

Decision 88 03 022 MAR 09 1988

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SOUTHERN CALIFORNIA EDISON COMPANY )  
(U 338-E) for Authority to Increase )  
Rates Charged for Electric Service )  
to Recover the Costs of Owning, )  
Operating, and Maintaining Palo Verde )  
Nuclear Generating Station )  
Unit No. 3. )

Application '87-08-054  
(Filed August 28, 1987)

Stephen E. Pickett, Attorney at Law, for  
Southern California Edison Company,  
applicant.

Kermit P. Kubitz, Attorney at Law, for  
Pacific Gas and Electric Company;  
Becky Jehorek, for Independent Power  
Corporation; and Edward Duncan, for  
Consumers Coalition of California,  
interested parties.

Thomas Corr, Attorney at Law, for the  
Division of Ratepayer Advocates.

OPINION

Summary of Decision

We authorize Southern California Edison Company (Edison) to increase its rates for electric service to recover the cost of owning, operating, and maintaining Palo Verde Nuclear Generating Station Unit No. 3 (Palo Verde 3).

History of Proceeding

On August 28, 1987, Edison filed Application (A.) 87-08-054 for authority to increase rates charged for electric service to recover its share of the costs of owning, operating, and maintaining Palo Verde 3. Commencing on the commercial operating date (COD) of Palo Verde 3, Edison requests the recovery of the investment related costs in accordance with the stipulated ratemaking treatment adopted for Palo Verde 1 and 2 in Decision

(D.) 86-10-023. Edison also requests recovery of the revenue requirement for Palo Verde 3 noninvestment-related costs and nuclear decommissioning costs adopted in Edison's 1988 general rate case (A.86-12-047) and in Order Instituting Investigation 86 (OII 86) proceedings respectively. In addition Edison requests recovery of the revenue requirement associated with Palo Verde 3 nuclear fuel inventory.

Palo Verde 3 achieved commercial operation on January 20, 1988. By a letter dated February 19, 1988, the Commission Advisory and Compliance Division (CACD) has certified that Palo Verde 3 met the COD criteria effective January 20, 1988.

Public participation and evidentiary hearings were held before Administrative Law Judge Garde on January 7, 1988. At the hearings, Edison stipulated to the Division of Ratepayer Advocates' (DRA) ratemaking recommendations for Palo Verde 3. No other party opposed the stipulation.

Reasonable Level of Investment in Palo Verde 3

The stipulation adopted in D.86-10-023 establishes the reasonableness of Edison's share of Palo Verde investment on the basis of the reasonableness of Edison's investment in San Onofre Nuclear Generating Station Units Nos. 2 and 3 (SONGS). Specifically, the level of plant investment for each Palo Verde unit, to be adopted for California jurisdictional ratemaking purposes is equal to recorded plant investment incurred prior to January 1, 1988, or the unit's COD, whichever is later, less the Palo Verde Adjustment Factor (PVAF). The PVAF is a proportionate amount of disallowance based on the disallowance of plant investment adopted for SONGS. The PVAF is calculated by the following formula:

$PVAF = PVINV \times [0.19333 \times (SDIS/\$1,539 \text{ million})] \times JAF;$

Where:

PVAF = Downward adjustment for California jurisdictional ratemaking purposes to Edison's recorded Palo Verde investment;

PVINV = Edison's recorded dollar amount of Palo Verde investment up to a limit of \$1,750 million;

SDIS = Edison's share, on a total system basis, of any disallowance of SONGS investment resulting from the SONGS reasonableness review; and

JAF = The most recently adopted retail jurisdictional factor.

#### Phase-in Procedure

The stipulation also provides for a rate phase-in procedure which defers investment-related revenue requirement for each Palo Verde unit from current rate recovery based on the following schedule:

- a. \$80 million in the first year after each unit's COD;
- b. \$60 million in the second year;
- c. \$40 million in the third year; and
- d. \$20 million in the fourth year.

The deferred investment-related revenue requirement for each Palo Verde unit will be recovered subsequently during the fifth through tenth years following the unit's COD.

#### Target Capacity Factor

The stipulation also includes a Target Capacity Factor (TCF) procedure similar to that adopted for SONGS. D.86-10-023 authorized revisions to the Nuclear Unit Incentive Procedure contained in Part G of the Preliminary Statement of Edison's tariffs to include Palo Verde 1, 2 and 3 commencing on each unit's COD. Accordingly, Edison's tariffs should be modified to include an incentive procedure for Palo Verde 3.

Commercial Operating Date Criteria

D.86-10-023 adopted the following COD criteria for Palo Verde 3:

- a. Completion of all NRC-required initial start-up testing at full power level;
- b. Completion of 100 continuous hours of operation at full power level during or after the NRC-required initial start-up testing at the full power level; and
- c. Return to full power level after any outage resulting from, or causally related to, the NRC-required initial start-up testing.

D.86-10-023 also adopted procedures for determining whether Palo Verde has met the COD criteria and implementing rates for Palo Verde 3. Edison requests that Ordering Paragraph 6 in D.86-10-023, which implements rates for Palo Verde 3, be modified to correct a timing problem relative to the effective date of rate relief. Ordering Paragraph No. 6 states that:

"Tariffs for Palo Verde Units Nos. 2 and 3 shall be filed 10 days after the Executive Director's acceptance of the units meeting the Commission's COD criteria to be effective five days after filing."

In accordance with the procedures adopted in D.86-10-023, the CACD (formerly the Evaluation and Compliance Division) has up to 30 days after Edison files its affidavit showing that the COD criteria for Palo Verde 3 have been met to certify that the unit has met the COD criteria and inform the Executive Director. Given the tariff filing and effective date provisions in the ordering paragraph, Edison is exposed to a loss of recovery for up to 45 days.

DRA believes that Edison should be allowed recovery of the revenue requirements for Palo Verde 3 effective on the COD of that unit. Therefore, DRA recommends that Edison be authorized to file tariffs which reflect Palo Verde 3 in rates pursuant to a

decision in this application, effective for service rendered after the unit's COD; and that these rates be subject to refund until the Executive Director has notified the Commission and Edison that Palo Verde 3 has met the COD criteria. According to DRA, Edison should file with its tariff an affidavit showing that the COD criteria for Palo Verde 3 have been met. At the same time, CACD should provide a preliminary verification that the COD criteria have been met. The procedure for final certification of commercial operation for Palo Verde 3 should be consistent with the procedures followed for Palo Verde 1 and 2.

By Resolution E-3077 (E-3077), dated January 19, 1988, the Commission authorized Edison to revise its rates effective on the COD of Palo Verde 3. Therefore, this timing problem regarding the effective date of the rate relief has been solved and need not be considered in this order.

#### Results of Operation

DRA calculated the reasonableness level of plant investment in accordance with D.86-10-023. The level of plant investment reflects (1) Edison's best estimate of the recorded plant investment costs projected for a COD of March 1, 1988; (2) the PVAf calculated using Edison's share of disallowance of \$198.6 million for SONGS adopted in D.87-07-097; and (3) the jurisdictional allocation factor for Palo Verde 3 of 97.082%.

The DRA proposed CPUC jurisdictional revenue requirement for Palo Verde 3 is contained in Table A. According to DRA, the annualized amount of \$111,868,000 consists of the revenue requirement for: (1) investment related expenses; (2) non-investment expenses; and (3) nuclear decommissioning expenses. The weighted average rate base is for the reasonable level of plant investment determined in accordance with the procedure discussed above. The noninvestment expenses include \$11,467,000 for operation and maintenance expenses; \$1,892,000 for administrative and general expenses; and \$425,000 for payroll taxes which were

✓

adopted for Palo Verde 3 in D.87-12-066 in Edison's general rate case. The amount of jurisdictional nuclear decommissioning expense of \$5,995,000 is the amount adopted in D.87-11-023 in OII 86. The revenue requirement computation reflects the test year 1988 rate of return and other revenue requirement factors adopted in D.87-12-066.

DRA recommends that Edison be authorized to increase its base rates by \$31,106,000 (after adjustments for franchise fees and uncollectibles) on an annual basis commencing on the COD of Palo Verde 3. This level reflects the deferral of \$80,000,000 investment-related revenue requirement in accordance with D.86-10-023.

Edison requests authorization to modify its Palo Verde phase-in procedure tariff to reflect the change of nuclear decommissioning expense from an investment-related cost to a noninvestment-related expense. No party opposed Edison's request.

D.87-05-062 in OII 86 eliminated decommissioning expense as a component of depreciation and ordered that the decommissioning expenses be collected and deposited in an external fund thus making decommissioning expenses noninvestment related. D.86-12-066 in Edison's 1988 general rate case treated the decommissioning expenses for Edison's other nuclear units as noninvestment related. Accordingly, we will treat the decommissioning expenses for Palo Verde 3 as noninvestment related.

D.87-12-066 orders Edison to address the issue of nuclear fuel inventory costs in its Energy Cost Adjustment Clause proceedings. Therefore, we will not consider Edison's request for recovery of costs associated with nuclear fuel inventory for Palo Verde 3.

## TABLE A

SOUTHERN CALIFORNIA EDISON COMPANY  
PALO VERDE NUCLEAR GENERATING STATION UNIT 3

## SUMMARY OF EARNINGS

## EDISON SHARE

(Thousands of Dollars)

Line No.	Description	Total 1/
1	Total Revenue Requirement	\$211,868
2	Operating Expenses	
3	Operation & Maintenance	11,467
4	Administrative & General	1,892
5	Payroll Taxes	425
6	Uncollectibles	239
	Franchise Requirements	817
7	Subtotal (1988 Dollars)	14,840
8	Depreciation	13,394
9	Nuclear Decommissioning	5,995
10	Ad Valorem Taxes	2,657
11	Income Taxes	24,559
12	Total Operating Expenses	61,445
13	Net Operating Income	50,423
14	Rate Base	469,028
15	Rate of Return	10.75%

1/ CPUC Jurisdiction

TABLE B  
SOUTHERN CALIFORNIA EDISON COMPANY

PROPOSED INCREASE TO BASE RATE LEVELS FOR PALO VERDE UNIT 3  
BASED ON THE CALIFORNIA JURISDICTIONAL REVENUE REQUIREMENT

Line No.	Description	Amount (S000) (1)	Sales (GWh) (2)	Rate (c/kWh) (3)
1.	Total Estimated Revenue			
2.	Requirement 1/	111,868		
3.	Less: Uncollectibles 1/	239		
4.	Franchise Fees 1/	<u>817</u>		
5.	Subtotal	110,812		
6.	Less: First Year Deferral of 2/			
7.	Palo Verde Unit 3 Revenue			
8.	Requirement	<u>80,000</u>		
9.	Non-Deferred Revenue Requirement	30,812		
10.	Increase For Franchise Fees and			
11.	Uncollectible Accounts at .944%	<u>294</u>		
12.	Total Estimated Non-Deferred			
13.	Revenue Requirement	31,106		
14.	Annualized 1988 Sales 3/		64,500.5	
15.	Proposed Increase to Base Rate			
16.	Levels			<u>.048</u>

1/ From Table A.

2/ Deferral of investment-related revenue requirement only.

3/ Adopted in D.87-12-066 (Edison's Test Year 1988 General Rate Case).



Since the annualized revenue requirement is based on the estimated plant investment for a projected COD of March 1, 1988, DRA recommends that the revenue requirement be recalculated to reflect the actual recorded plant investment incurred up to the actual COD of Palo Verde 3. Accordingly, Edison should file an advice letter to inform the Commission regarding the actual recorded plant investment incurred up to the actual COD of Palo Verde 3. The advice letter should also request any change in rates required as a result of the actual plant investment being different than the estimated plant investment.

#### Rate Design

Edison requests that the rate levels ultimately adopted for Palo Verde be based on the rate design adopted in Edison's general rate case A.86-12-047. D.87-12-066 in A.86-12-047 provides that rate adjustments of less than 1% occurring between general rate cases be implemented on an equal cents per kilowatt-hour (kWh) basis. For Palo Verde 3 the first year revenue increase is \$31,106,000. This amount reflects the first-year deferral of investment-related revenue requirement of \$80,000,000 (and associated franchise fees and uncollectibles) in accordance with the adopted phase-in procedure. Edison's current level of revenues is approximately \$5.35 billion. The DRA recommended rate increase of \$31,106,000 will result in a rate change of approximately 0.6%. Since this rate change is less than 1%, the increase should be allocated on an equal cents per kWh basis. ✓

#### Rate Change

Based on the DRA recommended revenue requirement for Palo Verde 3, Edison prepared Table B to show an increase to its Authorized Level of Base Rate Revenue under the Electric Revenue Adjustment Mechanism (ERAM) of \$31,106,000 and an increase in its base rate levels of 0.048¢/kWh. DRA stipulated to Edison's computation of the rate increase of 0.048¢/kWh. ✓

Resolution E-3077 authorized Edison to increase its Authorized Level of Base Rate Revenue under the ERAM by \$19,967,000 and to increase its base rate levels by 0.031¢/KWH to cover noninvestment and decommissioning expenses. Therefore, Edison should now be authorized to increase its Authorized Level of Base Rate Revenue under the ERAM by \$11,139,000 (\$31,106,000 less \$19,967,000) and to increase its base rate levels by 0.017¢/KWH (0.048 ¢/KWH less 0.031¢/KWH effective for service rendered on and after the date Edison files its tariffs implementing this decision.

Transitional Procedure

Resolution E-3077 also authorized Edison to record in its Major Additions Adjustment Clause (MAAC) balancing account the revenue requirement associated with the reasonable level of Palo Verde 3 investment determined in accordance with the procedure adopted in D.86-10-023. This treatment is effectively the same as the treatment authorized for Palo Verde 1 and 2.

Therefore, we need to adopt a procedure to transfer recovery of the revenue requirement associated with Palo Verde 3 investment from MAAC balancing account to base rates. Accordingly, on the effective date of the tariffs adopted in this decision, we will require Edison to take the following steps:

1. Transfer the balance in the MAAC balancing account related to Palo Verde 3 investment to the ERAM balancing account. ✓
2. Increase base rate levels and the authorized base rate revenue amount under the ERAM to fully reflect the non-deferred investment related revenue requirement for Palo Verde 3. ✓
3. Modify the MAAC tariff to exclude Palo Verde 3. ✓

Comments on the Proposed Decision

Edison has filed comments on the ALJ's proposed decision. Most of the comments suggest minor editorial modifications to clarify certain issues, and have been adopted.

The only significant issue raised by Edison deals with the treatment of the nuclear decommissioning expenses. Edison had requested the modification of its Palo Verde phase-in tariff to reflect the change in nuclear decommissioning expense from an investment-related cost to a noninvestment expense. The ALJ's proposed decision did not address this issue. Edison's requested modification is appropriate for reasons stated on page 6 and is adopted.

Findings of Fact

1. Edison requests authority to increase its rates to recover its share of the costs of owning, operating, and maintaining Palo Verde 3.

2. Edison requests recovery of the investment related costs in accordance with the stipulated ratemaking treatment adopted in D.86-10-023 for Palo Verde 1, 2, and 3.

3. Edison requests recovery of revenue requirement for noninvestment-related expenses and nuclear decommissioning costs for Palo Verde 3 adopted in A.86-12-047 and OII 86 respectively.

4. Edison has stipulated to the ratemaking recommendations made by DRA.

5. DRA recommends that Edison be authorized to recover in rates an annualized revenue requirement of \$31,106,000.

6. The level of plant investment reflected in the results of operations recommended by the DRA assumes a COD of March 1, 1988.

7. COD criteria for Palo Verde 3 have been adopted in D.86-10-023.

8. Palo Verde 3 achieved commercial operation on January 20, 1988, as verified by the CACD on February 19, 1988.

9. The actual investment for Palo Verde 3 may be different than the estimated investment based on a COD of March 1, 1988.

10. DRA's recommended rate increase for investment related costs is consistent with the ratemaking treatment adopted in D.86-10-023.

11. DRA's recommended rate increases for noninvestment-related expenses and nuclear decommissioning costs are consistent with the revenue requirements adopted in D.87-12-066 in (A.86-12-047) and D.87-11-023 (in OII 86) respectively.

12. Edison requests that the rate increase for Palo Verde 3 be based on the rate design adopted in Edison's general rate case A.86-12-047.

13. D.87-12-066 in Edison's 1988 general rate case provides that rate adjustments of less than 1% occurring between general rate cases be implemented on an equal cents per kWh basis.

14. DRA's recommended rate increase for Palo Verde 3 will result in a rate change of approximately 0.6%.

15. DRA's recommended rate increase for Palo Verde 3 will result in an increase to Edison's Authorized Level of Base Rate Revenue under the ERAM of \$31,106,000 and an increase of 0.048¢/kWh in Edison's base rate levels.

16. Resolution E-3077 authorized Edison to increase its Authorized Level of Base Rate Revenue under the ERAM by \$19,967,000 and to increase its base rate levels by 0.031¢/kWh to cover noninvestment and decommissioning expenses effective for service rendered on and after the unit's COD.

17. The Commission has authorized MAAC balancing account treatment for revenue requirements associated with the reasonable level of Palo Verde 3 investment.

#### Conclusions of Law

1. Edison should be authorized to increase its Authorized Level of Base Rate Revenue under the ERAM by \$11,139,000, increase its base rate levels by 0.017¢/kWh, and modify its Palo Verde

Phase-In Procedure tariff as it requested, effective for service rendered on and after the date tariffs are filed implementing this decision.

2. Edison should be required to file an advice letter setting forth the revenue requirement and rates associated with plant investment to reflect the actual COD.

3. The rate increase should be subject to refund until rates have been revised to reflect plant investment as of the actual COD and to amortize any under or over collection of rates subject to refund. ✓

4. The rate recovery for Palo Verde 3 should be transferred from the MAAC balancing account to base rates on the effective date of the tariffs adopted in this decision.

#### ORDER

##### IT IS ORDERED that:

1. Southern California Edison Company (Edison) is authorized to file tariffs to increase its Authorized Level of Base Rate Revenue under the ERAM by \$11,139,000, increase its base rate levels by 0.017¢/kWh, and modify the Palo Verde Phase-In Procedure tariff as it requested. These tariffs shall be in accordance with the phase-in procedure adopted in D.86-10-023.

2. These tariffs shall be filed within 10 days after the effective date of this order and will include a workpaper demonstrating compliance with baseline laws for residential rates. The resulting rate changes shall be effective for service rendered on and after the date such tariffs are filed.

3. The rate increase authorized in this order shall be subject to refund until the rates requested in the advice letter, to be filed to reflect actual plant investment as of the actual COD, have become effective.

4. On the effective date of the tariffs adopted in this decision, Edison shall:

- a. Transfer the balance in the MAAC balancing account related to Palo Verde 3 investment to the ERAM balancing account.
- b. Increase base rate levels and the authorized base rate revenue amount under the ERAM to fully reflect the non-deferred investment related revenue requirement for Palo Verde 3.
- c. Modify the MAAC tariff to exclude Palo Verde 3.

This order is effective today.

Dated MAR 09 1988, 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*  
Victor Weisser, Executive Director

Decision \_\_\_\_\_

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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We authorize Southern California Edison Company (Edison) to increase its rates for electric service to recover the cost of owning, operating, and maintaining Palo Verde Nuclear Generating Station Unit No. 3 (Palo Verde 3).

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On August 28, 1987, Edison filed Application (A.) 87-08-054 for authority to increase rates charged for electric service to recover its share of the costs of owning, operating, and maintaining Palo Verde 3. Commencing on the commercial operating date (COD) of Palo Verde 3, Edison requests the recovery of the investment related costs in accordance with the stipulated ratemaking treatment adopted for Palo Verde 1 and 2 in Decision

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Palo Verde 3 achieved commercial operation on January 20, 1988, subject to verification by the Commission Advisory and Compliance Division (CACD).

Public witness and evidentiary hearings were held before Administrative Law Judge Garde on January 7, 1988. At the hearings, Edison stipulated to the Division of Ratepayer Advocates' (DRA) ratemaking recommendations for Palo Verde 3. No other party opposed the stipulation.

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The stipulation adopted in D.86-10-023 establishes the reasonableness of Edison's share of Palo Verde investment on the basis of the reasonableness of Edison's investment in San Onofre Nuclear Generating Station Units Nos. 2 and 3 (SONGS). Specifically, the level of plant investment for each Palo Verde unit, to be adopted for California jurisdictional ratemaking purposes is equal to recorded plant investment incurred prior to January 1, 1988, or the unit's COD, whichever is later, less the Palo Verde Adjustment Factor (PVAf). The PVAf is a proportionate amount of disallowance based on the disallowance of plant investment adopted for SONGS. The PVAf is calculated by the following formula:

$$PVAf = PVINV \times [0.19333 \times (SDIS/\$1,539 \text{ million})] \times JAF;$$

Where:

PVAf = Downward adjustment for California jurisdictional ratemaking purposes to Edison's recorded Palo Verde investment;



- PVINV = Edison's recorded dollar amount of Palo Verde investment up to a limit of \$1,750 million;
- SDIS = Edison's share, on a total system basis, of any disallowance of SONGS investment resulting from the SONGS reasonableness review; and
- JAF = The most recently adopted retail jurisdictional factor.

Phase-in Procedure

The stipulation also provides for a rate phase-in procedure which defers investment-related revenue requirement for each Palo Verde unit from current rate recovery based on the following schedule:

- a. \$80 million in the first year after each unit's COD;
- b. \$60 million in the second year;
- c. \$40 million in the third year; and
- d. \$20 million in the fourth year.

The deferred investment-related revenue requirement for each Palo Verde unit will be recovered subsequently during the fifth through tenth years following the unit's COD.

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The stipulation also includes a Target Capacity Factor (TCF) procedure similar to that adopted for SONGS. D.86-10-023 authorized revisions to the Nuclear Unit Incentive Procedure contained in Part G of the Preliminary Statement of Edison's tariffs to include Palo Verde 1, 2 and 3 commencing on each unit's COD. Accordingly, Edison's tariffs should be modified to include an incentive procedure for Palo Verde 3.

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D.86-10-023 adopted the following COD criteria for Palo Verde 3:

- a. Completion of all NRC-required initial start-up testing at full power level;

- b. Completion of 100 continuous hours of operation at full power level during or after the NRC-required initial start-up testing at the full power level; and
- c. Return to full power level after any outage resulting from, or causally related to, the NRC-required initial start-up testing.

D.86-10-023 also adopted procedures for determining whether Palo Verde has met the COD criteria and implementing rates for Palo Verde 3. Edison requests that Ordering Paragraph 6 in D.86-10-023, which implements rates for Palo Verde 3, be modified to correct a timing problem relative to the effective date of rate relief. Ordering Paragraph No. 6 states that:

"Tariffs for Palo Verde Units Nos. 2 and 3 shall be filed 10 days after the Executive Director's acceptance of the units meeting the Commission's COD criteria to be effective five days after filing."

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DRA believes that Edison should be allowed recovery of the revenue requirements for Palo Verde 3 effective on the COD of that unit. Therefore, DRA recommends that Edison be authorized to file tariffs which reflect Palo Verde 3 in rates pursuant to a decision in this application, effective for service rendered after the unit's COD; and that these rates be subject to refund until the Executive Director has notified the Commission and Edison that Palo Verde 3 has met the COD criteria. According to DRA, Edison should file with its tariff an affidavit showing that the COD criteria for

Palo Verde 3 have been met. At the same time, CACD should provide a preliminary verification that the COD criteria have been met. The procedure for final certification of commercial operation for Palo Verde 3 should be consistent with the procedures followed for Palo Verde 1 and 2.

By Resolution E-3077 (E-3077), dated January 19, 1988, the Commission authorized Edison to revise its rates effective on the COD of Palo Verde 3. Therefore, this timing problem regarding the effective date of the rate relief has been solved and need not be considered in this order.

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The DRA proposed CPUC jurisdictional revenue requirement for Palo Verde 3 is contained in Table A. According to DRA, the annualized amount of \$111,868,000 consists of the revenue requirement for: (1) investment related expenses; (2) non-investment expenses; and (3) nuclear decommissioning expenses. The weighted average rate base is for the reasonable level of plant investment determined in accordance with the procedure discussed above. The noninvestment expenses include \$11,476,000 for operation and maintenance expenses; \$1,892,000 for administrative and general expenses; and \$425,000 for payroll taxes which were adopted for Palo Verde 3 in D.87-12-066 in Edison's general rate case. The amount of jurisdictional nuclear decommissioning expense of \$5,995,000 is the amount adopted in D.87-11-023 in OII 86. The revenue requirement computation reflects the test year 1988 rate of

return and other revenue requirement factors adopted in D.87-12-066.

DRA recommends that Edison be authorized to increase its base rates by \$31,106,000 (after adjustments for franchise fees and uncollectibles) on an annual basis commencing on the COD of Palo Verde 3. This level reflects the deferral of \$80,000,000 investment-related revenue requirement in accordance with D.86-10-023.

D.87-12-066 orders Edison to address the issue of nuclear fuel inventory costs in its Energy Cost Adjustment Clause proceedings. Therefore, we will not consider Edison's request for recovery of costs associated with nuclear fuel inventory for Palo Verde 3.

TABLE A

SOUTHERN CALIFORNIA EDISON COMPANY  
PALO VERDE NUCLEAR GENERATING STATION UNIT 3

SUMMARY OF EARNINGS

EDISON SHARE

(Thousands of Dollars)

Line No.	Description	Total 1/
1	Total Revenue Requirement	\$111,868
2	Operating Expenses	
3	Operation & Maintenance	11,467
4	Administrative & General	1,892
5	Payroll Taxes	425
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15	Rate of Return	10.75%

1/ CPUC Jurisdiction

TABLE B  
SOUTHERN CALIFORNIA EDISON COMPANY  
PROPOSED INCREASE TO BASE RATE LEVELS FOR PALO VERDE UNIT 3  
BASED ON THE CALIFORNIA JURISDICTIONAL REVENUE REQUIREMENT

Line : No. :	Description	Amount : (S000) : (1)	Sales : (GWh) : (2)	Rate : (c/kWh) : (3)
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2.	Requirement 1/	111,862		
3.	Less: Uncollectibles 1/	239		
4.	Franchise Fees 1/	<u>817</u>		
5.	Subtotal	110,812		
6.	Less: First Year Deferral of			
7.	Palo Verde Unit 3 Revenue			
8.	Requirement	<u>80,000</u>		
9.	Non-Deferred Revenue Requirement	30,812		
10.	Increase For Franchise Fees and			
11.	Uncollectible Accounts at .944%	<u>294</u>		
12.	Total Estimated Non-Deferred			
13.	Revenue Requirement	31,106		
14.	Annualized 1988 Sales 2/		64,500.5	
15.	Proposed Increase to Base Rate			
16.	Levels			<u>.048</u>

1/ From Table A.

2/ Adopted in D.87-12-066 (Edison's Test Year 1988 General Rate Case).

Since the annualized revenue requirement is based on the estimated plant investment for a projected COD of March 1, 1988, DRA recommends that the revenue requirement be recalculated to reflect the actual recorded plant investment incurred up to the actual COD of Palo Verde 3. Accordingly, Edison should file an advice letter to inform the Commission regarding the actual recorded plant investment incurred up to the actual COD of Palo Verde 3. The advice letter should also request any change in rates required as a result of the actual plant investment being different than the estimated plant investment.

Rate Design

Edison requests that the rate levels ultimately adopted for Palo Verde be based on the rate design adopted in Edison's general rate case A.86-12-047. D.87-12-066 in A.86-12-047 provides that rate adjustments of less than 1% occurring between general rate cases be implemented on an equal cents per kilowatt-hour (kWh) basis. For Palo Verde 3 the first year revenue increase is \$31,106,000. This amount reflects the first-year deferral of \$80,000,000 (and associated franchise fees and uncollectibles) in accordance with the stipulated phase-in procedure. Edison's current level of revenues is approximately \$5.35 billion. The DRA recommended rate increase of \$31,106,000 will result in a rate change of approximately 0.6%. Since this rate change is less than 1%, the increase should be allocated on an equal cents per kWh basis.

Rate Change

Based on the DRA recommended revenue requirement for Palo Verde, Edison prepared Table B to show an increase of 0.048¢/kWh in its rates for Palo Verde 3. DRA stipulated to Edison's computation of rate increase of 0.048¢/kWh.

E-3077 authorized Edison to increase its base rates by 0.031¢/kWh to cover noninvestment and decommissioning expenses. Therefore, Edison should be authorized only 0.017¢/kWh

(0.048-0.031) increase in base rates on the effective date of this order.

Transitional Procedure

Resolution E-3077 also authorized Edison to record in its Major Additions Adjustment Clause (MAAC) balancing account the revenue requirement associated with the reasonable level of Palo Verde 3 investment determined in accordance with the procedure adopted in D.86-10-023. This treatment is effectively the same as the treatment authorized for Palo Verde 1 and 2.

Therefore, we need to adopt a procedure to transfer recovery of the revenue requirement associated with Palo Verde 3 investment from MAAC balancing account to base rates. Accordingly, on the effective date of the tariffs adopted in this decision, we will require Edison to take the following steps:

1. Transfer the balance in the MAAC balancing account related to Palo Verde 3 investment to the ERAM balancing account.
2. Increase base rate levels and the authorized base rate revenue amount under the ERAM to fully reflect the non-deferred investment related revenue requirement for Palo Verde 3.
3. Modify the MAAC tariff to exclude Palo Verde 3.

Findings of Fact

1. Edison requests authority to increase its rates to recover its share of the costs of owning, operating, and maintaining Palo Verde 3.
2. Edison requests recovery of the investment related costs in accordance with the stipulated ratemaking treatment adopted in D.86-10-023 for Palo Verde 1 and 2.
3. Edison requests recovery of revenue requirement for noninvestment-related expenses and nuclear decommissioning costs for Palo Verde 3 adopted in A.86-12-047 and OII 86 respectively.
4. Edison has stipulated to the ratemaking recommendations made by DRA.



5. DRA recommends that Edison be authorized to recover in rates an annualized revenue requirement of \$31,106,000.

6. The level of plant investment reflected in the results of operations recommended by the DRA assumes a COD of March 1, 1988.

7. COD criteria for Palo Verde 3 have been adopted in D.86-10-023.

8. Palo Verde 3 achieved commercial operation on January 20, 1988, subject to verification by the CACD.

9. The actual investment for Palo Verde 3 may be different than the estimated investment based on a COD of March 1, 1988.

10. DRA's recommended rate increase for investment related costs is consistent with the ratemaking treatment adopted in D.86-10-023.

11. DRA's recommended rate increases for noninvestment-related expenses and nuclear decommissioning costs are consistent with the revenue requirements adopted in D.87-12-066 in (A.86-12-047) and D.87-11-023 (in OII 86) respectively.

12. Edison requests that the rate increase for Palo Verde 3 be based on the rate design adopted in Edison's general rate case A.86-12-047.

13. D.87-12-066 in Edison's 1988 general rate case provides that rate adjustments of less than 1% occurring between general rate cases be implemented on an equal cents per kWh basis.

14. DRA's recommended rate increase for Palo Verde 3 will result in a rate change of approximately 0.6%.

15. DRA's recommended rate increase for Palo Verde 3 will result in an increase of 0.048¢/kWh in Edison's base rates.

16. E-3077 authorized Edison to increase its base rates by 0.031¢/kWh to cover noninvestment and decommissioning expenses.

17. The Commission has authorized MAAC balancing account treatment for revenue requirements associated with the reasonable level of Palo Verde 3 investment.

Conclusions of Law

1. Edison should be authorized to increase its base rates by 0.017¢/kWh effective for service rendered after the COD of Palo Verde 3.
2. Edison should be required to file an advice letter setting forth the revenue requirement and rates associated with plant investment to reflect the actual COD.
3. The rate increase should be subject to refund until the Executive Director has notified the Commission and Edison that Palo Verde 3 has met the COD criteria and that rates have been filed to reflect plant investment as of the actual COD and to amortize any under or over collection of rates subject to refund.
4. The rate recovery for Palo Verde 3 should be transferred from the MAAC balancing account to base rates on the effective date of the tariffs adopted in this decision.

ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) is authorized to file tariffs to increase its base rates by 0.017¢/kWh. These tariffs shall be in accordance with the phase-in procedure adopted in D.86-10-023.
2. These tariffs shall be filed within 10 days after the effective date of this order and will include a work paper demonstrating compliance with baseline laws for residential rates.
3. The rate increase authorized in this order shall be subject to refund until the Executive Director has notified the Commission and Edison that Palo Verde 3 has met the COD criteria and that the advice letter to be filed to adjust rates to reflect actual plant investment as of the actual COD has become effective.

4. On the effective date of the tariffs adopted in this decision, Edison shall:

- a. Transfer the balance in the MAAC balancing account related to Palo Verde 3 investment to the ERAM balancing account.
- b. Increase base rate levels and the authorized base rate revenue amount under the ERAM to fully reflect the non-deferred investment related revenue requirement for Palo Verde 3.
- c. Modify the MAAC tariff to exclude Palo Verde 3.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.