Decision 87 12 065 DEC 22 1987 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY for authority to establish a Major Additions Adjustment Clause, to implement a Major Additions Adjustment Billing Factor and an Annual Major Additions Rate to recover the costs of owning, operating and maintaining San Onofre Nuclear Generating Station Unit No. 2 and to adjust downward net Energy Cost Adjustment Clause rates to equal the increase in Major Additions Adjustment Clause rates.	Application 82-02-40 (Motion filed September 17, 1987)
And Related Matters.	Application 82-03-63 83-10-12 83-10-36 83-11-19

INTERIM OPINION

I. Introduction

This decision concerns two broad ratemaking issues, (1) San Onofre Nuclear Generating Station (SONGS) pre-Commercial Operating Date (COD) expenses and (2) SONGS post-COD expenses. Regarding the first issue, this decision provides for the implementation of prior decisions moving these expenses from interim ratemaking treatment to base rate treatment. Decision (D.) 86-08-060 provided for the procedure of moving from "interim ratemaking treatment" to conventional ratemaking treatment for SONGS expenses, and D.87-07-097 as amended provides for the amount of expenses found reasonable.

Concerning post-COD expenses, this decision sets a Major Additions Adjustment Clause (MAAC) rate based upon an interim reasonableness factor previously determined by D.87-07-097.

The primary scope of issues in this decision is whether or not the utilities have complied with our prior orders and whether or not the accounting of the dollar amounts is correct. The revenue effects of this decision will be reflected in rates contained in the rate appendix issued today in Southern California Edison's (Edison) general rate proceeding, Application (A.) 86-12-047, and in the appendix to the decision issued today in San Diego Gas and Electric Company's (SDG&E) Energy Cost Adjustment Clause (ECAC) proceeding A.87-07-009.

This decision will be organized as follows. We will first provide a summary of the results of this decision. Next will be a "background" section outlining the history of events relevant to this decision. Then we will discuss and resolve the following issues:

1. The dollar amount to be moved into rate base for each utility.

2. The corresponding reduction of MAAC Average Ownership Rates (AOR) or interim rates

3. The amount of the remaining balance in the MAAC account for each utility and how this balance should be amortized.

4. The new MAAC interim rates required to recover the revenue requirement associated with post-COD capital costs until these expenses can be reviewed for reasonableness.

II. Summary

In this decision, we move about $2.22 billion for Edison and $0.59 billion for SDG&E into CPUC jurisdictional rate base which produce annual base rate revenue increases of $502 million and $138 million for the respective utilities. Concomitantly, we discontinue the MAAC interim rates associated with these pre-COD expenses which produce interim revenue requirement decreases of $819 million for Edison and $239 million for SDG&E.

At the same time, we authorize MAAC interim rates for post-COD expenses which result in revenue requirement increase of $53 million for Edison and $14 million for SDG&E.

The resolution of issues concerning the amortization of MAAC Balancing Account balances results in an annual revenue requirement increase of $8 million for Edison and a $19 million decrease for SDG&E.

The net revenue changes due to all these effects are a decrease of $257 million for Edison and $106 million decrease for SDG&E.

III. Background

On February 18, 1982 Edison filed A.82-02-40 requesting authority to reflect Edison's 75.05% share of the costs and expenses of owning, operating, and maintaining San Onofre Nuclear Generating Station (SONGS) Unit 2 in rates through a Major Additions Adjustment Clause (MAAC) procedure. On October 21, 1983 Edison filed A.83-10-36 requesting authority to reflect Edison's 75.05% share of the costs and expenses of owning, operating, and maintaining SONGS 3 in rates through the MAAC procedure. San Diego Gas & Electric Company (SDG&E) filed similar applications to reflect its 20 percent share of SONGS 2&3 costs and expenses in rates through the MAAC procedure.

Upon motions by Edison and SDG&E, proceedings initiated by the various MAAC applications filed by Edison and SDG&E were consolidated for hearing and decision and bifurcated into two phases. In its first ratemaking decision on the MAAC applications, the Commission adopted balancing account treatment (MAAC Balancing Account) for SONGS 2 investment-related costs and fixed rate treatment (i.e., not balancing account treatment) for SONGS 2 noninvestment-related expenses. Similar ratemaking treatment was adopted for SONGS 3 through various motions and a stipulation. The noninvestment-related expenses for both SONGS 2&3 were transferred from MAAC rates to base rates in Edison's Test Year 1985 General Rate Case (GRC).

The proceedings were bifurcated to provide time for the Commission to conduct a reasonableness review of Edison's investment in SONGS 2&3. Phases 1 and 1B considered the accounting and ratemaking treatment for the SONGS 2&3 costs from their commercial operating dates (COD) until such time as those costs could be reflected in the Company's base rates after Phase 2 was completed. Phase 2 considered the reasonableness of $4,509 million investment in SONGS 2&3 (D.86-10-069 as subsequently amended).

On October 3, 1985, prior to the completion of Phase 2, Edison filed a motion requesting that transition procedures be established to transfer recovery of SONGS 2&3 investment-related costs from the MAAC rates to base rates. SDG&E filed a similar motion on October 16, 1985. The Commission adopted the requested transition procedures with minor modifications (D.86-08-060). In its Phase 2 decision, the Commission ordered that the transition procedures adopted in D.86-08-060 be implemented with respect to the $4,509 million SONGS 2&3 investment reviewed and found reasonable in Phase 2. Specifically, the adopted transition procedures provide that Edison and SDG&E shall:

- Establish a MAAC Balancing Rate to amortize that portion of the balance in the MAAC Balancing Account associated with the level of SONGS 2&3 plant investment adopted in the Phase 2 decision;

- Establish base rates reflecting the revenue requirement associated with the level of SONGS 2&3 plant investment adopted in the Phase 2 decision;

- Adjust downward the MAAC Average Ownership Rate (AOR) or interim rate to reflect removal of the revenue requirement associated with the level of SONGS 2&3 plant investment reviewed in Phase 2 from the MAAC procedure; and

- Set the MAAC AOR at a level which will recover a portion of the revenue requirement associated with the SONGS 2&3 Post-COD Plant Additions. The portion of revenue requirement is to be derived by applying a "reasonableness factor" as defined in Decision 86-08-060. The "reasonableness factor" is the ratio of SONGS 2&3 plant investment adopted by the Commission in Phase 2 to the total plant investment identified in that Phase.

In addition, in the Phase 2 decision the Commission ordered the companies to set forth alternate amortization periods for recovering the undercollections in the MAAC Balancing Accounts.

The adopted transition procedures require the utilities to file their requests for rate changes in compliance with the Phase 2 decision within 60 days of the effective date of the Phase 2 decision. By the current motions, both Edison and SDG&E submit their requested rate changes and related material as required by the adopted transition procedures, and request that the Commission issue an order which:

1. Finds the recorded balances in the MAAC Balancing Accounts, as adjusted for Phase 2 disallowances, reasonable;

2. Adopts the SONGS 2&3 1988 revenue requirement attributable to the level of SONGS 2&3 plant investment adopted in Phase 2;

3. Authorizes rates reflecting these amounts.

IV. Issues

A. Pre-COD Revenue Requirement Issues

The issues concerning pre-COD expenses are: 1) what is the revenue effect of moving the the previously found reasonable investment costs into rate base and 2) how to treat the remaining balance in the MAAC account. The investment costs moving into CPUC jurisdictional rate base are $2.219 billion for Edison and $594 million for SDG&E.

1. 1988 Revenue Requirement

Edison requests that a base rate revenue requirement of $524.3 million be authorized to reflect the level of SONGS 2&3 investment found reasonable in Phase 2. Edison recognizes that the amount requested will be affected by the decision in its current general rate proceeding. Edison estimates that this additional revenue requirement using current rate design policy would result in an average base rate increase of 0.817 cents per kilowatt hour. The corresponding numbers for SDG&E are $144.2 million and 1.137 cents per kilowatt hour rate increase. SDG&E, like Edison, recognizes that its estimates will be affected by our decision in its current attrition application.

The consequence of this request is that the MAAC interim rate for pre-COD costs would be terminated, which produces a revenue decrease of $819.2 for Edison and $239.1 million for SDG&E. The decreases are greater than the corresponding increases to base rates because although the MAAC rates have remained constant, depreciation over time has reduced the plant investment level. A lower rate is now appropriate.

The Division of Ratepayer Advocates (DRA) has reviewed the filings of the utilities and agrees with the estimates as filed with the exceptions of adjustment for rate of return and one accounting issue. That issue is how to allocate delay-related unreasonable costs between AFUDC and non-AFUDC. DRA recommends further consideration of this issue.

Edison and SDG&E rely on different decisions to allocate delay disallowances. Significant tax differences between the two methods underline the importance of determining the proper method to use. If we were to adopt one of the two methods here, we would not know the precise revenue consequences since we have no testimony on this subject after our determination of the basis and amount of unreasonable pre-COD SONGS expenditures in Phase 2.

Determination of the AFUDC portion of the total disallowance under D.86-10-069 is highly sensitive to the exact time period in which the unreasonable delay occurred. The AFUDC effect is difficult to quantify. We agree with staff that further detailed consideration is appropriate on this issue and will order filing of testimony for further consideration in the proceedings on post-COD costs, A.87-05-031 of Edison and A.87-07-044 of SDG&E.

In the meantime we will adopt the utility estimates of 1988 base rate revenue requirement as adjusted by today's orders in the Edison general rate proceeding and the SDG&E attrition proceeding. This base rate increase will be authorized subject to refund pending resolution of the accounting issue of allocating delay-related disallowances between AFUDC and non-AFUDC. This amount, which is unknown at this time, has until now been in a balancing account and subject to future adjustment following reasonableness review. Allowing the expenses into base rates subject to refund is virtually identical treatment.

2. Pre-COD MAAC Balance.

The MAAC Balancing Accounts record the difference between the investment-related revenue requirement for SONGS 2&3 and recorded revenue billed under the MAAC interim rates. SONGS 2&3 revenue requirement was included in the MAAC Balancing Account beginning on September 7, 1983 for SONGS 2 and April 1, 1984 for SONGS 3. Edison estimates that the balance in its MAAC Balancing Account attributable to the approved pre-COD amounts as of December 31, 1987 will be ($62.6) million (undercollected). SDG&E estimates a comparable balance of $41.0 million (overcollected).

Edison requests that we find its estimated balance reasonable for balancing rate purposes and that we authorize Edison to amortize the recorded balance over three years. The three-year period is chosen to coincide with its general rate case cycle.

SDG&E similarly requests that we find its estimated balance reasonable, but SDG&E desires to delay making any rate reduction. It requests authorization to "offset" the pre-COD balance (overcollected) with post-COD balance (undercollected). The request is made in order to provide revenue stability.

DRA has reviewed the recorded balances as of July 31, 1987 and the estimated balances as of December 31, 1987 for both utilities. DRA agrees with the balances as provided by the utilities with the exception of amounts related to two issues. The first issue relates to "billing lag". The utilities have not adjusted the end of year balances to reflect amounts billed in December but which will not be collected until January of 1988. The DRA recommended adjustments are $40.6 million for Edison and $9.5 million for SDG&E. According to the DRA filing, the utilities agree with the DRA recommendation.

The second issue is whether or not the utilities should accrue interest on the income tax expense portion of the undercollections in the MAAC Balance Account. DRA recommends that interest not be allowed on these expenses because the income tax on the revenue shortfall will not be paid until the utilities are reimbursed for the undercollections. We note that this issue applies to all non-cash expenses booked to the MAAC accounts, not just to income taxes. According to DRA this issue could result in an adjustment for Edison of $16 million.

The utilities have not agreed to this DRA recommendation. DRA further recommends that this issue be addressed in filings to be made by the utilities within 60 days of this decision.

We will adopt the balances recommended by the DRA which include the billing lag adjustment. We will defer resolution of the interest issue until the utilities have made the filings as recommended by the DRA. At this point the issue is whether to allow amortization of the MAAC balances beginning January 1, 1988 subject to future account adjustment or to defer the amortization of the balance until we have reviewed the utility filings and resolved the issue. In the interest of rate stability, we will allow amortization of the balance beginning January 1988 subject to refund. This treatment concerns a specific issue, and the "subject to refund" treatment is virtually identical to the current balancing account treatment. The table below computes the adopted balance.

<u>Edison</u>
($ in millions)

(62.6)	- Estimated December 31, 1987 MAAC balance
40.6	- Unbilled revenues due to billing lag
(0.2)	- F&U (franchise fees & uncollectibles)
(22.2)	- Balance to be amortized (undercollection)

<u>SDG&E</u>
($ in millions)

41.0	- Estimated December 31, 1987 MAAC balance
9.5	- Unbilled revenues due to billing lag
50.5	- Subtotal of balance to be amortized
1.1	- F&U
51.6	- Balance to be amortized (overcollection)

3. <u>Amortization Period</u>

D.86-10-069 ordered that the utilities would provide alternate amortization periods in the filings which are before us now. The utilities provided alternate scenarios based upon one, two, and three year amortization periods. Edison recommends a three-year amortization period for the MAAC balance. This choice is made because it coincides with its general rate case cycle. The balances would be reduced to zero by the beginning of the test year in its next general rate case.

SDG&E also recommends a three-year amortization period of its pre-COD balance. This recommendation is made to be consistent with its proposal in the post-COD application (A.87-07-044) and to minimize the rate impact on its retail customers when the balancing rate is terminated.

DRA recommends that the amortization period be further studied. DRA also recommends that amortization of this balance be deferred until either the DRA and the utilities can reach agreement or until we resolve the issue.

Instead of the DRA recommended delay, we will adopt the three-year period recommended by the utilities in order to coincide with Edison's general rate case cycle and to minimize the rate impact on consumers.

B. <u>Post-COD Issues</u>

1. <u>1988 Revenue Requirement</u>

Our previously adopted transition procedures also provide for setting a MAAC interim rate to recover a portion of the 1988 revenue requirement associated with SONGS 2&3 post-COD plant additions which have not yet been reviewed for reasonableness. The portion to be recovered is 94.1% of the actual jurisdictional revenue requirement. Edison estimates its 1988 revenue requirement for these items to be $58.7 million. This amount adjusted by the 94.1% factor is $55.2 million. The comparable figures for SDG&E are $16.0 million adjusted to $15.1 million.

The DRA has reviewed these estimates and takes no exception beyond adjustment for adopted 1988 rate of return. We will adopt these estimates as reasonable for the purpose of setting interim rates.

2. <u>Post-COD Balancing Account Balance</u>

After the commercial operating date the utilities have been incurring investment related expenses for post-COD plant additions. Revenue requirements associated with these expenses have flowed into the MAAC accounts, but the capital costs have not yet been reviewed for reasonableness. Since no interim rates are in place, there are now a balances in the MAAC accounts related to post-COD costs.

SDG&E estimates that this balance as of December 31, 1987 will be $31.8 million. SDG&E requests authority to begin to amortize this balance before reasonableness review by amortizing 94.1% (the reasonableness factor) of this balance. Thus SDG&E would amortize $29.9 million ($31.8 million x 94.1%) beginning January 1988. SDG&E recommends that the amortization period be three years consistent with the pre-COD balancing account amortization period. Since the pre-COD balance is overcollected and the post-COD balance is undercollected, the two balancing rates would offset each other to a large extent thus preventing a major rate impact.

Edison neither quantifies its post-COD balance as of December 31, 1987, nor requests authority to begin to amortize any such balance presently.

The DRA response is equivocal but seems to endorse the SDG&E request.

We will not authorize the SDG&E proposal for this item. Prior decisions have established the transition procedures. This order is to consider very limited issues essentially dealing with the mechanics of compliance with the prior decisions and is not the proper forum to entertain new proposals. So, although the SDG&E proposal is not unreasonable on its face, we will not adopt it at this time.

C. Tables

The tables which follow for each company show the present, requested and adopted rates and revenues, including adjustment for rates of return adopted today in other proceedings:

TABLE 1

SOUTHERN CALIFORNIA EDISON COMPANY
Summary of 1988 Annualized Revenue and Rate Changes
San Onofre Nuclear Generating Station (SONGS), Units 2 and 3
(Edison share, CPUC jurisdictional)

	Rates (cents/kwh)			Annual Revenues ($ millions)		
	Present	Req.	Adopted	Present	Requested	Adopted
1. Average base rate level for SONGS 2&3 pre-COD costs	-0-	0.817	0.778	-0-	524.251	501.626
2. Amortization of MAAC account balance for pre-COD costs	-0-	0.036	0.013	-0-	23.158	8.240
3. MAAC rate level for pre-COD costs	1.270	-0-	-0-	819.154	-0-	-0-
4. MAAC rate level for post-COD costs	-0-	0.086	0.082	-0-	55.285	52.599
5. Total	1.270	0.939	0.872	819.154	602.694	562.465

Notes: Present revenues calculated using 64,500.3 GWH, sales adopted in 1988 General Rate Case, A.86-12-047. Difference between present and requested revenues varies slightly from company filing, due to sales changes.

Adopted revenues calculated using rate of return adopted in General Rate Case (12.75% return on equity).

TABLE 2

SAN DIEGO GAS AND ELECTRIC COMPANY
Summary of 1988 Annualized Revenue and Rate Changes
San Onofre Nuclear Generating Station (SONGS), Units 2 and 3
(SDG&E share, CPUC jurisdictional)

	Rates (cents/kwh)			Annual Revenues ($ millions)		
	Present	Req.	Adopted	Present	Requested	Adopted
1. Average base rate level for SONGS 2&3 pre-COD costs	-0-	1.137	1.098	-0-	144.220	138.452
2. Amortization of MAAC account balance for pre-COD costs	-0-	(0.119)	(0.152)	-0-	(15.425)	(19.140)
3. MAAC rate level for pre-COD costs	1.897	-0-	-0-	239.139	-0-	-0-
4. MAAC rate level for post-COD costs	-0-	0.119	0.113	-0-	15.061	14.287
5. Amortization of MAAC account balance for post-COD costs	-0-	0.086	-0-	-0-	11.005	-0-
6. Total	1.897	1.223	1.060	239.139	154.861	133.599

Notes: Present revenues calculated using 12,606.18 GWH, sales adopted in ECAC/ERAM Applications 87-04-018, 87-07-009. Difference between present and requested revenues varies slightly from company filing, due to sales changes.

Adopted revenues calculated using rate of return adopted in attrition Application 87-07-050 (12.75% return on equity).

Findings of Fact

1. On September 17, 1987, Edison filed a motion for a Commission order authorizing rates in compliance with the Commission's Phase 2 decision.

2. On October 1, 1987, SDG&E filed a motion for a Commission order authorized rates in compliance with the Commission's Phase 2 decision.

3. D.86-08-060 adopted transition procedures to be used in implementing into rates the costs to be found reasonable in D.86-10-069 and D.87-07-097.

4. D.86-10-069 is the original Phase 2 decision on reasonableness of pre-COD capital expenditures.

5. The Commission granted limited rehearing on D.86-10-069 by order on March 17, 1987.

6. The Commission issued D.87-07-097 on July 29, 1987 modifying D.86-10-069 regarding the amount of disallowance due to imprudent actions by applicants and denying further rehearing.

7. A petition for rehearing of D.87-07-097 was filed by the Attorney General of the State of California on September 8, 1987, challenging the procedure and method used by the Commission in determining the disallowance.

8. The Commission issued D.87-11-018 on November 13, 1987 modifying D.86-10-069 and D.87-07-097 and denying rehearing.

9. DRA filed a response to the motions on December 10, 1987.

10. Edison's and SDG&E's estimates of the balances in the Major Additions Adjustment Clause (MAAC) accounts for Edison and SDG&E do not credit the December 1987 MAAC-Annual Ownership Rate (AOR) sales which will be billed in January 1988 due to billing lag.

11. The issue of accruing interest in the MAAC accounts on income tax and other non-cash MAAC Balancing Account debits related to uncollected revenue has not been resolved by the Commission.

12. Edison and SDG&E request to establish MAAC Balancing Rate components reflecting a three-year amortization of MAAC balances associated with pre-COD plant costs.

13. The Phase 2 decision determined a 94.1% reasonableness factor to be applied to post-COD expenditures for interim ratemaking purposes until a decision is issued on reasonableness of post-COD expenditures.

14. The Commission has issued a decision today in Edison's general rate case (GRC), A.86-12-047, adopting a 12.75% return on equity.

15. The Edison GRC decision also adopted a revised sales estimate.

16. The Commission issued a decision today in SDG&E's 1988 attrition year filing, A.87-07-050, adopting a 12.75% allowable return on equity.

17. Edison and SDG&E interpreted the AFUDC effects of the Phase 2 Commission decisions differently.

18. A 1988 base rate increase of $501.6 million for Edison to reflect the revenue requirement for SONGS 2&3 investment adopted in Phase 2 complies with Phase 2 decisions.

19. A 1988 revenue decrease for Edison of $819.2 million to reflect reduction of the MAAC interim rate attributable to pre-COD interim rates complies with Phase 2 decisions.

20. A 1988 revenue increase for Edison of $52.6 million to reflect the MAAC interim revenue requirement associated with SONGS 2&3 post-COD plant additions reduced by the reasonableness factor adopted in Phase 2 complies with Phase 2 decisions.

21. It is reasonable to reflect in 1988 revenue for Edison the amortization over three years of the MAAC Balancing Account level, for an annual revenue increase of $8.2 million.

22. A 1988 base rate increase of $138.5 million for SDG&E to reflect the revenue requirement for SONGS 2&3 investment adopted in Phase 2 complies with Phase 2 decisions.

23. A 1988 revenue decrease of $239.1 million for SDG&E to reflect reduction of the MAAC interim rate attributable to pre-COD interim rates complies with Phase 2 decisions.

24. A 1988 revenue increase for SDG&E of $14.3 million to reflect the MAAC interim revenue requirement associated with SONGS 2&3 post-COD plant additions reduced by the reasonableness factor adopted in Phase 2 complies with Phase 2 decisions.

25. It is reasonable to reflect in 1988 revenue for SDG&E the amortization over three years of the MAAC balancing account level, for an annual revenue increase of $19.1 million.

26. The revenue changes authorized in this order are just and reasonable with the exception of those amounts that are being authorized subject to adjustment as discussed in the text of this order.

Conclusions of Law

1. Hearings on these motions are not required since the issues of prudency of actions by applicants have been fully considered and decided by the Commission in Phase 2.

2. Edison and SDG&E should be required to file testimony on the proper method of determining the AFUDC impact of the expenses determined to be unreasonable in Phase 2.

3. Edison and SDG&E should be ordered to file testimony on the issue of accruing interest on undercollections in the MAAC Balancing Account associated with non-cash expenses.

4. SDG&E and Edison should be authorized to reflect in rates the revenue requirement changes found reasonable in this order.

5. It is not appropriate to reflect in 1988 revenue for SDG&E any increase to amortize of the post-COD SONGS 2&3 MAAC Balancing Account.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) is authorized to increase 1988 base rates by $501.6 million to reflect the revenue requirement for the San Onofre Nuclear Generating Station Units 2 and 3 (SONGS 2&3) investment adopted as reasonable in the Phase 2 decisions.

2. Edison is authorized to decrease 1988 revenues by $819.2 million to reflect reduction of the interim pre-Commercial Operating Date (pre-COD) Major Additions Adjustment Clause (MAAC) Annual Ownership Rate (AOR) to zero in compliance with the Phase 2 decisions.

3. Edison is authorized to increase 1988 revenues by $52.6 million to reflect the interim MAAC AOR revenue requirement for SONGS 2&3 post-COD plant additions reduced by the adopted reasonableness factor in compliance with the Phase 2 decisions.

4. Edison is authorized to increase 1988 revenues by $8.2 million amortized over 3 years the MAAC Balancing Account level associated with pre-COD costs.

5. San Diego Gas and Electric Company (SDG&E) is authorized to increase 1988 base rates by $138.5 million to reflect the revenue requirement for SONGS 2&3 investment adopted as reasonable in the Phase 2 decisions.

6. SDG&E is authorized to decrease 1988 revenues by $239.1 million to reflect reduction of the interim pre-COD MAAC AOR to zero in compliance with the Phase 2 decisions.

7. SDG&E is authorized to increase 1988 revenues by $14.3 million to reflect the interim MAAC AOR revenue requirement for SONGS 2&3 post-COD investment reduced by the reasonableness factor in compliance with Phase 2 decisions.

8. SDG&E is authorized to reduce 1988 revenues by $19.1 million to amortize over three years the MAAC Balancing Account level associated with pre-COD costs.

9. SDG&E's request to amortize the MAAC balancing account level associated with post-COD SONGS 2&3 costs is denied.

10. Edison and SDG&E shall file testimony on allocation of unreasonable SONGS 2&3 plant costs to AFUDC within 60 days of the effective date of this order.

11. Edison and SDG&E shall file testimony within 60 days on the issue of MAAC balancing account interest applied to account debits for utility expenses not yet paid.

12. Edison and SDG&E are ordered to file tariffs in compliance with this order within seven (7) days of the effective date of this decision.

13. Except as otherwise provided herein, all other aspects of the motions of Edison and SDG&E are denied.

This order is effective today.

Dated DEC 2 2 1987, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
C. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

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

Victor Weisser, Executive Director

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
Summary of 1988 Annualized Revenue and Rate Changes
San Onofre Nuclear Generating Station (SONGS), Units 2 and 3
(Edison share, CPUC jurisdictional)

	Rates (cents/kwh)			Annual Revenues ($ millions)		
	Present	Req.	Adopted	Present	Requested	Adopted
1. Average base rate level for SONGS 2&3 pre-COD costs	-0-	0.817	0.778	-0-	524.251	501.626
2. Amortization of MAAC account balance for pre-COD costs	-0-	0.036	0.013	-0-	23.158	8.240
3. MAAC rate level for pre-COD costs	1.270	-0-	-0-	819.154	-0-	-0-
4. MAAC rate level for post-COD costs	-0-	0.086	0.082	-0-	55.285	52.599
5. Total	1.270	0.939	0.872	819.154	602.694	562.465

Notes: Present revenues calculated using 64,500.3 GWH, sales adopted in 1988 General Rate Case, A.86-12-047. Difference between present and requested revenues varies slightly from company filing, due to sales changes.

Adopted revenues calculated using rate of return adopted in General Rate Case (12.75% return on equity).

(END APPENDIX A)

APPENDIX B

SAN DIEGO GAS AND ELECTRIC COMPANY
Summary of 1988 Annualized Revenue and Rate Changes
San Onofre Nuclear Generating Station (SONGS), Units 2 and 3
(SDG&E share, CPUC jurisdictional)

	Rates (cents/kwh)			Annual Revenues ($ millions)		
	Present	Req.	Adopted	Present	Requested	Adopted
1. Average base rate level for SONGS 2&3 pre-COD costs	-0-	1.137	1.098	-0-	144.220	138.452
2. Amortization of MAAC account balance for pre-COD costs	-0-	(0.119)	(0.152)	-0-	(15.425)	(19.140)
3. MAAC rate level for pre-COD costs	1.897	-0-	-0-	239.139	-0-	-0-
4. MAAC rate level for post-COD costs	-0-	0.119	0.113	-0-	15.061	14.287
5. Amortization of MAAC account balance for post-COD costs	-0-	0.086	-0-	-0-	11.005	-0-
6. Total	1.897	1.223	1.060	239.139	154.861	133.599

Notes: Present revenues calculated using 12,606.18 GWH, sales adopted in ECAC/ERAM Applications 87-04-018, 87-07-009. Difference between present and requested revenues varies slightly from company filing, due to sales changes.

Adopted revenues calculated using rate of return adopted in attrition Application 87-07-050 (12.75% return on equity).

(END APPENDIX B)

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (Edison) is authorized to increase 1988 base rates by $501.6 million to reflect the revenue requirement for the San Onofre Nuclear Generating Station Units 2 and 3 (SONGS 2&3) investment adopted as reasonable in the Phase 2 decisions.

2. Edison is authorized to decrease 1988 revenues by $819.2 million to reflect reduction of the interim pre-Commercial Operating Date (pre-COD) Major Additions Adjustment Clause (MAAC) Annual Ownership Rate (AOR) to zero in compliance with the Phase 2 decisions.

3. Edison is authorized to increase 1988 revenues by $52.6 million to reflect the interim MAAC/AOR revenue requirement for SONGS 2&3 post-COD plant additions reduced by the adopted reasonableness factor in compliance with the Phase 2 decisions.

4. Edison is authorized to increase 1988 revenues by $8.2 million amortized over 3 years the MAAC Balancing Account level associated with pre-COD costs.

5. San Diego Gas and Electric Company (SDG&E) is authorized to increase 1988 base rates by $138.5 million to reflect the revenue requirement for SONGS 2&3 investment adopted as reasonable in the Phase 2 decisions.

6. SDG&E is authorized to decrease 1988 revenues by $239.1 million to reflect reduction of the interim pre-COD MAAC AOR to zero in compliance with the Phase 2 decisions.

7. SDG&E is authorized to increase 1988 revenues by $14.3 million to reflect the interim MAAC AOR revenue requirement for SONGS 2&3 post-COD investment reduced by the reasonableness factor in compliance with Phase 2 decisions.

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This is the SONGS order and for reasons that are too lengthly to go into, it slipped through the cracks and didn't get sent to reproducetion. We didn't discover this until 4 p.m. and there were a lot of changes, which I have made in the order. This has bollixed up the pagination :after the tables, making it look like pages 15 and 16 are missing. They aren't - this is a complete order, I just don't know how to fix the pagination in the computer at this late hour.

Mary Carlos

ALJ/WRS/rmn

Decision ____________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY for authority to establish a Major Additions Adjustment Clause, to implement a Major Additions Adjustment Billing Factor and an Annual Major Additions Rate to recover the costs of owning, operating and maintaining San Onofre Nuclear Generating Station Unit No. 2 and to adjust downward net Energy Cost Adjustment Clause rates to equal the increase in Major Additions Adjustment Clause rates.	Application 82-02-40 (Motion filed September 17, 1987)
And Related Matters.	Application 82-03-63 83-10-12 83-10-36 83-11-19

INTERIM OPINION

I. Introduction

This decision concerns two broad ratemaking issues, (1) San Onofre Nuclear Generating Station (SONGS) pre-Commercial Operating Date (COD) expenses and (2) SONGS post-COD expenses. Regarding the first issue, this decision provides for the implementation of prior decisions moving these expenses from interim ratemaking treatment to base rate treatment. Decision (D.) 86-08-060 provided for the procedure of moving from "interim ratemaking treatment" to conventional ratemaking treatment for SONGS expenses, and D.87-07-097 as amended provides for the amount of expenses found reasonable.

Concerning post-COD expenses, this decision sets a Major Additions Adjustment Clause (MAAC) rate based upon an interim reasonableness factor previously determined by D.87-07-097.

The primary scope of issues in this decision is whether or not the utilities have complied with our prior orders and whether or not the accounting of the dollar amounts is correct. The revenue effects of this decision will be reflected in rates contained in the rate appendix issued today in Southern California Edison's (Edison) general rate proceeding, Application (A.) 86-12-047, and in the appendix to the decision issued today in San Diego Gas and Electric Company's (SDG&E) Energy Cost Adjustment Clause (ECAC) proceeding A.87-07-009.

This decision will be organized as follows. We will first provide a summary of the results of this decision. Next will be a "background" section outlining the history of events relevant to this decision. Then we will discuss and resolve the following issues:

1. The dollar amount to be moved into rate base for each utility.
2. The corresponding reduction of MAAC Average Ownership Rates (AOR) or interim rates
3. The amount of the remaining balance in the MAAC account for each utility and how this balance should be amortized.
4. The new MAAC interim rates required to recover the revenue requirement associated with post-COD capital costs until these expenses can be reviewed for reasonableness.

II. Summary

In this decision, we move about $2.22 billion for Edison and $0.59 billion for SDG&E into CPUC jurisdictional rate base which produce annual base rate revenue increases of $502 million and $138 million for the respective utilities. Concomitantly, we discontinue the MAAC interim rates associated with these pre-COD expenses which produce interim revenue requirement decreases of $819 million for Edison and $239 million for SDG&E.

At the same time, we authorize MAAC interim rates for post-COD expenses which result in revenue requirement increase of $53 million for Edison and $14 million for SDG&E.

The resolution of issues concerning the amortization of MAAC Balancing Account balances results in an annual revenue requirement increase of $8 million for Edison and a $19 million decrease for SDG&E.

The net revenue changes due to all these effects are a decrease of $257 million for Edison and $106 million decrease for SDG&E.

III. Background

On February 18, 1982 Edison filed A.82-02-40 requesting authority to reflect Edison's 75.05% share of the costs and expenses of owning, operating, and maintaining San Onofre Nuclear Generating Station (SONGS) Unit 2 in rates through a Major Additions Adjustment Clause (MAAC) procedure. On October 21, 1983 Edison filed A.83-10-36 requesting authority to reflect Edison's 75.05% share of the costs and expenses of owning, operating, and maintaining SONGS 3 in rates through the MAAC procedure. San Diego Gas & Electric Company (SDG&E) filed similar applications to reflect its 20 percent share of SONGS 2&3 costs and expenses in rates through the MAAC procedure.

Upon motions by Edison and SDG&E, proceedings initiated by the various MAAC applications filed by Edison and SDG&E were consolidated for hearing and decision and bifurcated into two phases. In its first ratemaking decision on the MAAC applications, the Commission adopted balancing account treatment (MAAC Balancing Account) for SONGS 2 investment-related costs and fixed rate treatment (i.e., not balancing account treatment) for SONGS 2 noninvestment-related expenses. Similar ratemaking treatment was adopted for SONGS 3 through various motions and a stipulation. The noninvestment-related expenses for both SONGS 2&3 were transferred from MAAC rates to base rates in Edison's Test Year 1985 General Rate Case (GRC).

The proceedings were bifurcated to provide time for the Commission to conduct a reasonableness review of Edison's investment in SONGS 2&3. Phases 1 and 1B considered the accounting and ratemaking treatment for the SONGS 2&3 costs from their commercial operating dates (COD) until such time as those costs could be reflected in the Company's base rates after Phase 2 was completed. Phase 2 considered the reasonableness of $4,509 million investment in SONGS 2&3 (D.86-10-069 as subsequently amended).

On October 3, 1985, prior to the completion of Phase 2, Edison filed a motion requesting that transition procedures be established to transfer recovery of SONGS 2&3 investment-related costs from the MAAC rates to base rates. SDG&E filed a similar motion on October 16, 1985. The Commission adopted the requested transition procedures with minor modifications (D.86-08-060). In its Phase 2 decision, the Commission ordered that the transition procedures adopted in D.86-08-060 be implemented with respect to the $4,509 million SONGS 2&3 investment reviewed and found reasonable in Phase 2. Specifically, the adopted transition procedures provide that Edison and SDG&E shall:

- Establish a MAAC Balancing Rate to amortize that portion of the balance in the MAAC Balancing Account associated with the level of SONGS 2&3 plant investment adopted in the Phase 2 decision;
- Establish base rates reflecting the revenue requirement associated with the level of SONGS 2&3 plant investment adopted in the Phase 2 decision;
- Adjust downward the MAAC Average Ownership Rate (AOR) or interim rate to reflect removal of the revenue requirement associated with the level of SONGS 2&3 plant investment reviewed in Phase 2 from the MAAC procedure; and
- Set the MAAC AOR at a level which will recover a portion of the revenue requirement associated with the SONGS 2&3 Post-COD Plant Additions. The portion of revenue requirement is to be derived by applying a "reasonableness factor" as defined in Decision 86-08-060. The "reasonableness factor" is the ratio of SONGS 2&3 plant investment adopted by the Commission in Phase 2 to the total plant investment identified in that Phase.

In addition, in the Phase 2 decision the Commission ordered the companies to set forth alternate amortization periods for recovering the undercollections in the MAAC Balancing Accounts.

The adopted transition procedures require the utilities to file their requests for rate changes in compliance with the Phase 2 decision within 60 days of the effective date of the Phase 2 decision. By the current motions, both Edison and SDG&E submit their requested rate changes and related material as required by the adopted transition procedures, and request that the Commission issue an order which:

1. Finds the recorded balances in the MAAC Balancing Accounts, as adjusted for Phase 2 disallowances, reasonable;

2. Adopts the SONGS 2&3 1988 revenue requirement attributable to the level of SONGS 2&3 plant investment adopted in Phase 2;

3. Authorizes rates reflecting these amounts.

IV. Issues

A. Pre-COD Revenue Requirement Issues

The issues concerning pre-COD expenses are: 1) what is the revenue effect of moving the the previously found reasonable investment costs into rate base and 2) how to treat the remaining balance in the MAAC account. The investment costs moving into CPUC jurisdictional rate base are $2.219 billion for Edison and $594 million for SDG&E.

1. 1988 Revenue Requirement

Edison requests that a base rate revenue requirement of $524.3 million be authorized to reflect the level of SONGS 2&3 investment found reasonable in Phase 2. Edison recognizes that the amount requested will be affected by the decision in its current general rate proceeding. Edison estimates that this additional revenue requirement using current rate design policy would result in an average base rate increase of 0.817 cents per kilowatt hour. The corresponding numbers for SDG&E are $144.2 million and 1.137 cents per kilowatt hour rate increase. SDG&E, like Edison, recognizes that its estimates will be affected by our decision in its current attrition application.

The consequence of this request is that the MAAC interim rate for pre-COD costs would be terminated, which produces a revenue decrease of $819.2 for Edison and $239.1 million for SDG&E. The decreases are greater than the corresponding increases to base rates because although the MAAC rates have remained constant, depreciation over time has reduced the plant investment level. A lower rate is now appropriate.

The Division of Ratepayer Advocates (DRA) has reviewed the filings of the utilities and agrees with the estimates as filed with the exceptions of adjustment for rate of return and one accounting issue. That issue is how to allocate delay-related unreasonable costs between AFUDC and non-AFUDC. DRA recommends further consideration of this issue.

Edison and SDG&E rely on different decisions to allocate delay disallowances. Significant tax differences between the two methods underline the importance of determining the proper method to use. If we were to adopt one of the two methods here, we would not know the precise revenue consequences since we have no testimony on this subject after our determination of the basis and amount of unreasonable pre-COD SONGS expenditures in Phase 2.

Determination of the AFUDC portion of the total disallowance under D.86-10-069 is highly sensitive to the exact time period in which the unreasonable delay occurred. The AFUDC effect is difficult to quantify. We agree with staff that further detailed consideration is appropriate on this issue and will order filing of testimony for further consideration in the proceedings on post-COD costs, A.87-05-031 of Edison and A.87-07-044 of SDG&E.

In the meantime we will adopt the utility estimates of 1988 base rate revenue requirement as adjusted by today's orders in the Edison general rate proceeding and the SDG&E attrition proceeding. This base rate increase will be authorized subject to refund pending resolution of the accounting issue of allocating delay-related disallowances between AFUDC and non-AFUDC. This amount, which is unknown at this time, has until now been in a balancing account and subject to future adjustment following reasonableness review. Allowing the expenses into base rates subject to refund is virtually identical treatment.

2. Pre-COD MAAC Balance.

The MAAC Balancing Accounts record the difference between the investment-related revenue requirement for SONGS 2&3 and recorded revenue billed under the MAAC interim rates. SONGS 2&3 revenue requirement was included in the MAAC Balancing Account beginning on September 7, 1983 for SONGS 2 and April 1, 1984 for SONGS 3. Edison estimates that the balance in its MAAC Balancing Account attributable to the approved pre-COD amounts as of December 31, 1987 will be ($62.6) million (undercollected). SDG&E estimates a comparable balance of $41.0 million (overcollected).

Edison requests that we find its estimated balance reasonable for balancing rate purposes and that we authorize Edison to amortize the recorded balance over three years. The three-year period is chosen to coincide with its general rate case cycle.

SDG&E similarly requests that we find its estimated balance reasonable, but SDG&E desires to delay making any rate reduction. It requests authorization to "offset" the pre-COD balance (overcollected) with post-COD balance (undercollected). The request is made in order to provide revenue stability.

DRA has reviewed the recorded balances as of July 31, 1987 and the estimated balances as of December 31, 1987 for both utilities. DRA agrees with the balances as provided by the utilities with the exception of amounts related to two issues. The first issue relates to "billing lag". The utilities have not adjusted the end of year balances to reflect amounts billed in December but which will not be collected until January of 1988. The DRA recommended adjustments are $40.6 million for Edison and $9.5 million for SDG&E. According to the DRA filing, the utilities agree with the DRA recommendation.

The second issue is whether or not the utilities should accrue interest on the income tax expense portion of the undercollections in the MAAC Balance Account. DRA recommends that interest not be allowed on these expenses because the income tax on the revenue shortfall will not be paid until the utilities are reimbursed for the undercollections. We note that this issue applies to all non-cash expenses booked to the MAAC accounts, not just to income taxes. According to DRA this issue could result in an adjustment for Edison of $16 million.

The utilities have not agreed to this DRA recommendation. DRA further recommends that this issue be addressed in filings to be made by the utilities within 60 days of this decision.

We will adopt the balances recommended by the DRA which include the billing lag adjustment. We will defer resolution of the interest issue until the utilities have made the filings as recommended by the DRA. At this point the issue is whether to allow amortization of the MAAC balances beginning January 1, 1988 subject to future account adjustment or to defer the amortization of the balance until we have reviewed the utility filings and resolved the issue. In the interest of rate stability, we will allow amortization of the balance beginning January 1988 subject to refund. This treatment concerns a specific issue, and the "subject to refund" treatment is virtually identical to the current balancing account treatment. The table below computes the adopted balance.

<u>Edison</u>
($ in millions)

(62.6)	- Estimated December 31, 1987 MAAC balance
40.6	- Unbilled revenues due to billing lag
(0.2)	- F&U (franchise fees & uncollectibles)
(22.2)	- Balance to be amortized (undercollection)

<u>SDG&E</u>
($ in millions)

41.0	- Estimated December 31, 1987 MAAC balance
9.5	- Unbilled revenues due to billing lag
50.5	- Subtotal of balance to be amortized
1.1	- F&U
51.6	- Balance to be amortized (overcollection)

3. Amortization Period

D.86-10-069 ordered that the utilities would provide alternate amortization periods in the filings which are before us now. The utilities provided alternate scenarios based upon one, two, and three year amortization periods. Edison recommends a three-year amortization period for the MAAC balance. This choice is made because it coincides with its general rate case cycle. The balances would be reduced to zero by the beginning of the test year in its next general rate case.

SDG&E also recommends a three-year amortization period of its pre-COD balance. This recommendation is made to be consistent with its proposal in the post-COD application (A.87-07-044) and to minimize the rate impact on its retail customers when the balancing rate is terminated.

DRA recommends that the amortization period be further studied. DRA also recommends that amortization of this balance be deferred until either the DRA and the utilities can reach agreement or until we resolve the issue.

Instead of the DRA recommended delay, we will adopt the three-year period recommended by the utilities in order to coincide with Edison's general rate case cycle and to minimize the rate impact on consumers.

B. Post-COD Issues

1. 1988 Revenue Requirement

Our previously adopted transition procedures also provide for setting a MAAC interim rate to recover a portion of the 1988 revenue requirement associated with SONGS 2&3 post-COD plant additions which have not yet been reviewed for reasonableness. The portion to be recovered is 94.1% of the actual jurisdictional revenue requirement. Edison estimates its 1988 revenue requirement for these items to be $58.7 million. This amount adjusted by the 94.1% factor is $55.2 million. The comparable figures for SDG&E are $16.0 million adjusted to $15.1 million.

The DRA has reviewed these estimates and takes no exception beyond adjustment for adopted 1988 rate of return. We will adopt these estimates as reasonable for the purpose of setting interim rates.

2. Post-COD Balancing Account Balance

After the commercial operating date the utilities have been incurring investment related expenses for post-COD plant additions. Revenue requirements associated with these expenses have flowed into the MAAC accounts, but the capital costs have not yet been reviewed for reasonableness. Since no interim rates are in place, there are now a balances in the MAAC accounts related to post-COD costs.

SDG&E estimates that this balance as of December 31, 1987 will be $31.8 million. SDG&E requests authority to begin to amortize this balance before reasonableness review by amortizing 94.1% (the reasonableness factor) of this balance. Thus SDG&E would amortize $29.9 million ($31.8 million x 94.1%) beginning January 1988. SDG&E recommends that the amortization period be three years consistent with the pre-COD balancing account amortization period. Since the pre-COD balance is overcollected and the post-COD balance is undercollected, the two balancing rates would offset each other to a large extent thus preventing a major rate impact.

Edison neither quantifies its post-COD balance as of December 31, 1987, nor requests authority to begin to amortize any such balance presently.

The DRA response is equivocal but seems to endorse the SDG&E request.

We will not authorize the SDG&E proposal for this item. Prior decisions have established the transition procedures. This order is to consider very limited issues essentially dealing with the mechanics of compliance with the prior decisions and is not the proper forum to entertain new proposals. So, although the SDG&E proposal is not unreasonable on its face, we will not adopt it at this time.

C. Tables

The tables which follow for each company show the present, requested and adopted rates and revenues, including adjustment for rates of return adopted today in other proceedings:

TABLE 1

SOUTHERN CALIFORNIA EDISON COMPANY
Summary of 1988 Annualized Revenue and Rate Changes
San Onofre Nuclear Generating Station (SONGS), Units 2 and 3
(Edison share, CPUC jurisdictional)

	Rates (cents/kwh)			Annual Revenues ($ millions)		
	Present	Req.	Adopted	Present	Requested	Adopted
1. Average base rate level for SONGS 2&3 pre-COD costs	-0-	0.817	0.773	-0-	524.251	501.626
2. Amortization of MAAC account balance for pre-COD costs	-0-	0.036	0.013	-0-	23.158	8.240
3. MAAC rate level for pre-COD costs	1.270	-0-	-0-	819.154	-0-	-0-
4. MAAC rate level for post-COD costs	-0-	0.086	0.082	-0-	55.285	52.599
5. Total	1.270	0.939	0.872	819.154	602.694	562.465

Notes: Present revenues calculated using 64,500.3 GWH, sales adopted in 1988 General Rate Case, A.86-12-047. Difference between present and requested revenues varies slightly from company filing, due to sales changes.

Adopted revenues calculated using rate of return adopted in General Rate Case (12.75% return on equity).

TABLE 2

SAN DIEGO GAS AND ELECTRIC COMPANY
Summary of 1988 Annualized Revenue and Rate Changes
San Onofre Nuclear Generating Station (SONGS), Units 2 and 3
(SDG&E share, CPUC jurisdictional)

	Rates (cents/kwh)			Annual Revenues ($ millions)		
	Present	Req.	Adopted	Present	Requested	Adopted
1. Average base rate level for SONGS 2&3 pre-COD costs	-0-	1.137	1.098	-0-	144.220	138.452
2. Amortization of MAAC account balance for pre-COD costs	-0-	(0.119)	(0.152)	-0-	(15.425)	(19.140)
3. MAAC rate level for pre-COD costs	1.897	-0-	-0-	239.139	-0-	-0-
4. MAAC rate level for post-COD costs	-0-	0.119	0.113	-0-	15.061	14.287
5. Amortization of MAAC account balance for post-COD costs	-0-	0.086	-0-	-0-	11.005	-0-
6. Total	1.897	1.223	1.060	239.139	154.861	133.599

Notes: Present revenues calculated using 12,606.18 GWH, sales adopted in ECAC/ERAM Applications 87-04-018, 87-07-009. Difference between present and requested revenues varies slightly from company filing, due to sales changes.

Adopted revenues calculated using rate of return adopted in attrition Application 87-07-050 (12.75% return on equity).

Findings of Fact

1. On September 17, 1987, Edison filed a motion for a Commission order authorizing rates in compliance with the Commission's Phase 2 decision.

2. On October 1, 1987, SDG&E filed a motion for a Commission order authorized rates in compliance with the Commission's Phase 2 decision.

3. D.86-08-060 adopted transition procedures to be used in implementing into rates the costs to be found reasonable in D. 86-10-069 and D. 87-07-097.

4. D.86-10-069 is the original Phase 2 decision on reasonableness of pre-COD capital expenditures.

5. The Commission granted limited rehearing on D.86-10-069 by order on March 17, 1987.

6. The Commission issued D.87-07-097 on July 29, 1987 modifying D.86-10-069 regarding the amount of disallowance due to imprudent actions by applicants and denying further rehearing.

7. A petition for rehearing of D.87-07-097 was filed by the Attorney General of the State of California on September 8, 1987, challenging the procedure and method used by the Commission in determining the disallowance.

8. The Commission issued D.87-11-018 on November 13, 1987 modifying D.86-10-069 and D.87-07-097 and denying rehearing.

9. DRA filed a response to the motions on December 10, 1987.

10. Edison's and SDG&E's estimates of the balances in the Major Additions Adjustment Clause (MAAC) accounts for Edison and SDG&E do not credit the December 1987 MAAC-Annual Ownership Rate (AOR) sales which will be billed in January 1988 due to billing lag.

11. The issue of accruing interest in the MAAC accounts on income tax and other non-cash MAAC Balancing Account debits related to uncollected revenue has not been resolved by the Commission.

12. Edison and SDG&E request to establish MAAC Balancing Rate components reflecting a three-year amortization of MAAC balances associated with pre-COD plant costs.

13. The Phase 2 decision determined a 94.1% reasonableness factor to be applied to post-COD expenditures for interim ratemaking purposes until a decision is issued on reasonableness of post-COD expenditures.

14. The Commission has issued a decision today in Edison's general rate case (GRC), A.86-12-047, adopting a 12.75% return on equity.

15. The Edison GRC decision also adopted a revised sales estimate.

16. The Commission issued a decision today in SDG&E's 1988 attrition year filing, A.87-07-050, adopting a 12.75% allowable return on equity.

17. Edison and SDG&E interpreted the AFUDC effects of the Phase 2 Commission decisions differently.

18. A 1988 base rate increase of $501.6 million for Edison to reflect the revenue requirement for SONGS 2&3 investment adopted in Phase 2 complies with Phase 2 decisions.

19. A 1988 revenue decrease for Edison of $819.2 million to reflect reduction of the MAAC interim rate attributable to pre-COD interim rates complies with Phase 2 decisions.

20. A 1988 revenue increase for Edison of $52.6 million to reflect the MAAC interim revenue requirement associated with SONGS 2&3 post-COD plant additions reduced by the reasonableness factor adopted in Phase 2 complies with Phase 2 decisions.

21. It is reasonable to reflect in 1988 revenue for Edison the amortization over three years of the MAAC Balancing Account level, for an annual revenue increase of $8.2 million.

22. A 1988 base rate increase of $138.5 million for SDG&E to reflect the revenue requirement for SONGS 2&3 investment adopted in Phase 2 complies with Phase 2 decisions.

23. A 1988 revenue decrease of $239.1 million for SDG&E to reflect reduction of the MAAC interim rate attributable to pre-COD interim rates complies with Phase 2 decisions.

24. A 1988 revenue increase for SDG&E of $14.3 million to reflect the MAAC interim revenue requirement associated with SONGS 2&3 post-COD plant additions reduced by the reasonableness factor adopted in Phase 2 complies with Phase 2 decisions.

25. It is reasonable to reflect in 1988 revenue for SDG&E the amortization over three years of the MAAC balancing account level, for an annual revenue increase of $19.1 million.

26. The revenue changes authorized in this order are just and reasonable with the exception of those amounts that are being authorized subject to adjustment as discussed in the text of this order.

Conclusions of Law

1. Hearings on these motions are not required since the issues of prudency of actions by applicants have been fully considered and decided by the Commission in Phase 2.

2. Edison and SDG&E should be required to file testimony on the proper method of determining the AFUDC impact of the expenses determined to be unreasonable in Phase 2.

3. Edison and SDG&E should be ordered to file testimony on the issue of accruing interest on undercollections in the MAAC Balancing Account associated with non-cash expenses.

4. SDG&E and Edison should be authorized to reflect in rates the revenue requirement changes found reasonable in this order.

5. It is not appropriate to reflect in 1988 revenue for SDG&E any increase to amortize of the post-COD SONGS 2&3 MAAC Balancing Account.

ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) is authorized to increase 1988 base rates by $501.6 million to reflect the revenue requirement for the San Onofre Nuclear Generating Station Units 2 and 3 (SONGS 2&3) investment adopted as reasonable in the Phase 2 decisions.

2. Edison is authorized to decrease 1988 revenues by $819.2 million to reflect reduction of the interim pre-Commercial Operating Date (pre-COD) Major Additions Adjustment Clause (MAAC) Annual Ownership Rate (AOR) to zero in compliance with the Phase 2 decisions.

3. Edison is authorized to increase 1988 revenues by $52.6 million to reflect the interim MAAC AOR revenue requirement for SONGS 2&3 post-COD plant additions reduced by the adopted reasonableness factor in compliance with the Phase 2 decisions.

4. Edison is authorized to increase 1988 revenues by $8.2 million amortized over 3 years the MAAC Balancing Account level associated with pre-COD costs.

5. San Diego Gas and Electric Company (SDG&E) is authorized to increase 1988 base rates by $138.5 million to reflect the revenue requirement for SONGS 2&3 investment adopted as reasonable in the Phase 2 decisions.

6. SDG&E is authorized to decrease 1988 revenues by $239.1 million to reflect reduction of the interim pre-COD MAAC AOR to zero in compliance with the Phase 2 decisions.

7. SDG&E is authorized to increase 1988 revenues by $14.3 million to reflect the interim MAAC AOR revenue requirement for SONGS 2&3 post-COD investment reduced by the reasonableness factor in compliance with Phase 2 decisions.

8. SDG&E is authorized to reduce 1988 revenues by $19.1 million to amortize over three years the MAAC Balancing Account level associated with pre-COD costs.

9. SDG&E's request to amortize the MAAC balancing account level associated with post-COD SONGS 2&3 costs is denied.

10. Edison and SDG&E shall file testimony on allocation of unreasonable SONGS 2&3 plant costs to AFUDC within 60 days of the effective date of this order.

11. Edison and SDG&E shall file testimony within 60 days on the issue of MAAC balancing account interest applied to account debits for utility expenses not yet paid.

12. Edison and SDG&E are ordered to file tariffs in compliance with this order within seven (7) days of the effective date of this decision.

13. Except as otherwise provided herein, all other aspects of the motions of Edison and SDG&E are denied.

This order is effective today.

Dated ____________________, at San Francisco, California.