and 3 are reasonable and are adopted.

2. Edison shall credit its ratepayers with its nuclear decommissioning income tax benefits as follows:

   a. For SONGS 1 credit the ERAM balancing account.

   b. For SONGS 2 and 3 credit the MAAC balancing account.

   c. For Palo Verde 1, 2, and 3 credit the IMAAC balancing account, if available, or if not, the ERAM balancing account.

3. SDG&E shall credit its ratepayers with its nuclear decommissioning income tax benefits by crediting those amounts to one or more balancing accounts applicable to all customers.

4. In calculating its level of uncollectible accounts expense factor Edison shall use that which is adopted in Edison's general rate case A.86-12-047.

5. The effective date for crediting the appropriate balancing accounts for the income tax benefits shall be the date amended tax returns are filed, subject to adjustment to reflect actual income tax refunds ultimately approved by the IRS.

6. The income tax benefits shall reflect the privilege year tax adjustment for CCFT adopted in the Commission's ultimate decision in OII 86-11-019. Prior to the decision in OII 86-11-019 the utilities may use their current adjustment.

ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) shall credit its ratepayers with its nuclear decommissioning income tax benefits as follows:

   a. For SONGS 1 credit the ERAM balancing account.

   b. For SONGS 2 and 3 credit the MAAC balancing account.

   c. For Palo Verde 1, 2, 3 credit the IMAAC balancing account, if available, or if not, the ERAM balancing account.

2. San Diego Gas & Electric Company (SDG&E) shall credit its ratepayers with its nuclear decommissioning income tax benefits by crediting those amounts to one or more balancing accounts applicable to all customers.

3. In calculating its level of uncollectible accounts expense Edison shall use that which is adopted in Edison's general rate case A.86-12-047.

4. The effective date for crediting the appropriate balancing accounts for the income tax benefits shall be the date amended tax returns are filed, subject to adjustment to reflect actual income tax refunds ultimately approved by the IRS.

5. The income tax benefits shall reflect the privilege year tax adjustment for CCFT adopted in the Commission's ultimate decision in OII 86-11-019. Prior to the decision in OII 86-11-019 the utilities may use their current adjustment.

6. Edison shall recover its 1988 revenue requirement for nuclear decommissioning costs set forth in Finding 1 for SONG Units 1, 2, and 3, and Palo Verde Units 1 and 2 in its test year 1988 general rate case.

7. Edison shall recover its 1988 revenue requirement for nuclear decommissioning costs for Palo Verde Unit 3 set forth in Finding 1 in its Palo Verde 3 rate application.

8.a. Effective January 1, 1988 SDG&E's revenue shall be increased by the $22,157,000 net change to revenue requirements granted herein.

b. SDG&E may adjust its tariff rates effective January 1, 1988 to reflect this increase.

c. The increase in rates shall be effective concurrently with the rates approved by the Commission in SDG&E's ECAC Application No. 87-07-009 and Attrition Application No. 87-07-050.

d. The rates authorized by this decision shall be included in the rate design approved in A.87-07-009.

9. SDG&E may file an advice letter and supporting documentation to recover an increase in revenue to reflect the change in net revenue requirement for nuclear decommissioning costs should the IRS not approve the SRAs as submitted. The supporting documentation shall include a showing of SDG&E's due diligence to have the IRS include the years 1984 and 1985 in its qualifying percentage.

This order is effective today.

Dated NOV 13 1987, at San Francisco, California.

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Victor Weisser

Victor Weisser, Executive Director

SOUTHERN CALIFORNIA EDISON COMPANY

SCHEDULE OF STATE AND FEDERAL INCOME TAX BENEFITS AVAILABLE
TO RATEPAYERS FOR NUCLEAR DECOMMISSIONING COSTS
1984-1987

(Edison Share)

(California Jurisdiction)

(Dollars)

Line No.	Tax Years	San Onofre				Palo Verde				Timing 4/ Adjustment	Grand Total
		Unit 1	Unit 2	Unit 3	Total	Unit 1	Unit 2	Unit 3	Total		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	1984	- 1/	2,605,487	2,515,025	5,120,512	-	-	-	-		5,120,512
2.	1985	3,318,816	2,896,661	3,312,220	9,527,697	-	-	-	-		9,527,697
3.	1986	3,348,970	2,993,288	3,421,445	9,763,703	319,449	94,404	-	413,853		10,177,556
4.	Subtotal	6,667,786	8,495,436	9,248,690	24,411,912	319,449	94,404	-	413,853		24,825,765 (A)
5.	1987 2/	3,955,845	3,458,508	3,953,853	11,368,206	358,157	310,435	1,275,279 3/	1,943,871		13,159,191 (B)
6.	Total	10,623,631	11,953,944	13,202,543	35,780,118	677,606	404,839	1,275,279	2,357,724	(152,886)	37,984,956

1/ No taxes were collected from ratepayers for decommissioning costs in 1984 for SONGS 1.
2/ Tax benefits reflected for year 1987 may require adjustment depending upon the passage of AB 53, or IRS approval of SRAs as submitted.
3/ Tax benefits for Palo Verde Unit No. 3 may require adjustment based on the actual commercial operating date for this unit.
4/ The timing adjustment results from California income taxes being charged to the balancing accounts based on the assumption they would be subject to federal tax rates (i.e., the deductions of state taxes) applicable to 1985 and 1986. Instead, if California income taxes for 1985 and 1986 are deductible on the California income tax return for 1987, if AB 53 is passed, a lower federal income tax rate is applicable (i.e., the federal 1988 34 percent rate). Therefore, benefits available to ratepayers should be adjusted for this timing difference.

(A) Tax benefits available to ratepayers associated with amended tax returns.
(B) Tax benefits available to ratepayers associated with decommissioning costs deductible on 1987 tax returns.

(END OF APPENDIX A)

SOUTHERN CALIFORNIA EDISON COMPANY

ANNUALIZED 1988 REVENUE REQUIREMENT FOR NUCLEAR DECOMMISSIONING COSTS

(Edison Share)

(California Jurisdiction)

(Thousands of Dollars)

Line No.	Item	SONGS 1 Qualified (1)	SONGS 1 Non-Qualified (2)	SONGS 1 Total (3)	SONGS 2 Qualified (4)	SONGS 2 Non-Qualified (5)	SONGS 2 Total (6)	SONGS 3 (7)	Palo Verde 1 (8)	Palo Verde 2 (9)	Palo Verde 3 1987 COD (10)	Palo Verde 3 1988 COD (11)	Total 1/ (12)
1.	Decommissioning Accruals	9,950	11,666	21,616	23,745	776	24,521	34,009	5,556	5,407	5,909	5,995	97,104
2.	Income Taxes												
3.	State	0	1,810	1,810	0	121	121	0	0	0	0	0	1,931
4.	Federal	0	6,010	6,010	0	400	400	0	0	0	0	0	6,410
5.	Franchise Fees	73	143	216	175	9	184	251	41	40	43	44	776
6. 7.	Uncollectible Accounts Expense	25	49	74	59	3	62	85	14	13	15	15	263
8. 9.	TOTAL ANNUALIZED REVENUE REQUIREMENT	10,048	19,678	29,726	23,979	1,309	25,288	34,345	5,611	5,460	5,967	6,054	106,484

1/ Based on 1988 COD for Palo Verde 3.

(END OF APPENDIX B)

APPENDIX C

SOUTHERN CALIFORNIA EDISON COMPANY

1988 NET-TO-GROSS MULTIPLIERS FOR NUCLEAR DECOMMISSIONING COSTS

(%)

Line No.	Component	Qualified Nuclear Decommissioning Costs	Non-Qualified Nuclear Decommissioning Costs
		(1)	(2)
1.	Revenue	100.0000	100.0000
2.	Franchise Fees	0.7300	0.7300
3.	Uncollectible		
4.	Accounts Expense	0.2470	0.2470
5.	Subtotal	99.0230	99.0230
6.	State Income		
7.	Tax Factor	-	9.2012
8.	Subtotal	99.0230	89.8218
9.	Federal Income		
10.	Tax Factor	-	30.5394
11.	Net Revenue	99.0230	59.2824
12.	Net-to-Gross Multiplier	1.0099	1.6868
13.	(Line 1 divided by		
14.	Line 11)		

(END OF APPENDIX C)

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APPENDIX D

SAN DIEGO GAS & ELECTRIC COMPANY

1988 NET REVENUE REQUIREMENT INCREASE FOR SONGS UNIT NOS. 1, 2, AND 3 NUCLEAR DECOMMISSIONING

(SDG&E Share)
(Thousands of Dollars)

Line No.	Item	Revenue Requirements for Nuclear Decom. Costs[1]	Revenue Requirements for SONGS Rate Base Increase[2]	Total Revenue Requirements	Revenue Requirements Previously Authorized[3]	Net 1988 Revenue Requirement Increase
		(1)	(2)	(3)	(4)	(5)
1.	TOTAL REVENUE REQUIREMENT	24,812	2,245	27,057	4,900	22,157
2.	Decommissioning Accruals	22,038	-0-	22,038	2,860	19,178
3.	Franchise Fees	492	45	537	97	440
4.	Uncollectibles	50	4	54	10	44
5.	Ad Valorem Taxes	-0-	71	71	-0-	71
6.	Income Taxes					
7.	California	531	155	686	460	226
8.	Federal	1,701	497	2,198	1,473	725
9.	Total Income Taxes	2,232	652	2,884	1,933	951
10.	TOTAL EXPENSES	24,812	772	25,584	4,900	20,684
11.	Net Operating Income		1,473	1,473		1,473
12.	Rate Base		12,686	12,686		12,686
13.	Rate of Return[4]		11.61%	11.61%		11.61%

1 From Table B.
2 From Table C.
3 From Table D.
4 Rate of Return is SDG&E's 1987 authorized rate of return. This rate will be updated for 1988 at the time of SDG&E's filing for 1988 Attrition.

purposes, a test year or attrition year federal income tax deduction for CCFT applicable to such test year or attrition year, even though the federal income tax deduction cannot be claimed by the taxpayer until the following year. This ratemaking procedure is an issue in OII 86-11-019 because federal income tax rates are being lowered in tax years 1987 and 1988. Edison and SDG&E concur with PSD that the Commission's adopted position on the calculation of the 1986 and 1987 privilege year tax adjustments for CCFT in OII 86-11-019 be adopted in this proceeding and be used in the computation of income tax benefits available to the ratepayers. If a Commission decision has not been issued in OII 86-11-019 at the time the utilities credit the appropriate balancing accounts, such income tax benefit credits will be made on the basis of their position on the privilege year adjustment, which will be adjusted to reflect the Commission's ultimate decision in OII 86-11-019.

Findings of Fact

1. The annualized 1988 revenue requirement for nuclear decommissioning costs for Edison is:

	Qualified	Nonqualified
SONGS 1	$10,048,000	$19,678,000
SONGS 2	23,979,000	1,309,000
SONGS 3	34,345,000	
Palo Verde 1	5,611,000	
Palo Verde 2	5,460,000	
Palo Verde 3 (1987)	5,967,000	
Palo Verde 3 (1988)	6,054,000	
	$85,497,000[4]	$20,987,000

Total $106,484,000.[4]

4 Based on 1988 Palo Verde 3 commercial operations date.

2.a. Edison expects state and federal income tax benefits available to ratepayers for nuclear decommissioning costs as follows:

1984	$ 5,120,512
1985	9,527,697
1986	10,177,556
1987	13,159,191
Total	$37,984,956

b. The tax benefits are dependent upon the state tax code being amended to allow for 1985 and 1986 state tax deductions, IRS approval of the SRAs, and Palo Verde 3 beginning operations in 1987.

3. The annualized 1988 revenue requirement for nuclear decommissioning costs for SDG&E is:

		Qualified	Nonqualified
a.	SONGS 1	$ 2,871,000	$5,293,000
	SONGS 2	6,693,000	366,000
	SONGS 3	9,589,000	
		$19,153,000	$5,659,000

Total $24,812,000

b. In addition to the revenue requirement of para 3.(a) SONGS rate base will increase because prior decommissioning expense accruals have been treated as a deduction to rate base through the depreciation reserve. This will be revised when cash payments are made to the qualified fund. The revenue requirement for this adjustment is $2,245,000.

c. The total 1988 revenue requirement is $27,057,000.

4. Because SDG&E has already been allowed $4,900,000 in rates for nuclear decommissioning costs, its 1988 net revenue

requirement for nuclear decommissioning costs is an increase of $22,157,000, which should be implemented concurrently with changes in rates for SDG&E's 1988 attrition change.

5.a. SDG&E expects state and federal income tax benefits available to ratepayers for nuclear decommissioning costs as follows:

1984	$1,345,836
1985	1,530,318
1986	2,727,197
1987	2,998,873
	$8,582,224

b. The tax benefits are dependent upon the state tax code being amended to allow for 1985 and 1986 state tax deductions and IRS approval of the SRAs.

Conclusions of Law

1. The annualized 1988 revenue requirements for nuclear decommissioning costs for Edison and for SDG&E set forth in Findings 1 and 3 are reasonable and are adopted.

2. Edison shall credit its ratepayers with its nuclear decommissioning income tax benefits as follows:

   a. For SONGS 1 credit the ERAM balancing account.

   b. For SONGS 2 and 3 credit the MAAC balancing account.

   c. For Palo Verde 1, 2, and 3 credit the IMAAC balancing account, if available, or if not, the ERAM balancing account.

3. SDG&E shall credit its ratepayers with its nuclear decommissioning income tax benefits by crediting those amounts to one or more balancing accounts applicable to all customers.

4. In calculating its level of uncollectible accounts expense factor Edison shall use that which is adopted in Edison's general rate case A.86-12-047.

5. The effective date for crediting the appropriate balancing accounts for the income tax benefits shall be the date amended tax returns are filed, subject to adjustment to reflect actual income tax refunds ultimately approved by the IRS.

6. The income tax benefits shall reflect the privilege year tax adjustment for CCFT adopted in the Commission's ultimate decision in OII 86-11-019. Prior to the decision in OII 86-11-019 the utilities may use their current adjustment.

ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) shall credit its ratepayers with its nuclear decommissioning income tax benefits as follows:

   a. For SONGS 1 credit the ERAM balancing account.

   b. For SONGS 2 and 3 credit the MAAC balancing account.

2. San Diego Gas & Electric Company (SDG&E) shall credit its ratepayers with its nuclear decommissioning income tax benefits by crediting those amounts to one or more balancing accounts applicable to all customers.

3. In calculating its level of uncollectible accounts expense Edison shall use that which is adopted in Edison's general rate case A.86-12-047.

4. The effective date for crediting the appropriate balancing accounts for the income tax benefits shall be the date

amended tax returns are filed, subject to adjustment to reflect actual income tax refunds ultimately approved by the IRS.

5. The income tax benefits shall reflect the privilege year tax adjustment for CCFT adopted in the Commission's ultimate decision in OII 86-11-019. Prior to the decision in OII 86-11-019 the utilities may use their current adjustment.

6. SDG&E shall recover its 1988 net revenue requirement for nuclear decommissioning costs of $22,157,000 in its 1988 attrition year application.

7. Edison shall recover its 1988 revenue requirement for nuclear decommissioning costs set forth in Finding 1 for SONG Units 1, 2, and 3, and Palo Verde Units 1 and 2 in its test year 1988 general rate case.

8. Edison shall recover its 1988 revenue requirement for nuclear decommissioning costs for Palo Verde Unit 3 set forth in Finding 1 in its Palo Verde 3 rate application.

This order is effective today.

Dated ____________________, at San Francisco, California.